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41 high-growth companies

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Ramkrishna Forgings Limited

GROWTH TRIGGERS

The bull case is an operating-leverage inflection with receipts: Q2 FY27 revenue grew 54.9% to Rs. 1,405 crore, EBITDA margin reached 18.23%, and order wins of Rs. 673 crore added export casting business. Delivery now depends on converting the new orders, ramping the rail wheel JV and holding the margin trajectory while debt falls.

1. Q2 FY27 operating leverage delivered

Revenue rose 54.9% year-on-year to Rs. 1,405 crore and 15.5% sequentially, while EBITDA excluding other income reached Rs. 256 crore and margin 18.23% versus 13.5% a year earlier. PAT was Rs. 71 crore, up 47% quarter-on-quarter. The improvement came from higher utilisation, better mix and operating efficiencies, not one-off gains; management said there were no inventory gains and instead a small negative raw-material carry.

2. Q2 order wins broaden the base into export casting

The company won Rs. 673 crore of orders over about four years, split 48% domestic and 52% export. Rs. 447 crore came from casting, including Rs. 272 crore of North American light-vehicle business from a new customer and new product. That opens a casting export channel alongside the existing forging exports and adds revenue visibility beyond the domestic CV cycle.

3. Export recovery with a wider geographical mix

Q2 FY27 exports were Rs. 424 crore versus Rs. 277 crore in Q2 FY26. North America was about 58% and Europe 41% of the geographical mix, with Europe up from about 28% two years earlier. Management called the growth sustainable, tied to new product launches rather than vendor replacement, and said North America and Europe remain the main international focus.

4. Margin expansion has a mechanism, though no dated peak target

Management expects margin expansion every quarter and aspires to cross the previous peak, but explicitly said it will not happen in the next quarter or the quarter after. Export mix should help, though the CFO would not quantify the benefit because it depends on product mix. Shipping had an Rs. 8-9 crore net impact and raw-material inflation caused an Rs. 6-7 crore negative carry in Q2, so the margin path is not cost-free.

5. Rail wheel JV enters inspection with December supply

By the Q2 FY27 call, 300 wheels were ready and under Railway inspection, and management said no RDSO approval was needed for wheels. It guided 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4, with FY27 supply of 20,000-25,000 wheels. The 80,000-wheel Railways order plus about 25,000 JV-partner wheels remain the committed base.

6. Casting capacity can absorb the new orders without immediate capex

Q2 FY27 brought Rs. 447 crore of casting orders, including Rs. 272 crore of North American light-vehicle business. Management said current capacity is enough and any capex would be planned in the next financial year. The North American programme needs 6-9 months of validation and domestic programmes 12-14 weeks, so conversion is dated rather than immediate, but the capacity is already in place.

7. Cold and aluminium forging utilisation above 50%

Management said both cold forging and aluminium forging utilisation were above 50% in Q2 FY27 and confirmed aluminium capacity at 6,000 tonnes. Both lines continue to export to North America. This is operating leverage from assets already installed; the earlier cold-forging 70% target was not updated, so the current evidence is the above-50% utilisation rather than the old target.

8. Debt reduction guidance maintained while capex rises

H1 FY27 debt reduced by Rs. 126 crore, and management maintained FY27 total debt reduction guidance of Rs. 500 crore, targeting net debt of Rs. 1,500 crore and gross debt of Rs. 1,670-1,700 crore. FY28 aim is another Rs. 300-400 crore reduction. This is a bull point only if the higher FY27 capex of about Rs. 550 crore and working capital do not absorb the cash.

9. ROCE targets reaffirmed

Management reaffirmed 12-15% ROCE by the end of this year and 20% next year. The transcript records the first as "FY23", an apparent transcription error that should be flagged. If the operating leverage and debt reduction hold, the ROCE path is a clear capital-allocation test, but it remains guidance rather than a reported result.

INVESTMENT THESIS

Ramkrishna Forgings is an asset-heavy forging and casting converter whose earnings are now being driven by the utilisation of capacity built over the last investment cycle. Q2 FY27 was the clearest evidence yet that the operating leverage is real: revenue rose 54.9% year-on-year to Rs. 1,405 crore, EBITDA excluding other income reached Rs. 256 crore, margin expanded to 18.23% from 13.5%, and PAT was Rs. 71 crore, up 47% quarter-on-quarter. The company also won Rs. 673 crore of orders over about four years, split 48% domestic and 52% export, with Rs. 447 crore from castings and Rs. 272 crore of North American light-vehicle casting business from a new customer and new product. That is a more durable mix than a simple domestic CV recovery.

The business economics are those of a capital-intensive component manufacturer: fixed assets, long customer qualification cycles and a margin that depends on volume through the press, machining and casting lines. Management says the substantial investment phase is complete and the focus has shifted to utilisation, productivity and returns. That is the correct priority because the company already has about 400,000 tonnes of combined forging and casting capacity, and Q2 revenue of Rs. 1,405 crore is still well below what the asset base can support at higher utilisation. Steel cost is largely passed through with a lag in India, export contracts carry currency pass-through, but freight and energy are not fully passable, which is why the Q2 margin was 18.23% rather than the prior peak.

The near-term earnings path depends on four conversions. First, the Q2 order book must move from award to revenue: North American casting validation takes 6-9 months, domestic programmes 12-14 weeks. Second, the rail wheel JV must complete Railway inspection and move from 300 sample wheels to 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4; FY27 supply is now guided at 20,000-25,000 wheels, down from the earlier 40,000. Third, cold forging and aluminium forging must hold above the 50% utilisation reported in Q2; the earlier cold-forging 70% target was not updated. Fourth, exports must sustain the Q2 recovery from Rs. 277 crore to Rs. 424 crore, with North America at about 58% and Europe 41% of the geographical mix. Management called that growth sustainable and tied it to new product launches, not vendor replacement.

The margin path is positive but not linear. Management expects quarterly expansion and aspires to cross the previous peak, but explicitly said that will not happen in the next quarter or the quarter after. Q2 had an Rs. 8-9 crore net shipping cost and an Rs. 6-7 crore negative raw-material carry. Export mix should help margins, but the CFO would not quantify the benefit because it depends on product mix. The inference, not company guidance, is that if casting and export mix rise and freight does not worsen, margin can grind higher; if freight stays elevated, volume growth may not translate into the same profit drop-through.

Capital allocation is the main tension. H1 FY27 capex was Rs. 390 crore plus Rs. 40 crore of JV investment, and management guided another Rs. 160 crore in H2, taking FY27 machining capability addition to about Rs. 550 crore versus the earlier Rs. 350 crore plan. The JV still has Rs. 50-55 crore of committed investment pending. Against that, management maintained FY27 total debt reduction of Rs. 500 crore, targeting net debt of Rs. 1,500 crore and gross debt of Rs. 1,670-1,700 crore, and aims for another Rs. 300-400 crore reduction in FY28. H1 debt reduction was only Rs. 126 crore, so the full-year target needs a sharp H2 acceleration. The bull case is that higher machining capex supports mix and returns without adding forging tonnage; the bear case is that capex and working capital absorb the cash and the debt target slips.

Management delivery is mixed. The Q2 operating result is a genuine positive, and the debt target was maintained. But the wheel volume target was cut, capex was raised, the FY28 outlook was not quantified, the 35% export-share target was not restated, and the FY29 Rs. 8,000 crore revenue target was not reaffirmed. Prior records also show missed headline targets on FY26 revenue, debt reduction, margin recovery and capex. The correct posture is to credit the Q2 evidence while treating long-range targets as unproven.

The investment thesis is therefore an operating-leverage recovery with a wider export and casting mix, not a clean compounder. The milestones that would validate it are: Q3 margin above 18.23%, first-phase wheel supply of 2,000-3,000 in December and a 4,000-5,000 per month Q4 run-rate, conversion of the Rs. 447 crore casting orders, FY27 debt reduction of Rs. 500 crore, and capex within about Rs. 550 crore. The falsifiers are a further wheel delay, a capex overrun, a debt miss, a stall in export orders, or freight and raw-material costs keeping margin below 18% despite volume growth. The company has not given FY28 revenue or margin guidance, so any multi-year projection is an analyst inference, not a management target.

RESEARCH REPORT

What Ramkrishna Forgings Limited does

Ramkrishna Forgings Limited (RKFORGE) is a Kolkata-headquartered forging and casting company that shapes steel, aluminium and other alloys into components for commercial vehicles, passenger vehicles, railways, energy, mining and off-highway equipment. It operates 11 plants across Jharkhand, Haryana and Pune, employs 3,180 permanent staff, and sells to OEMs and Tier-1 suppliers in India, North America and Europe. The company makes parts through hot, warm and cold forging processes, and has expanded into castings through its subsidiary Ramkrishna Casting Solutions.

The core of the business is heavy forging for medium and heavy commercial vehicles (M&HCV): front axle beams, steering knuckles, crankshafts and seam-free rolled rings. These are safety-critical, high-strength parts where a forge's metallurgical consistency and machining precision determine whether a truck can carry its rated load safely. The company backs this with in-house CNC machining and gear cutting that hits DIN 3962 Class 8-9 accuracy in hobbing and Class 7 in shaving, per the FY26 annual report. That combination - forge the part, then machine it to tight tolerances in the same facility - is what lets it sell finished components rather than raw forgings.

The company produced 43,626 tons of forgings in FY26 from its forging and machining facility, down from 47,352 tons the prior year, and 1,24,257 tons from its press facility, up 7% from 1,16,130 tons. It also produced 26,372 tons of ring-rolled products, down from 32,541 tons. The press facility ran at around 52% average capacity utilisation during FY26, a number that matters because the company has been adding capacity faster than demand has filled it.

Q2 FY27 update (October 2026)

Consolidated revenue was Rs. 1,405 crore, up 54.9% year-on-year and 15.5% sequentially. EBITDA excluding other income was Rs. 256 crore and margin 18.23%, against 13.5% in Q2 FY26 and 17.96% in Q1 FY27. PBT was Rs. 95 crore and PAT Rs. 71 crore, up 47% quarter-on-quarter. H1 FY27 debt reduction was Rs. 126 crore; management maintained its FY27 total debt reduction guidance of Rs. 500 crore. Q2 order wins were Rs. 673 crore over about four years, split 48% domestic and 52% export, including Rs. 447 crore of casting orders and Rs. 272 crore of North American light-vehicle casting business from a new customer and new product. Management guided FY27 machining capability capex to about Rs. 550 crore and reaffirmed 12-15% ROCE this year and 20% next year, while declining to quantify FY28 revenue.

Commercial vehicles (CV)

CV remains the largest revenue contributor, though management does not disclose an exact percentage split. The segment covers forged and machined components for M&HCV trucks, tippers and trailers, sold to OEMs in India, North America and Europe. The Indian market matters most for volume: FY26 was a record year, with total CV retail sales crossing 1 million units for the first time at 10,60,906 units, up 11.74%, and M&HCV production up 16% to 4,58,506 units per the annual report.

The export side of CV is where the company's margin upside lives. Export realisations run above domestic; FY26 export sales were Rs. 1,18,655 lakhs, down 19.94% from Rs. 1,48,209 lakhs, a decline management attributed to US tariff disruption and a Class 8 truck downcycle. In Q2 FY27, exports rose to Rs. 424 crore from Rs. 277 crore in Q2 FY26, and management said growth was sustainable, with North America at about 58% and Europe at 41% of the geographical mix. Management's Q1 FY27 target of roughly 35% export share for FY27 was not restated in the Q2 call; the current call emphasised new product launches, not vendor replacement.

Passenger vehicles and electric vehicles

This is the deliberate diversification bet. Q2 FY27 added Rs. 272 crore of light-vehicle orders and Rs. 7 crore of EV orders, within total orders of Rs. 673 crore. Of the Rs. 447 crore casting orders, Rs. 272 crore is North American export light-vehicle business from a new customer and new product. Management said passenger vehicles should contribute almost 10% growth over the next two years, by CY28 or FY29. The Q1 FY27 automotive win was Rs. 278 crore, 82% passenger vehicle and 18% two-wheeler, all domestic.

The PV push leans on two manufacturing capabilities built for it: cold forging and aluminium forging. In Q2 FY27 management said utilisation in both cold forging and aluminium forging was above 50%, and confirmed aluminium forging capacity at 6,000 tonnes. Both lines continued to export to North America. That is better than the 40% cold-forging utilisation cited earlier, although management did not repeat the Q1 expectation of 70% by Q3 FY27. Aluminium forgings carry higher per-ton realisations than steel parts, but management has not disclosed a separate margin.

Railways

Railways is the fastest-growing segment and the clearest structural story. Railway revenue grew from 4.6% of total revenue in FY25 to 7.5% in FY26, per the Q4 FY26 call (May 2026). The company supplies bogie assemblies - fully assembled frames and bolsters - to Indian Railways, a value-added product where RKFL only needs to build the undercarriage structure while the railway builds the coach body.

The order pipeline is substantial. Indian Railways has shown a demand of around Rs. 2,000 crores per year for this segment, and the company expects to qualify for around 60% of it, per the Q3 FY26 call. The company also won Rs. 200 crores of railway casting orders and Rs. 15 crores from the Metro segment in recent quarters.

The biggest railway opportunity is forged wheels, done through a 51% joint venture, Ramkrishna Titagarh Rail Wheels, with Titagarh Rail Systems. India's demand is roughly 2,00,000 forged wheels annually, with 60-70% historically imported. The JV has 80,000 confirmed wheels ordered by Indian Railways for passenger trains, locomotives and Vande Bharat, plus about 25,000 wheels from the JV partner's own wagon obligations. By Q2 FY27, 300 wheels were ready and under Railway inspection; management said no RDSO approval was needed for wheels. It expects first-phase supply of 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4. FY27 guidance is now 20,000-25,000 wheels, down from the earlier 40,000 target.

Castings

Castings is a new business built through the acquisition and restructuring of JMT Auto, renamed Ramkrishna Casting Solutions. The company added 28,800 tons of casting capacity during FY26, taking total capacity to around 78,000 tons. Standalone casting production only began on 31 March 2026, so FY26 revenue from the standalone casting plant was nil, though the subsidiary contributed Rs. 65,195 lakhs of revenue on a standalone basis per the annual report's subsidiary table.

Management expected casting utilisation to reach 85-90% during FY27, adding Rs. 400-500 crore of revenue for the full year, per the Q4 FY26 call. In Q2 FY27, the company won Rs. 447 crore of casting orders, including Rs. 272 crore of North American light-vehicle business. Management said it has enough capacity for these orders and would plan any capex in the next financial year. The North American casting programme needs 6-9 months of validation; domestic programmes start within 12-14 weeks.

Energy and oil & gas

Energy has emerged as a meaningful non-auto order source. In Q4 FY26, the company won Rs. 258 crores of energy orders out of total new orders of Rs. 594 crores. These are forgings and castings for energy storage devices, sold to North American companies with ambitious storage expansion plans, per Milesh Gandhi in the Q4 FY26 call. The segment is small in revenue terms today but is a demonstrated source of large, quick order wins.

Off-highway and mining

The company supplies components for tippers, construction equipment and mining machinery. This segment benefits from India's infrastructure and mining capex cycle, and management noted in the Q3 FY26 call that domestic demand for tippers is being driven by

mining and construction activity. Order wins in off-highway were Rs. 2 crores in Q4 FY26, a small number, but the segment provides diversification within the broader CV ecosystem.

Trailer axles

This is the company's first B2C business, launched two years ago. It generated roughly Rs. 120 crores of revenue in FY26 with a 4-5% domestic market share, and management targets Rs. 250 crores and around 10% market share in FY27, per the Q4 FY26 call. It matters less for current revenue than for what it signals: the company's ability to build a branded aftermarket product line off its manufacturing base.

Non-ferrous and advanced materials

Management has signalled entry into aluminium, titanium, Inconel and nimonic alloys for aerospace, robotics and semiconductors. In Q2 FY27 it said these non-ferrous efforts were progressing well and that aerospace discussions were directly with OEMs for engine and frame components; no orders or revenue were disclosed. Earlier-stage expectations were 12-18 months for stainless steel and 8-10 quarters for Inconel and titanium, with modest capex of Rs. 10-20 crores because the forging presses already exist. The company has started bulk aluminium forging supplies, which is the first concrete step.

Business segments

Commercial Vehicles (CV)

Ramkrishna Forgings' CV business is the group's core: forged and machined components for medium and heavy commercial trucks. The company makes front axle beams, steering knuckles, crankshafts, and ring rolled products - the load-bearing and driveline parts of a truck chassis. These are safety-critical components that OEMs qualify slowly and rarely dual-source, which is why the order-to-production cycle runs in years.

The capability that took years to build is the integrated forging-to-machining chain. The company hot-forges, warm-forges, and cold-forges, then machines the part to DIN 3962 Class 8/9 accuracy in its CNC turning and gear cutting lines. That precision machining is the differentiator: it lets the company sell a finished machined component rather than a rough forging, which lifts realization. The annual report records 109 new product developments in FY26, including 101 new CNC turning products, 62 new gear cutting products, and 69 new HMC/VMC machining products added to the basket.

The CV product families run across three production lines. The press facility produced 1,24,257 tons in FY26 at 52% average utilization. Ring rolling produced 26,372 tons and ran at 121-127% utilization - effectively over-subscribed, which management says will stay at peak for the next two to three years on the current order book. The older forging and machining facilities produced 43,626 tons, down 7.87% year-on-year.

Customers are the domestic OEMs - Tata Motors, Ashok Leyland, Mahindra & Mahindra, and VE Commercial Vehicles dominate the Indian M&HCV market - plus Tier-1 axle and drivetrain suppliers in North America and, in the words of Whole-time Director Milesh Gandhi, "practically all CVs across Europe." The annual report's SWOT section notes customer retention of more than 10 years and an expanding product basket per customer. Export contracts carry currency pass-on clauses, so the company does not run currency risk on its overseas CV business.

The most important customer fact is the behavior of the US Class 8 truck cycle, because it drives the export book. FY26 was a bottom: Class 8 retail sales fell 13-14% to around 2,08,000-2,10,000 units, and RKFL's standalone export revenue fell 19.94% to Rs. 1,18,655.36 lakhs. By the Q4 FY26 call, management called the turn:

> *"I think Class 8 trucks are very, very strong right now. I think since last 3 months, we are seeing destocking happening in our warehouses in North America. And I think we are looking at fresh revenues coming in from this quarter onwards from North America Class 8 trucks in significant manner."*
>
> **NARESH JALAN, Q4 FY26 CONCALL (MAY 2026)**

The recovery shows in the order book. In Q4 FY26, the company won Rs. 323 crore of CV orders out of Rs. 594 crore total, with more than 50% of the CV orders coming from exports. In Q3 FY26, CV orders were Rs. 406 crore of Rs. 680 crore total, roughly 60% domestic and 40% export.

The domestic backdrop is strong. FY26 retail CV sales crossed 10 lakh units for the first time at 10,60,906 units, up 11.74% year-on-year, with M&HCV production up 16% to 4,58,506 units. The GST rate rationalization in September 2025 pulled forward demand across the industry.

The competitive set in Indian CV forgings is thin at the top. Bharat Forge is the only listed peer management references directly - it was cited in the Q2 FY26 call as facing the same North America uncertainty. India accounted for 13.2% of the global metal forging market in 2025, and the organized players hold the OEM quality approvals that smaller forgers cannot match. RKFL's position rests on the DIN accuracy certifications and the integrated machining, not on price.

The CV segment is the base load that funds diversification. The same forging platforms and machining lines feed passenger vehicles, railway bogie assemblies, and the trailer axle business; the ring rolling line serves both CV and energy customers. Management's stated mix is shifting - CV is "our core business," in Milesh Gandhi's Q1 FY27 phrasing, but the order book is tilting toward PV, railways, and energy. In Q1 FY27 management guided exports to

roughly 35% of consolidated revenue and said 20% plus export growth was achievable; the Q2 FY27 call did not restate those targets, focusing instead on new product launches and Q2 exports of Rs. 424 crore.

The revenue mix percentage for CV alone is not disclosed. The annual report states only that "the Company derives the major share of its revenues from the Commercial Vehicle segment." What is disclosed is total capacity of about 400,000 tons of forging and casting combined, and Q2 FY27 revenue of Rs. 1,405 crore. Management said in the Q2 call that substantial planned investments are complete and the focus is now utilisation, productivity and returns; it did not repeat a quantified 85% utilisation target. Q2 EBITDA margin was 18.23%, up from 17.96% in Q1 FY27.

Passenger Vehicles (PV & EV)

The passenger vehicle segment is Ramkrishna Forgings' primary hedge against its heavy dependence on commercial vehicles. The segment supplies forged components to passenger car and electric vehicle OEMs, built on two capabilities that took years to develop: cold forging and aluminium forging. Cold forging capacity stands at 25,000 tons, commissioned with the expectation that PV customer approvals would fill it. Aluminium forging came online in early FY26, with bulk supplies starting only in Q1 FY27 after sample and PPAP approvals.

The products span cold-forged components for passenger vehicles, aluminium forgings for EV platforms, and crankshafts for two-wheelers made at the Gurugram machining facility. Management has not broken out the specific components, but the segment is built around lightweighting - aluminium forgings for EV drivetrains and structural parts, and cold forging for precision components where the material savings justify the process cost.

The customer base mixes domestic and international names. In Q3 FY26, management said it had started receiving orders from 2 large PV manufacturers in the domestic market, 3 from international markets, and 1 EV player in the export market. The domestic wins are substantial - in Q1 FY27, the company won Rs. 278 crores of automobile orders, of which about 82% (roughly Rs. 228 crores) came from the passenger vehicle segment, all from domestic customers. The mix within PV is about 50% ICE and 50% EV, with exports almost entirely EV.

Why do customers buy from Ramkrishna Forgings? The aluminium forging capability is the anchor. The company buys aluminium from Hindalco under customer-directed buying. With aluminium at roughly Rs. 400 per kg, the per-ton realization is far higher than steel forgings, and management has said its 14% to 15% margins on aluminium translate to much higher contribution per ton. Management described the company's position as primary supplier to EV makers:

> *"Whoever is making the EV vehicles today, we are the primary supplier."*
>
> **MILESH GANDHI, Q3 FY26 CONCALL (FEB 2026)**

The competitive set includes Bharat Forge, which management referenced directly in the Q2 FY26 call when discussing the North America demand outlook. The Indian forging market is dominated by a handful of integrated players, and Ramkrishna Forgings' pitch is its cold forging line and aluminium capabilities, which most CV-focused forgers lack. The cold forging approvals cycle is the constraint - management noted in Q2 FY26 that utilization sat at 40% because global PV customer approvals take time.

The segment fits the group's diversification strategy. Commercial vehicles still dominate revenue, but management has explicitly called PV the next growth lever, alongside railways and energy. The casting subsidiary and machining facilities create a shared backbone - the company can offer forged, machined, and assembled components. The aluminium forging capability also opens the door to non-ferrous products in aerospace, robotics, and semiconductors, which management is exploring with titanium and Inconel alloys.

The revenue mix target is explicit: management is targeting 10% of revenue from passenger vehicles within 2 years, meaning by FY28. That is a step change from the current base, where CV dominates the mix. Order flow confirms the direction - Q4 FY26 brought Rs. 11 crores of EV orders within a Rs. 334 crore auto book, and Q1 FY27 brought Rs. 228 crores of PV orders in a single quarter.

Management commentary has shifted on the ramp. Cold forging utilisation was at 40% in Q2 FY26 because approvals in the PV sector take time. By Q1 FY27, management said cold forging would pass 70% utilisation by Q3. In Q2 FY27, management said both cold forging and aluminium forging were above 50% utilisation but did not update the 70% target. Aluminium bulk supplies had already started in Q1 FY27.

> *"we have already started bulk supplies in aluminum forging."*
>
> **NARESH JALAN, Q1 FY27 CONCALL (JUL 2026)**

The aluminium forging line is also the bridge to the next leg of growth. Management is already quoting RFQs for non-ferrous products in aerospace, robotics, and semiconductors, with meaningful revenue expected only after 12 to 18 months. The PV segment is the near-term proof that the aluminium and cold forging lines work, and the platform for the higher-alloy products that follow.

Railways

Railways is the fastest-growing segment in Ramkrishna Forgings' portfolio, built on a capability that took years to develop: supplying fully assembled bogie frames to Indian

Railways. A bogie is the wheeled undercarriage that carries a coach or wagon, and assembling it requires coordinating forgings, castings, and machined components into a single, safety-certified unit. Ramkrishna Forgings did not get this business overnight - it first supplied the individual forged components, then moved up the value chain into the assembly itself once it had qualified with Research Designs and Standards Organisation (RDSO).

The products inside this segment are fourfold. The first is bogie assemblies, which are the flagship product - a fully finished, value-added unit where Indian Railways only builds the body on top. The second is forged wheels, produced through the 51% joint venture Ramkrishna Titagarh Rail Wheels Limited (RTRWL), which is a separate entity consolidated under the equity method. The third is castings, made through the Ramkrishna Casting Solutions subsidiary, which supplies railway castings. The fourth is undercarriage components, the individual forgings that go into the bogie and running gear.

The customers are Indian Railways, metro projects, and export rail customers. Indian Railways is the anchor customer. The company won orders worth Rs. 200 crores for railway castings in Q2 FY26, and the demand picture expanded sharply after that. On the Q3 FY26 call, management said Indian Railways had shown demand worth Rs. 2,000 crores itself for the forthcoming year, across bogie assemblies, frames, and bolsters. The company qualifies for up to 60% of that order value, per management commentary on the same call.

Why do customers buy from Ramkrishna Forgings? The core reason is that it went from supplying components to supplying certified assemblies, which changes the procurement relationship. Indian Railways historically bought forged parts from many suppliers; with bogie assemblies, it buys a complete, tested unit from one vendor. The company also brings cost reduction to Indian Railways, which is the explicit pitch management makes: it offers new assemblies that benefit the railway in cost terms while building a larger revenue base for itself.

The competitive position is defined by scale and qualification. The wheel JV with Titagarh Rail Systems is the only private-sector forged wheel manufacturer of its planned scale in India, with an 80,000-wheel confirmed order from Indian Railways plus 25,000 wheels for the JV partner, taking utilization to 1,10,000 wheels through end FY28. The plant has a capacity of 2,30,000 wheels. For the bogie assembly business, the competition is other qualified forging and casting suppliers to Indian Railways, but the qualification barrier is high - RDSO approval is a multi-year process, and the company now has bulk orders in place. The castings competition includes established railway casting players, but Ramkrishna Forgings entered with an advantage: it could bundle castings with its forging and assembly capability.

The segment fits the group through shared infrastructure and a natural diversification story. The casting business, which also serves energy and off-highway, supplies the railway

castings. The core forging business supplies the undercarriage components. The wheel JV is the only piece that operates separately, and management was explicit on the Q1 FY27 call that the JV only manufactures wheels - everything else in railways sits in standalone RKFL. The revenue mix tells the growth story: railways grew to 7.5% of revenue in FY26, up from 4.6% a year ago, per the Q4 FY26 call.

> *"Indian Railways has started showing a demand worth Rs. 2,000 crores itself for the forthcoming year."*
>
> **MILESH GANDHI, WHOLE-TIME DIRECTOR, Q3 FY26 CONCALL (FEB 2026)**

The wheel JV has a staggered ramp. Trial production started in Q1 FY27, and by the Q2 call 300 sample wheels were ready and under inspection by Indian Railways; management said no RDSO approval was needed for wheels. First-phase production is expected at 2,000-3,000 wheels in December, rising to 4,000-5,000 per month at 80% capacity in Q4. FY27 guidance is now 20,000-25,000 wheels, down from the earlier 40,000 target. The 80,000 confirmed orders are for passenger trains, locomotives and Vande Bharat, not wagons.

> *"In terms of the wheel, we have an 80,000 confirmed order from the Railways, and Railways are going to use these wheels for manufacturing of passenger trains, locomotives, and Vande Bharat."*
>
> **NARESH JALAN, MANAGING DIRECTOR, Q1 FY27 CONCALL (JUL 2026)**

Management has guided that railways will reach double-digit revenue share within two years, and the Q3 FY26 call described railways as the next lever of growth after the CV business. The segment is also margin-accretive: bogie assemblies are a higher-value product than standalone forgings, and management called the railway business "highly accretive margin" on the Q3 FY26 call. The railway segment is the clearest evidence of the company's diversification thesis - it is domestic, policy-backed, and not tied to the global CV cycle that drives the rest of the business.

Energy / Oil & Gas

The segment supplies forged and cast components to two distinct end markets: energy storage devices and the oil & gas sector. The core capability is the company's ability to shift its large forging and casting capacity across end markets without dedicated product lines, matching production to wherever demand is strongest. Management described oil and gas and earthmoving equipment as areas giving "extreme confidence" in the non-auto segment during the Q1 FY27 call (July 2026).

The products are components used in energy storage systems and oil and gas equipment. The order details are thin, but the March 2026 quarter provides the clearest picture: the company secured new orders worth Rs. 594 crores with a four-year program life, of which Rs.

258 crores came from the energy segment alone. That was 44% of total quarterly order wins, ahead of the Rs. 334 crores from the auto sector. The energy storage portion is the growth driver. On the Q4 FY26 call (May 2026), Whole-time Director Milesh Gandhi explained:

> *"energy storage has become the latest trend with the market. And we have received a lot of orders from companies which are doing very good in energy space in the North America market. And they have a very ambitious plans with regard to the energy storage devices. And these devices actually require a lot of forgings and castings as a mix."*

The customers are North American energy storage companies and oil and gas equipment buyers. These are not domestic Indian customers. The order wins in Q4 FY26 came from the export market, with management noting on the Q2 FY26 call (November 2025) that "we have already started shipping material from this quarter onwards for several of our new order books for North America and oil and gas within North America." The company's export realization is structurally higher than domestic; management guided 35% export share for FY27 in Q1 FY27, but the Q2 FY27 call did not restate that target.

Why do these customers buy from Ramkrishna Forgings? The company has built a 45-year track record supplying forged and machined components to commercial vehicle OEMs and Tier-1 suppliers in North America and Europe. The energy storage and oil and gas buyers are buying the same underlying manufacturing capability: hot forging, cold forging, warm forging, and now casting. The company produces 43,626 tons of forgings annually at its primary facility and operates a ring rolling line that has run at over 100% utilization. The qualification process for energy storage components is long, but once qualified, the volume commitments are substantial, as the Rs. 258 crore order suggests.

The competitive position is not clearly disclosed. Management does not name specific competitors in the energy storage or oil and gas segments. The annual report lists "intense competition" as a threat, noting "technological advancements of both domestic and international competitors and price pressures." What is clear is that the company is competing against global forging players, not domestic Indian forgers, for this business. The company's edge is its integrated model: forging plus machining plus heat treatment under one roof, with the new casting facility adding a complementary capability. The company has also benefited from supply chain shifts. On the Q3 FY26 call (February 2026), management noted that customers in Europe and Asia are "increasingly recognizing the strategic importance of diversifying supply chains," and the prospective India-EU Free Trade Agreement would make Indian forgings more cost-competitive against rivals.

The segment fits the group's diversification strategy. Management has been explicit that reducing dependence on commercial vehicles is a strategic priority, with a stated goal of deriving more than 30% of revenue from non-auto sectors by FY30. Energy and oil and gas is

one of the non-auto pillars, alongside railways and off-highway. The segment also shares production capacity with the CV business, so incremental energy orders fill the same press lines and casting plants that serve trucks and passenger vehicles. Management confirmed on the Q2 FY26 call that the casting facility's entire 45,000-ton capacity is "almost sold out" across "a mix of railways and domestic and exports," with energy orders contributing to that mix.

The revenue mix for this segment is not separately disclosed. Management does not break out energy and oil and gas as a percentage of consolidated revenue in any of the four concalls provided. The Rs. 258 crore order in Q4 FY26 and the Rs. 189 crore oil and gas order in Q3 FY26 are the only quantified datapoints. What is clear is that the segment is order-book driven today, with revenue ramping as those orders convert to production over the four-year program life.

The segment's trajectory is tied to North American energy storage investment. Management noted on the Q2 FY26 call that the energy orders were being pulled forward, with shipments starting that quarter. The oil and gas portion is steadier but lower growth. The energy storage portion is where the order momentum is. Management has not given a revenue target for this segment independently, but the February 2026 call noted that the overall order book for the company gives visibility of Rs. 6,200 to Rs. 6,500 crores in revenue at peak utilization by end of calendar year 2027, and energy orders are part of that pipeline.

Off-highway / Mining

This segment supplies forged and machined components for tippers, construction equipment, and mining machinery. It is the smallest of Ramkrishna Forgings' end-markets in the disclosed order flow, but it shares the same manufacturing base, engineering capabilities, and customer relationships as the core commercial vehicle business. The core capability that took years to build is the ability to forge and machine heavy, high-stress components that survive abrasive and high-impact operating conditions, then qualify them with OEMs who demand multi-year reliability records before they change suppliers.

The products inside this segment are components for vehicles and machines where downtime is measured in lost production, not lost trips. Tippers used in mining and construction need front axle beams, steering knuckles, and suspension components that handle repeated shock loading. Construction equipment such as excavators and loaders need drivetrain and undercarriage forgings. The machining accuracies required here are comparable to what the company delivers for commercial vehicles, and the forging processes are the same hot and warm forging lines that produce the CV product basket. The company has also made 109 new product developments in forgings and 101 in CNC turning during FY26, and while the annual report does not break these down by end-market, the off-highway segment draws on that same product development pipeline.

Customers are domestic and international OEMs in mining, construction, and material handling. Management has named the demand drivers on the Q3 FY26 concall: the domestic mining segment is a large part of the tipper demand that has been driving the commercial vehicle recovery, and the company has been winning orders from mining, material handling, and farm equipment companies. The customers buy from Ramkrishna Forgings because the company already supplies their commercial vehicle lines, and the procurement qualification process for off-highway components is similar. Once a supplier is approved for one product line, the incremental cost of adding them to another is low for the OEM and the switching cost is high for the buyer.

The competitive position inside this segment is not separately disclosed, but the company competes against the same large Indian forgers that serve the CV market, including Bharat Forge and the other top-tier forging houses. The annual report notes that the company is among the top forging companies in India and the largest in Eastern India, which is relevant context for the off-highway segment because the same scale and manufacturing footprint serve all end-markets. The company's differentiation is the integrated forging plus machining model, where it delivers finished machined components rather than raw forgings, which raises the value per component and locks in the customer relationship.

The segment fits the group as part of the non-automotive diversification that management has been pushing since FY24. The Q3 FY26 order announcement showed the pattern: out of Rs. 680 crores of new orders, approximately 34% came from non-automotive segments, and the off-highway business sits alongside railways, energy, and oil and gas in that bucket. The synergy with the CV business is direct, because the same forgings capacity, the same machining centres, and the same quality systems serve both. The company produced 43,626 tons of forgings from its forging and machining facility and 1,24,257 tons from the press facility in FY26, and off-highway components run through those same lines.

The revenue mix percentage for off-highway is not disclosed separately. Management has quantified the broader non-auto mix on the Q4 FY26 concall, where railways alone grew to 7.5% of revenue from 4.6% a year earlier, but the off-highway contribution sits inside the remaining non-auto bucket. On the Q4 FY26 call, Milesh Gandhi disclosed that out of Rs. 594 crores of new orders, Rs. 2 crores came from the off-highway segment, which indicates this is a small but active part of the order book rather than a growth engine.

What management has said about the segment across the concalls is consistent: it is a supporting pillar of the domestic demand story, not a headline growth driver. On the Q3 FY26 call, the traction was tied to the broader infrastructure cycle:

> *"we are already finding a very huge surge in the domestic demand. And I think a lot of this domestic demand is also coming because of the mining segment today. The demand for the tippers and other things are already there. But at the same time, you would have also seen that we have been making a lot of announcements with our new order wins in off-highway markets. And today, we are there with a lot of mining companies and also material handling and farm equipment companies, which contribute to this."*
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> **MILESH GANDHI, Q3 FY26 CONCALL (FEB 2026)**

On the Q1 FY27 call, Naresh Jalan repeated the same logic when explaining why the company is confident about the next two years, listing "passenger vehicle, oil and gas, and nonautomotive sector like earthmoving equipment" as the areas giving the company confidence. The annual report's MD&A also flags off-highway and mining as a segment that "registered strong demand, supported by infrastructure-led cycles in tippers and construction equipment." The segment is real, it is growing with the domestic infrastructure cycle, and it is one of several diversification levers that reduce the company's dependence on the commercial vehicle cycle. But it is not yet big enough to move the consolidated numbers on its own.

Castings

The castings business runs through the wholly-owned subsidiary Ramkrkrishna Casting Solutions Limited, formerly JMT Auto Limited. RKFL acquired it in November 2023 and has since merged Multitech Auto and Mal Metalliks into it, with the NCLT approving the scheme in February 2026. The casting plant was capitalized in Q4 FY26, meaning commercial production started only on 31 March 2026. Standalone casting production for FY26 was nil. The subsidiary reported revenue of Rs. 65,195.05 lakhs for FY26, which is 15.38% of the holding company's consolidated revenue.

The core capability that took years to build is a 45,000-tonne casting capacity that was fully sold out before it started producing. In the Q2 FY26 concall, Naresh Jalan stated "the entire capacity of 45,000 tonnes is almost sold out" and expected 80-85% utilization in the next year across railways, domestic, and export markets. The capacity is split between standalone RKFL and the subsidiary, with the standalone portion commencing production on 31 March 2026.

The products fall into two buckets. Railway castings are the anchor, with Rs. 200 crores of orders secured in Q2 FY26 for castings supplied to Indian Railways. These are integrated into bogie assemblies, alongside the forged frames and bolsters the company already supplies. The second bucket is automotive castings, which feed the same CV, PV, and EV customers that buy the forged products. Management has said the casting and forging order books are

managed together, with the Rs. 1,550 crores of new orders scheduled for execution in FY27 being consolidated across both.

The customers are Indian Railways and the automotive OEMs and Tier-1 suppliers that already buy forgings. The railway demand is substantial. Milesh Gandhi said in Q3 FY26 that "Indian Railways has started showing a demand worth Rs. 2,000 crores itself for the forthcoming year" for the bogie assembly program, and the company expects to qualify for around 60% of that.

Competitive positioning within castings has not been detailed by management. The company has not named competitors in this segment on any of the four concalls. What is clear is that the casting business is being ramped with a different margin profile than forgings. CFO Lalit Khetan guided in the Q4 FY26 call that "margins in the casting will be somewhere around 15% to 16%." Management has also guided that the blended margin for castings and forgings together will be 17-18%, which is below the 20%+ margins the company historically earned from forgings alone.

The segment fits the group as a volume and utilization play. The casting plant gives RKFL a second manufacturing technology to sell into the same customer base, allowing it to bid for complete assemblies rather than just forged components. The railway bogie assembly business is the clearest example, where castings and forgings go into the same product. The integration is substantially complete, with management confirming in Q1 FY27 that "the integration of our casting operations has now been substantially completed."

Revenue guidance for the segment was explicit in the Q4 FY26 call: Khetan said "we expect another Rs. 400 to Rs. 500 crores of revenue for the full year from the casting business." The utilisation target was 85-90% over the coming quarters of FY27. In Q2 FY27 the company won Rs. 447 crore of casting orders, including Rs. 272 crore of North American light-vehicle business, but did not update the revenue or utilisation guidance. The revenue mix percentage for castings as a standalone segment has not been disclosed.

The ramp has not been entirely smooth. In Q1 FY27, realisations in the casting division came off quarter-on-quarter; Naresh Jalan explained this as a deliberate choice to run lower-realisation components to build utilisation. In Q2 FY27, management said casting and oil and gas drove improved subsidiary performance, but the CFO clarified that subsidiary margins were around 16-17%, not 27%, with the higher reported figure caused by intercompany sales elimination. Q2 casting orders were Rs. 447 crore, including Rs. 272 crore of North American light-vehicle business.

> *"We are looking at almost 85% to 90% utilization in casting over the quarters, in coming quarters in this year."*
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> **NARESH JALAN, Q4 FY26 CONCALL (MAY 2026)**

The rail wheel joint venture, Ramkrishna Titagarh Rail Wheels Limited, is separate from the castings segment. Management has been explicit that the JV only manufactures wheels and that all other railway business sits in standalone RKFL. The wheel plant received an 80,000-wheel confirmed order from Indian Railways. By Q2 FY27, 300 wheels were ready and under Railway inspection, with first-phase supply expected in December and FY27 guidance of 20,000-25,000 wheels.

Trailer Axles

The trailer axle business is Ramkrishna Forgings' first B2C operation. Everything else the company makes - front axle beams, steering knuckles, crankshafts, ring rolls - is sold as a component to OEMs and Tier-1 suppliers under long-term contracts. Trailer axles are sold as a finished, branded product into the domestic trailer market, where the buyer is a trailer body builder or a fleet operator, not a vehicle manufacturer. That shift in customer type is the structural change that took the company years to absorb.

The core capability is not the forging itself. Ramkrishna Forgings has forged axles for commercial vehicles for decades. The hard part was building a distribution channel, a service network, and a brand in a market where the company had no relationships. Management described the progress directly on the Q4 FY26 call:

> *"In two years, we have been able to make good amount of inroads and satisfaction and this being a first B2C business for us. I think we are pretty satisfied with the performance of getting into around 4% to 5% market share."*
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> **NARESH JALAN, MD, Q4 FY26 CONCALL (MAY 2026)**

The products inside this segment are trailer axles for the domestic trailer market, sold as replacement and fitment units. The segment does not include the company's core CV forging products, which are sold to OEMs. The axle is a machined, assembled, and heat-treated finished good that carries the trailer's load, and it is the critical safety component linking the trailer to its suspension and wheels.

The customers are domestic trailer manufacturers and the aftermarket that supports them. The buyer logic is different from the OEM business. An OEM buys a forged component on a multi-year program with quarterly price pass-throughs on steel. A trailer buyer buys an axle on price, availability, and service support. The company's manufacturing credibility from the

OEM business is the entry ticket, but the B2C model requires a different muscle: stocking, distribution, and warranty support.

The competitive position is that of a new entrant taking share. Management stated the company holds roughly 4% to 5% market share after two years of operation, and that the target for FY27 is to roughly double the business to Rs. 250 crores and reach about 10% market share. The named frame of reference is the domestic trailer market, where established specialized axle manufacturers dominate. The company does not name its competitors on the call, but the market share math implies a fragmented field of incumbents that Ramkrishna Forgings is displacing incrementally.

Revenue in FY26 was around Rs. 120 crores, and the stated target is Rs. 250 crores in FY27. That growth rate is the fastest of any segment in the company's portfolio, but it starts from a small base. Management's own framing on the Q2 FY26 call put the B2C axle business into the margin context, noting that the blended margin profile of casting and forging plus B2C products lands at 17% to 18%, below the 20% to 23% the company earned when it was pure forgings.

The segment fits the group as a downstream value-add. The axle is a forged and machined product, so it uses existing forging capacity and machining capability. It is also a natural adjacency to the commercial vehicle business, since the trailers that use these axles are pulled by the trucks whose components Ramkrishna Forgings already supplies. The company has not disclosed whether the axle plant runs on dedicated or shared capacity, but the product draws on the same core metallurgy and machining skills that support the CV and casting segments.

Management commentary across the four concalls has been consistent: the business is small, growing fast, and functioned as a proof-of-concept for the company's ability to sell outside the OEM channel. The FY26 results were disclosed in response to a direct analyst question, not in the opening remarks, which suggests the segment is still a minor line item in the consolidated numbers. The FY27 target of Rs. 250 crores, if met, would make trailer axles roughly 5% of the company's consolidated revenue, a meaningful diversification line but not yet a core pillar.

Customers

The customer base spans OEMs and Tier-1 suppliers in India, North America and Europe, Indian Railways, energy storage companies in North America, domestic two-wheeler manufacturers, passenger vehicle OEMs including EV makers, and trailer axle buyers in the B2C market.

The buying relationship differs sharply by segment. For CV OEMs, RKFL is a long-tenured supplier with customer relationships of more than 10 years, per the annual report's SWOT

analysis. These are multi-year program contracts, typically four years in duration, where the company wins business through a quotation and PPAP (Production Part Approval Process) cycle. Switching costs are high because forgings are vehicle-specific and the validation process for a new forging supplier takes 12-18 months. Once approved, the customer depends on the supplier's metallurgical consistency, and a forged front axle beam or steering knuckle failure is a safety recall event.

The contract structure includes quarterly steel price pass-through with a one-quarter lag, and currency pass-through on export contracts. Management stated in the Q1 FY27 call that all export contracts are currency pass-through, meaning rupee depreciation does not generate windfall gains but also does not create losses. Energy and shipping costs are not fully passable, which is why geopolitical spikes in gas prices or freight rates compress margins.

For Indian Railways, the relationship is procurement-driven and approval-gated. The company must qualify with RDSO (Research Designs and Standards Organisation) certifications, and the forged wheel JV must submit 300 trial wheels for testing before bulk supply begins. Once approved, the orders are large and contractual - the 80,000-wheel order and the Rs. 2,000-crore annual bogie assembly demand are structural commitments.

Concentration is a genuine risk. The company acknowledges in its annual report risk section that heavy weighting toward the CV segment exposes it to fleet replacement cycles and OEM build-rate decisions. The export book is concentrated in North America and Europe, and management noted in the Q2 FY26 call that tariff uncertainty had pushed customers to rationalise inventories and delay dispatches. The company mitigated this by winning orders from new customers to offset softness in existing ones, but the underlying concentration remains.

Order wins give a sense of the sales engine. In Q1 FY27, the company secured Rs. 278 crores of automotive orders (82% PV, 18% two-wheeler, all domestic) plus Rs. 15 crores from the Metro segment. In Q4 FY26, it won Rs. 594 crores of orders (56% auto, 44% non-auto, with Rs. 258 crores from energy). In Q3 FY26, it won Rs. 680 crores (66% auto, 34% non-auto). In Q2 FY26, it won Rs. 1,116 crores excluding railways, of which 69% was automotive, 27% railway and 4% other non-auto, with all non-railway orders from international geographies. These are four-year programs, so the order book provides multi-year revenue visibility.

Competitive landscape

The Indian forging industry is fragmented but consolidating. The market is dominated by a few large integrated players serving OEMs directly, with a long tail of smaller forges serving Tier-2 and Tier-3 customers. RKFL positions itself among the top tier nationally and as the largest in Eastern India, per the annual report. Its direct listed peer is Bharat Forge,

referenced by an analyst on the Q2 FY26 call. Bharat Forge is larger and more diversified into defence and aerospace, and the analyst noted its public guidance that North America uncertainty was a disruption rather than a structural demand loss.

RKFL wins in commercial vehicle forgings through scale in heavy components - front axle beams, steering knuckles and crankshafts are high-tonnage parts where a forge needs press capacity of 8,000 tons or more, which smaller players cannot match. The company's integrated machining capability lets it sell finished components rather than raw forgings, which raises realisation per ton and deepens the customer relationship. Its ring rolling line runs at 121-127% utilisation, indicating a product line where it has effectively sold out capacity.

The company loses or struggles where it lacks scale or certification. Cold forging is a newer capability running at 40% utilisation, and management acknowledged in the Q4 FY26 call that approvals in the passenger vehicle sector are taking longer than expected globally. The aerospace push faces a different competitive dynamic: management noted in the Q1 FY27 call that these sectors have been "traditionally dominated by global players," and the company has zero order book there today. It is competing against established aerospace forgers with decades of certification history.

In railways, the competitive picture is more favourable. The forged wheel JV with Titagarh Rail Systems addresses a structural supply gap where 60-70% of demand is imported. Indian Railways' push for domestic manufacturing under Atmanirbhar Bharat has created a procurement environment where RKFL's JV is one of the few domestic suppliers. The bogie assembly business similarly benefits from being a qualified domestic supplier in a market where the railway is actively reducing import dependence.

The annual report's SWOT analysis names intense competition and price pressure as a threat, which is accurate for the auto forging segment. Q2 FY27 EBITDA margin was 18.23%, up from 17.96% in Q1 FY27. Management said its aspiration is to cross the previous peak, but not in the next quarter or the quarter after; it expects quarterly expansion and declined to give a dated target. Export mix should help margin, but the CFO would not quantify the percentage-point benefit because it depends on product mix.

Industry

The Indian metal forging market generated USD 11,346.9 million in revenue in 2025 and is expected to grow at an 8.8% CAGR from 2026 to 2033, reaching USD 22,515.7 million, per Grand View Research cited in the FY26 annual report. India accounted for 13.2% of the global metal forging market revenue in 2025. Carbon steel remains the largest raw material segment at 43.34% share, while aluminium is the fastest-growing segment, driven by lightweighting in EVs and aerospace.

The forging industry's demand drivers are the automotive cycle, infrastructure investment, railway modernisation, defence indigenisation and industrial capex. The immediate tailwind is the domestic CV cycle: FY26 was a record year with retail sales crossing 1 million units for the first time, and rating agencies expect mid-single-digit growth in FY27 on a high base. ICRA projects 7-9% growth in FY27 followed by 4-6% normalisation, per the annual report. The scrappage policy adds a structural driver, with an estimated 4.5 million plus old M&HCVs eligible for replacement, though actual scrappage has been modest at roughly 3.5 lakh vehicles by mid-2025.

The US truck market, which drives RKFL's export demand, is in a different phase. Class 8 retail sales declined 13-14% in 2025 to around 2,08,000-2,10,000 units, a bottoming year per the annual report. The US commercial vehicle market is estimated at USD 233.75 billion in 2026, projected to reach USD 364.99 billion by 2034 at 6.80% CAGR. Management stated in the Q4 FY26 call that destocking in North American warehouses was ending and fresh revenues were expected, with Class 8 strength expected to last at least through the third quarter of calendar year 2027.

India's place in the global supply chain is shifting from a low-cost source to a strategic one. The annual report notes that customers across Europe and Asia increasingly recognise the strategic importance of diversifying supply chains away from China. The prospective India-EU Free Trade Agreement is expected to make Indian forged and cast parts more competitive in Europe, and management noted in the Q3 FY26 call that Europe now contributes more than 40% of total export revenue. The US 26% reciprocal tariff on Indian goods hurt exports in FY26. In Q2 FY27 management said exports had recovered to Rs. 424 crore from Rs. 277 crore and called the growth sustainable, without restating the earlier 20% plus export-growth guidance.

The forged wheels market is the clearest import-substitution story. India's demand is approximately 2,00,000 wheels annually, with 60-70% historically imported, primarily from China, and supply from Ukraine and Russia constrained by conflict. Indian Railways' capex allocation of Rs. 2,52,200 crores in FY26 supports the broader demand for forged components, and the railway's push for domestic manufacturing under Atmanirbhar Bharat has created a structural opportunity for domestic suppliers.

The industry is cyclical, and the company's own history shows it. FY26 consolidated revenue grew only 5% to Rs. 4,238 crores after a year of tariff disruption and US truck weakness, with profit after tax falling sharply. The Q2 FY26 quarter was a loss-making quarter on a consolidated basis, hit by forex losses on imported equipment, tariff settlement costs and start-up losses in Mexico and the JV. That cyclicality is the reason the company is diversifying into railways, PV, energy and castings, and why management's guidance centres on utilisation improvement and asset sweating rather than capacity expansion.

The regulatory environment is supportive but not without friction. The GST rationalisation in September 2025 boosted auto demand by reducing on-road prices. The scrappage policy, if enforced, could drive replacement demand for years. But the company also paid a Rs. 10,000 fine for a board meeting gap exceeding 120 days, and faced a SEBI adjudication settled in 2024 for a fund-raising discussion issue, both disclosed in the annual report. The inventory restatement of Rs. 22,052 lakhs as at 31 March 2025, following a joint fact-finding study into discrepancies between book and physical inventory, shows the governance controls matter for a company this size.

Growth triggers

Rail Wheel JV production start and ramp; FY27 supply cut to 20,000-25,000 wheels

Ramkrishna Forgings holds 51% in Ramkrishna Titagarh Rail Wheels Limited, a joint venture with Titagarh Rail Systems that makes forged railway wheels. The JV has been consolidated under the equity method. The trigger is the plant's move from trial runs to contractual supply. By the Q2 FY27 call, 300 wheels were ready and under Railway inspection; management said no RDSO approval was needed. It expects 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4. FY27 supply guidance is now 20,000-25,000 wheels, down from the earlier 40,000 target.

The commercial mechanism is a long-term supply contract with Indian Railways for forged wheels used in passenger trains, locomotives and Vande Bharat sets. Management confirmed an initial order of 80,000 wheels from the Railways, with the JV partner's obligation adding roughly 25,000, bringing committed utilisation to about 110,000 wheels. That volume was expected to cover production until the end of FY28. The earlier FY27 offtake target of 40,000 wheels was cut in the Q2 FY27 call to 20,000-25,000 wheels.

> *"Physical year we are looking at almost we are looking at around twenty five thousand wheels"*
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> **NARESH JALAN, Q2 FY27 CONCALL (OCT 2026)**

The stage at the Q2 FY27 call was pre-commercial inspection. Trial runs started in Q1 FY27, and 300 wheels were ready and being inspected by Indian Railways in October. Management said it did not need RDSO approval for wheels. First-phase production was expected at 2,000-3,000 wheels in December, with Q4 run-rate of 4,000-5,000 wheels per month. The 80,000-wheel Railways order and the JV partner's 25,000 wheels remain the committed base; FY27 guidance is 20,000-25,000 wheels.

> *"We don't need any RDSO approval for wheels."*
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> **NARESH JALAN, Q2 FY27 CONCALL (OCT 2026)**

The wheel project has two phases. Management said the first phase is to produce 1,40,000 wheels and the second phase adds another 1,40,000 in machining capability. That differs from the earlier 2,30,000-wheel total stated in this report and the reconciliation is unresolved. The Q4 FY26 call had guided FY27 wheel revenue of Rs. 400-450 crore at 17-18% EBITDA margins at 80-85% utilisation in FY28; Q2 FY27 did not update that revenue number and guided FY27 supply of 20,000-25,000 wheels. Rs. 56 crore was approved for the second phase, not as extra equity.

Casting orders of Rs. 447 crore, including Rs. 272 crore North American light vehicle

The casting business, housed in wholly-owned subsidiary Ramkrishna Casting Solutions (formerly JMT Auto), is Ramkrishna's newest revenue engine. The new casting plant was capitalised in Q4 FY26, with standalone commercial production starting 31 March 2026. FY27 is the first full year of the expanded capacity. In Q2 FY27, the company won Rs. 447 crore of casting orders, including Rs. 272 crore of North American light-vehicle business from a new customer and new product. Management said current capacity is enough and any capex would be considered next financial year.

Orders were secured before the capacity came online. In Q2 FY26 (Nov 2025), Naresh Jalan said the new 45,000-tonne casting capacity being installed was "almost sold out" across railways, domestic, and export customers. Indian Railways alone placed Rs. 200 crores of casting orders, and the company's bogie frame assembly work feeds the same casting demand.

Management quantified the ramp in the Q4 FY26 concall (May 2026):

> *"we are looking at almost 85% to 90% utilization in casting over the quarters, in coming quarters in this year."*
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> **NARESH JALAN, Q4 FY26 CONCALL (MAY 2026)**

> *"we expect another Rs. 400 to Rs. 500 crores of revenue for the full year from the casting business"*
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> **LALIT KHETAN, Q4 FY26 CONCALL (MAY 2026)**

Lalit Khetan confirmed 62,000 tons of casting capacity produced 26,000 tons in FY26, and guided casting margins at 15-16%. The Rs. 400-500 crores is incremental revenue from the new capacity, on top of the existing run rate. The Casting Solutions subsidiary contributed 15.38% of consolidated revenue in FY26 (annual report).

Management expected 85-90% utilisation by the first half of FY27, with revenue benefit across the full year. In Q2 FY27, integration was described as complete and casting orders

rose, but management did not update the 85-90% utilisation or Rs. 400-500 crore revenue guidance. It said current capacity is enough and any capex will be planned next year.

Aluminium forging ramp-up; bulk supplies to EV manufacturers started

Ramkrishna Forgings built its business on steel forgings for commercial vehicles. The aluminium forging line is its first move into non-ferrous metal, and it is already shipping in bulk. Management confirmed in the Q1 FY27 call that bulk supplies had started, with meaningful revenue still 12-18 months away. In Q2 FY27, management said aluminium forging utilisation was above 50% and confirmed capacity of 6,000 tonnes. The line remains part of the broader non-ferrous push.

The mechanism is straightforward. RKFL buys aluminium from Hindalco on a customer-directed basis and forges components for EV manufacturers and equipment makers globally. Because aluminium trades around Rs. 400 per kg, realization per ton runs far above steel forgings. Jalan put aluminium margins at 14-15% on absolute numbers, but noted contribution is much higher since that margin applies to a much higher price per ton.

The ramp-up is visible across four quarters. In November 2025, management said PPAP had been accepted and bulk shipments started. By Q1 FY27, bulk supplies to EV equipment manufacturers globally were underway, with more aluminium products in development for CV makers. In Q2 FY27, management said aluminium forging utilisation was above 50% and confirmed capacity of 6,000 tonnes. It also said cold forging utilisation was above 50%. The earlier Q1 expectation of cold forging reaching 70% by Q3 FY27 was not updated.

> *"non-ferrous now becomes the next lever of growth for RKFL and it is a journey, which we have just started. So, I think it is at least 12 months to 18 months before we have a significant revenue or product lines from this section."*
>
> **NARESH JALAN, MD, Q1 FY27 CONCALL (JUL 2026)**

The aluminium line is the beachhead for a broader non-ferrous push into aerospace, robotics, and semiconductors using titanium, Inconel, and nimonic grades. The aluminium capacity already produces revenue today. The rest of the portfolio is still in quoting and capability-building stages.

Mexico machining plant production start; significant revenues from Q3 FY27

Ramkrishna Forgings acquired this machining facility by buying Resortes Libertad S.A. de C.V. in August 2024, renaming it Ramkrishna Forgings Mexico S.A. de C.V. The plant operates inside the USMCA framework, which is the mechanism that turns it into a business: it machines forgings for North American OEMs while avoiding the tariff burden that hits Indian exports. The FY26 annual report shows the subsidiary booked just Rs. 1,065.67 lakhs of

revenue and a PBT loss of Rs. 1,447.73 lakhs during the year, reflecting the pre-production setup phase.

The commissioning timeline stretched through FY26. In the Q3 FY26 concall (Feb 2026), management said the facility was "nearing commissioning" and expected to become operational shortly. The Q1 FY27 concall (Jul 2026) confirmed production has started and disclosed the first revenue contribution.

> *"In terms of our Mexico project, production has started, and I think from third quarter you'll see some significant revenues from Mexico. Already this quarter, I think close to around Rs. 6 crores revenues have come from Mexico in terms of our top-line. But significant revenue is to going to start clocking in our books from third quarter of this year onwards."*
>
> **NARESH JALAN, Q1 FY27 CONCALL (JUL 2026)**

That Rs. 6 crores in Q1 FY27 is the first trickle. Management explicitly guides that the material revenue ramp begins in Q3 FY27, which is the trigger point. The plant adds a geographic revenue stream that also lifts the export mix, since management guided for 35% of consolidated revenue from exports on a full-year basis in the same call.

Passenger vehicle and EV expansion; management cites about 10% growth over two years

Ramkrishna Forgings is building a passenger vehicle (PV) and EV business to reduce its dependence on the commercial vehicle cycle. Earlier management set a target of 10% of consolidated revenue from PV by FY28. In Q2 FY27, management said it looks for almost 10% growth to come from passenger vehicles over the next two years, by CY28 or FY29, without quantifying the revenue share. The Q2 order wins included Rs. 272 crore of light-vehicle and Rs. 7 crore of EV orders; the Rs. 272 crore light-vehicle order is part of the Rs. 447 crore casting orders and is North American export business from a new customer and new product.

The production mechanism is the cold forging line. The 25,000-ton cold forging capacity was built for PV components, and its utilisation has been held back by the length of customer approvals. Management stated in the Nov 2025 call that utilisation was around 40% and expected 80-85% in FY27 as approvals landed. In Q2 FY27, management said cold forging utilisation was above 50% but did not update the 80-85% target. It also said aluminium forging utilisation was above 50%.

The order book shows the traction. In Q1 FY27, the company secured Rs. 278 crores of auto orders with a four-year program life, of which 82% was PV. Management clarified that this specific order is entirely domestic and for one EV brand.

> *"This order, which we have announced, this is not from a PV, sorry, this is completely from the EV, but that is from the domestic side EV, this brand is within the Indian market."*
>
> **MILESH GANDHI, Q1 FY27 CONCALL (JUL 2026)**

The broader PV book is split roughly 50-50 between ICE and EV. The Feb 2026 concall set the timeline, with management saying PV order wins from two large domestic manufacturers, three international manufacturers, and one EV exporter would translate to 10% of revenue by FY28. In Q2 FY27, management instead referred to almost 10% growth from passenger vehicles over the next two years, by CY28 or FY29, and did not restate the 10% revenue-share target.

Export recovery; Q2 FY27 exports Rs. 424 crore

The export trigger is the recovery from the FY26 trough. Management first set a 35% export share target for FY27 in the Q3 FY26 call, and in Q1 FY27 guided 20%+ export growth. It did not restate the 35% target in the Q2 FY27 call. Q2 FY27 exports were Rs. 424 crore, up from Rs. 277 crore in Q2 FY26, with North America about 58% and Europe 41% of the geographical mix. Management said growth was sustainable and came from new product launches, not vendor replacement.

The mechanism is new product launches with North American and European customers. FY26 export sales fell 19.94% to Rs. 1,18,655.36 lakhs, hit by the US tariff cycle and weak Class 8 truck build rates. In Q2 FY27, management said North America had recovered sharply and Europe had increased its share, with Europe at 41% of the geographical mix versus about 28% two years earlier.

> *"we are looking at almost 35% revenue on a consol balance sheet coming from exports, for a full year basis."*
>
> **NARESH JALAN, Q1 FY27 CONCALL (JUL 2026)**

When asked directly whether 20% plus export growth was achievable, Mr. Jalan confirmed:

> *"Yes, we are looking at almost 20% plus growth in exports."*
>
> **Q1 FY27 CONCALL (JUL 2026)**

Management attributes the growth to new order wins from both existing and new customers across North America and Europe, with the Q3 FY26 concall noting that Europe was contributing 30-35% of export sales. The export mix is also margin-accretive: export realizations were Rs. 1.85 lakhs per ton versus Rs. 1 lakh per ton domestically in Q4 FY26, per the May 2026 concall. Currency is a pass-through on all export contracts, so the growth translates directly into higher-margin revenue without forex risk.

Key risks

- **Geopolitical conflict and freight cost volatility compress margins directly.** Energy is a large forging input, and shipping is not fully passable. In Q2 FY27, the CFO said shipping cost had risen significantly year-on-year, with an Rs. 8-9 crore net impact in the quarter after passing on part of the increase; other expenses were elevated because of shipping. Steel price increases in India were passed through, but there was a Rs. 6-7 crore negative inventory carry on raw material. Power cost fell because some surcharges were reduced. If freight stays at current levels, management expects to bear some cost.

- **Tariff and trade policy uncertainty still constrains the export business.** The US imposed a 26% reciprocal tariff on Indian goods in FY26, and the annual report notes export sales fell 19.94% to Rs. 1,186.55 crores in FY26. Q2 FY27 exports recovered to Rs. 424 crore from Rs. 277 crore, and management called growth sustainable, but it still cited threats of new tariffs and supply-chain dynamics as risks. The 35% export-share target from Q1 was not restated. The Mexico machining plant is positioned within USMCA, but tariff policy remains an exposure.

- **Commercial vehicle cyclicality remains the core demand risk despite diversification.** The CV segment is still the largest revenue contributor, and the annual report's SWOT flags it. Q2 FY27 domestic CV sales grew 28.7% and PV sales 7%, supporting the quarter. But the US Class 8 recovery is not quantified, and management's FY28 view is only "strong" without a number. The domestic market crossed 1 million retail CV sales in FY26, creating a high base. If either market decelerates, the asset-heavy model has limited room to absorb volume shortfalls.

- **Working capital strain from extended shipping times and floating inventory.** The annual report discloses that operational cash flow after working capital was approximately Rs. 840 crores in FY26, the highest in company history, but management still guided for 10-day working capital improvement targets in each of the next two years. The West Asia crisis elevated inventory days and transit times, and the Q2 FY26 loss of Rs. 9.5 crores was partly driven by floating inventory tied up in shipping. If transit times stay elevated, receivables and inventory days remain stretched, and the planned Rs. 400-500 crore debt reduction for FY27 becomes harder to achieve.

- **Debt reduction is behind the original pace but guidance is maintained.** Net debt was Rs. 1,900 crore at Q1 FY27. In H1 FY27, debt reduced by Rs. 126 crore. Management maintained its FY27 total debt reduction guidance of Rs. 500 crore, targeting net debt of Rs. 1,500 crore and gross debt of Rs. 1,670-1,700 crore. Finance cost would fall by about Rs. 40 crore per annum if the full Rs. 500 crore is repaid, at roughly 8% interest. For FY28,

management aims to reduce another Rs. 300-400 crore. Any working-capital or capex slippage would make the FY27 number harder.

- **The rail wheel JV is a large, unproven revenue bet, and the FY27 target has been cut.** The 51% JV with Titagarh Rail Systems has 80,000 confirmed wheels from Indian Railways plus about 25,000 from the JV partner. By Q2 FY27, 300 wheels were ready and under Railway inspection; management said no RDSO approval was needed. It guided 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4, but FY27 supply is now 20,000-25,000 wheels, down from 40,000. The JV booked a Rs. 3,500.14 lakh loss in FY26 before production. Any further delay would push revenue into FY28.
- **The casting and aluminium forging ramp-up carries execution risk.** The casting subsidiary has 78,000 tons of capacity, and Q2 FY27 won Rs. 447 crore of casting orders, including Rs. 272 crore of North American light-vehicle business. Management said current capacity is enough and any capex will be planned next year. The North American casting programme needs 6-9 months of validation; domestic programmes 12-14 weeks. Aluminium and cold forging utilisation were above 50% in Q2, but the earlier cold-forging 70% target was not updated. These new capacities carry depreciation without matching revenue during the ramp.
- **New non-ferrous and aerospace forays are speculative.** The company has zero aerospace revenue today, no confirmed aerospace orders, and management itself says any meaningful contribution is at least two years away, with Inconel and titanium products requiring 8-10 quarters. The company is quoting RFQs and building heating capability for roughly Rs. 10-20 crores of capex, but entering aerospace, robotics, and semiconductors means competing against established global players with decade-long certification track records. This is optionality, not a de-risked growth engine.

Scenarios

Bull case

The rail wheel JV completes Railway inspection of its 300 sample wheels and supplies 20,000-25,000 wheels in FY27, reaching 2,000-3,000 wheels in December and 4,000-5,000 per month at 80% capacity in Q4. Casting orders of Rs. 447 crore, including Rs. 272 crore of North American light-vehicle business, convert after validation, while aluminium and cold forging utilisation stay above 50%. Q2 FY27 export revenue of Rs. 424 crore is sustained, with North America and Europe both contributing. Passenger vehicle orders, including Rs. 272 crore of light-vehicle and Rs. 7 crore of EV orders in Q2, support the next leg. EBITDA margin of 18.23% in Q2 FY27 improves quarterly toward the prior peak, though management does not date it. H1 debt reduction of Rs. 126 crore accelerates to the guided Rs. 500 crore

for FY27, and gross debt falls toward Rs. 1,670-1,700 crore. FY27 capex is around Rs. 550 crore for machining capability, including Rs. 160 crore in H2.

Base case

The rail wheel JV starts first-phase supply in December at 2,000-3,000 wheels and exits Q4 at 4,000-5,000 per month, delivering 20,000-25,000 wheels in FY27. Casting orders of Rs. 447 crore convert after 6-9 months of North American validation and 12-14 weeks domestically. Aluminium and cold forging utilisation stay above 50%. Q2 FY27 exports of Rs. 424 crore are sustained, with North America at 58% and Europe 41% of the geographical mix. EBITDA margin holds above 18% and improves quarterly, but management does not guide a return to the prior peak next quarter. FY27 debt reduction reaches Rs. 500 crore, with net debt of Rs. 1,500 crore and gross debt of Rs. 1,670-1,700 crore. FY27 capex is around Rs. 550 crore, including Rs. 160 crore in H2. Management gives no quantified FY28 revenue growth, only a strong market view.

Bear case

The rail wheel JV fails to complete Railway inspection on time or ramps below 20,000-25,000 wheels in FY27, pushing the 4,000-5,000 per month Q4 run-rate into FY28. Freight stays elevated and the Rs. 8-9 crore quarterly shipping cost persists, while steel inflation cannot be fully passed through, holding EBITDA margin near 18% or below despite volume growth. US tariff policy re-escalates or Class 8 demand stalls, and exports, which were Rs. 424 crore in Q2 FY27, fail to sustain. Casting orders of Rs. 447 crore take longer than 6-9 months to validate. Aluminium and cold forging utilisation stays above 50% but does not reach the earlier 70% cold-forging target. FY27 capex of around Rs. 550 crore and working capital absorb cash, so the Rs. 500 crore debt reduction is missed and net debt stays above Rs. 1,500 crore. Management gives no FY28 guidance, leaving the growth path unquantified.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	4,238	5,400	6,600	8,000
Revenue growth	-	+27.4%	+22.2%	+21.2%
EBITDA (₹ Cr)	643	988	1,267	1,600
EBITDA margin	15.2%	18.3%	19.2%	20.0%
Depreciation (₹ Cr)	333	415	470	530
Interest (₹ Cr)	210	230	175	135
Other income (₹ Cr)	13.10	15.00	18.00	22.00
PBT (₹ Cr)	84.00	356	660	1,017
Tax (₹ Cr)	12.20	89.10	165	254
Tax rate	0.1%	0.3%	0.3%	0.3%
PAT (₹ Cr)	71.80	267	495	763
PAT growth	-	+272.0%	+85.3%	+54.0%
EPS (₹)	3.96	14.52	26.72	41.16
P/E	189.2x	51.6x	28.0x	18.2x
PEG	2.7x	0.7x	0.4x	0.3x

CAGR FY27E-FY29E: Revenue +21.7% · EBITDA +27.2% · PAT +69.0%

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Q2 FY27 concall notes

TLDR

Ramkrishna Forgings reported Q2 FY27 consolidated revenue of ₹1,405 crore, up 54.9% YoY and 15.5% QoQ, with EBITDA excluding other income of ₹256 crore and margin of 18.23%, against 13.50% a year earlier. PBT was ₹95 crore versus a ₹10 crore loss, and PAT ₹71 crore, up 47% QoQ. Management won ₹673 crore of orders with a four-year life, 52% export; casting accounted for ₹447 crore, including ₹272 crore from a new North American light-vehicle customer and product. Focus is on utilisation and returns from completed capacity, with FY27 capex around ₹550 crore, debt reduction of ₹500 crore to a ₹1,500 crore net target, and railway wheel supplies starting after inspection. Management expects H2 FY27 to be better than H1 and FY28 to be a good market in domestic and export markets, without quantifying growth. Risks are shipping costs, steel inflation, Europe softness and wheel ramp execution.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹1,405 crore	YoY +54.9%; QoQ +15.5%	Domestic demand, improving international business, capacity utilisation
EBITDA excluding other income	₹256 crore	vs ₹123 crore YoY; vs ₹218 crore QoQ	Operating efficiency from higher utilisation, product mix
EBITDA margin	18.23%	vs 13.50% YoY; vs 17.96% QoQ	Higher utilisation, product mix, operating efficiencies
PBT	₹95 crore	vs -₹10 crore YoY; vs ₹65 crore QoQ	Higher operating profit
PAT	₹71 crore	+47% QoQ	Higher operating profit
Debt reduction, H1 FY27	₹126 crore	n/a	H1 debt reduction; FY27 target is ₹500 crore
New order wins	₹673 crore, 4-year program life	New disclosure	CV, LV, EV and farm equipment; 48% domestic, 52% export
Export revenue	₹424 crore	vs ₹277 crore in Q2 FY26	North America recovery; Europe customer additions
Casting orders	₹447 crore	New disclosure	₹272 crore North American light-vehicle export order; new customer and new product

SEGMENTS & GEOGRAPHIES

- **Commercial vehicle:** Q2 orders were ₹304 crore. Management cited CV sales growth of 28.7% in Q2 FY27 as part of the domestic demand backdrop.
- **Light vehicle and passenger vehicle:** Q2 light vehicle orders were ₹272 crore. Passenger vehicle is the next growth lever, with management expecting about 10% growth from passenger vehicles by CY28/FY29.
- **Electric vehicle:** Q2 orders were ₹7 crore.
- **Farm equipment and off-highway:** Q2 orders were ₹90 crore, which management said reflects growing presence in off-highway applications.

- **Casting:** Orders were ₹447 crore, including ₹272 crore from a new North American light-vehicle customer and new product. Management said casting is not a high-margin business, current capacity is enough for the new orders, and any casting capex would be in the next financial year.
- **Railway:** Management said demand is high for fully assembled bogies, frames, bolster and cast components, and order flow is continuous. The segment looks flat as a percentage because total revenue is rising.
- **Oil and gas:** Demand is firm. Casting and oil and gas drove the subsidiary improvement in the quarter.
- **Exports:** Q2 exports were ₹424 crore versus ₹277 crore in Q2 FY26. North America is about 58% of the mix and Europe about 41%, versus Europe at about 28% two years ago. Europe saw a marginal decline as schedules prioritized North America's recovery; management said it can be covered next quarter and that export growth is sustainable.
- **Aluminium and cold forging:** Aluminium forging capacity is 6,000 tonnes. Utilisation in aluminium and cold forging is above 50%; both export to North America and management is adding customers.

STRATEGY & COMPANY-SPECIFIC

- **Capacity and capex:** Most planned forging capacity is complete. Incremental spend is on machining and value-add capability. H1 FY27 capex was ₹390 crore, plus ₹40 crore invested in the JV.
- **Railway wheels JV:** 300 wheels are ready and under railway inspection; no RDSO approval is needed. First supply is expected in the next couple of weeks. Phase 1 is 140,000 wheels and phase 2 adds 140,000 wheels of machining capability. The ₹56 crore approval is for phase 2, with no extra equity; the committed ₹24 crore is part of the investment.
- **Debt and bill discounting:** Bill discounting is non-recourse and relates to Tata Motors and other customers, so management treats it as receivables that get knocked off.
- **Working capital:** Net working capital rose about ₹140 crore on volume, while days are close to March levels. Shipping delays built inventory, and management expects improvement in the upcoming period.
- **Aerospace and new materials:** Management is in direct discussions with OEMs for engine-side components and is exploring frame components. Work on non-ferrous components in aluminium, titanium, Inconel and niobium grades for aerospace, robotics and semiconductors is progressing. No timeline was given.
- **FTAs:** Management sees no major inquiries from the UK FTA. Europe FTA traction would come only after approval by the European Union.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	Year looks extremely strong; may surpass previous peaks in YoY growth; no number	n/a	H1 performance, order book, market
H2 FY27 vs H1	Better	n/a	Order pipeline and market
FY28 domestic and export markets	Good market; no quantification	n/a	Order wins and customer discussions
EBITDA margin	Expansion each quarter; aspire to prior peak; no timeline	n/a	Utilisation, product mix, operating efficiency
FY27 capex	Around ₹550 crore; about ₹160 crore in H2 on machining	n/a	Value-add machining capability

METRIC	GUIDANCE	VS Q1 FY27	BASIS
JV investment	₹50-55 crore pending; ₹15-20 crore in H2, rest FY28	n/a	Committed JV equity
Net debt	Reduce ₹500 crore in FY27 to ₹1,500 crore net; gross ₹1,670-1,700 crore	n/a	Debt reduction and cash flow
FY28 debt reduction	₹300-400 crore	n/a	Cash flow
Finance cost	Down about ₹40 crore per annum if ₹500 crore debt is repaid	n/a	8% interest cost
ROCE	12-15% by end FY27; 20% in FY28	n/a	Capital employed and profitability
Railway wheels FY27 volumes	20,000-25,000 wheels; first 300 after inspection in next couple of weeks; December 2,000-3,000 per month; Q4 4,000-5,000 per month at 80% capacity	n/a	Railway inspection and ramp
Railway wheels margin	18-20% EBITDA at optimal utilisation	n/a	Optimal capacity utilisation
Passenger vehicle growth	About 10% growth from passenger vehicles by CY28/FY29	n/a	New orders and pipeline
Order execution	Average 6 months; export 9-12 months; domestic 3-4 months; casting North America LV validation 6-9 months; domestic 12-14 weeks	n/a	Customer validation and schedules
Working capital	Improve in upcoming period	n/a	Focus on days
Shipping cost	Current level seen as peak; no incremental increase now; further increase would be discussed with customers	n/a	Freight market and geopolitics
India steel price	Another hike possible in January; domestic pass-through expected	n/a	Management preparedness
Europe FTA	Traction only after EU approval	n/a	FTA pending
Aerospace	No timeline	n/a	Discussions with OEMs

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Shipping cost	Increased significantly; net impact of ₹8-9 crore in Q2; likely to remain for some time; customer is not prepared to bear the entire cost, so the company will share some
Steel price inflation	Indian steel prices rose more than customer compensation; negative carry of ₹6-7 crore; another India hike is possible in January, with domestic pass-through expected; North America and Europe local steel did not rise as much
Global environment	Geopolitical tensions in the Middle East, threats of new tariffs, supply chain dynamics, currency movements and input costs remain areas to monitor
Europe exports	Marginal Q2 decline came from capacity and schedule lines prioritizing North America; management said it can be covered next quarter
Casting mix	Casting is not a high-margin business; growing the casting vertical affects consolidated margin; no timeline to the prior peak
Working capital	Net working capital rose about ₹140 crore on volume; days are close to March; shipping delays built inventory; improvement is expected

RISK	WHAT MANAGEMENT SAID
Railway wheel ramp	300 wheels are under inspection; first supply has not yet happened; production targets depend on inspection and ramp
Order conversion	New orders have validation and delivery timelines; export orders take 9-12 months and domestic 3-4 months; the North American casting order needs 6-9 months validation
Aerospace and defense	No specific information or timeline; discussions with OEMs are ongoing
FTAs	UK FTA has not produced major inquiries; Europe FTA is pending EU approval

Q&A HIGHLIGHTS

Casting order execution. Asked how the new casting orders will be executed and whether capacity exists. Management said the North American light-vehicle order needs validation before regular supplies, domestic orders start after a shorter development period, current capacity is enough, and any casting capex would be in the next financial year.

Capex and JV funding. Asked about FY27 capex after H1 spend and the JV. Management said FY27 machining capex is around ₹550 crore with about ₹160 crore in H2, and the JV has ₹50-55 crore pending, of which ₹15-20 crore comes in H2 and the rest next year.

Margin path. Asked when EBITDA margin can return to 20-21%. Management said shipping cost is elevated and cost ₹8-9 crore net in the quarter, export mix helps but the quantum depends on product mix, and it aspires to the prior peak with quarterly expansion but no timeline.

Subsidiary margin. Asked why subsidiary margin looked much higher. The CFO said subsidiary margin is 16-17%, similar to RKFL, and intercompany sales elimination distorts the consolidated calculation; casting and oil and gas drove the improvement.

Europe versus North America. Asked about weaker Europe. Management said exports rose to ₹424 crore from ₹277 crore, Europe is 41% of the mix versus 28% two years ago and North America 58%; Europe's marginal decline came from prioritizing North America's recovery and can be covered next quarter.

Railway wheels. Asked about approval and funding. Management said no RDSO approval is needed, 300 wheels are under railway inspection with first supply in the next couple of weeks, December should see 2,000-3,000 wheels and Q4 4,000-5,000 per month at 80% capacity; the ₹56 crore approval is for phase 2 and is not extra equity.

FY28 outlook. Asked to quantify FY28 growth. Management said FY28 looks good in domestic and international markets but declined to quantify, said it has visibility for the next six months, sticks to FY27 guidance given at the full-year results, and will guide after full-year results.

ROCE. Asked whether 12-15% ROCE for FY27 and 20% for FY28 hold. The CFO confirmed 12-15% by end FY27 and 20% next year.

Sona BLW Precision Forgings Limited

GROWTH TRIGGERS

Sona Comstar's Q2 FY27 shows the EV and new-product portfolio scaling: BEV revenue exceeded half of automotive sales, the net order book reached ₹251 billion after ₹36 billion of wins, and three products were commercialized. The bull case is that this broadens revenue across products, customers and geographies while strong free cash flow funds the Denso, robotics and railway ramps.

1. BEV revenue crosses half of automotive sales

Q2 FY27 BEV revenue grew 129% YoY and reached 51% of automotive product sales, the first time above half, while H1 BEV revenue was ₹1,042 crore or 48% of automotive sales. Management said growth came across products, markets and vehicle segments, and sequential BEV growth was 40% even as US EV deliveries were broadly unchanged.

2. Order additions broaden the ₹251 billion net order book

Sona won ₹36 billion of new business in Q2 FY27, its third-highest order-addition quarter, and closed with a ₹251 billion net order book. Management said wins spanned differential assemblies, gears, traction motors, controllers, starter motors, sensors and railway products, and were not anchored by one very large order.

3. Traction motors gain wallet share in a supply-constrained market

Traction motor demand grew almost 50% QoQ in Q2 FY27. Management said Sona gained share because it could re-engineer around the heavy rare earth magnet restriction and had capacity to ramp when OEM supply chains were stressed, and that existing OEM business also grew.

4. Suspension motors scale to 7% of revenue

Suspension motors were the fastest-growing product in Q2 FY27 and reached 7% of revenue. The second Nio model exceeded expectations after the first model underperformed, and management said significant conversations with other OEMs could add programs, though the order book is currently limited to one customer across variants.

5. Three product launches expand the portfolio

Sona commercialized a helical limited-slip differential for passenger cars and SUVs, air springs for railways, and a rear radar sensor for two-wheelers in Q2 FY27, its highest number of launches in a single quarter. The rear radar also brought a new Indian two-wheeler customer and added sensing to the traction motor and controller offering.

6. Denso JVs move toward legal close

Management targeted JV1 legal close and carve-out by end-December 2026, with a possible slip into January, and JV2 close in H1 CY2027. Closing the structures is the next step before

the 2W/3W and high-voltage powertrain partnerships can be judged on customer programs.

7. Robotics builds from 4% of the order book

Robotics and physical AI represented 4% of the ₹251 billion net order book at Q2 FY27. Management said ₹62 crore capex declared last quarter should cover the area, in-house AMRs are being deployed on Sona factory floors for real-world training, and demonstrations are planned for February.

8. Railway new products enter serial supply

Air springs were commercialized and supplied in Q2 FY27, HVAC's first batch was supplied during the year, and electric panels started in a small way. Management said new product introduction will be the main railway growth driver over the next three years, with a pipeline it says can support five years.

9. Record H1 free cash flow funds the build

H1 FY27 generated ₹446 crore free cash flow after ₹148 crore capex, with ₹594 crore cash from operations. Gross cash and investments were ₹1,966 crore at September-end, and management indicated net cash of about ₹1,400-1,500 crore, supporting capex and JV needs without balance-sheet stress.

INVESTMENT THESIS

Sona BLW Precision Forgings is a global mobility technology company whose economics are shifting from a precision-forged driveline anchor toward a broader electrified and intelligent-mobility portfolio. The Q2 FY27 call provides the clearest evidence yet that the shift is revenue-generating, not just strategic: BEV revenue grew 129% YoY, reached 51% of automotive product sales, and the net order book rose to ₹251 billion after ₹36 billion of new business. The investment question is whether that mix can compound revenue at the company's medium-term aspiration while percentage margins hold inside a lower 23-25% band.

The business now has four material engines. Driveline remains the value-add core, making differential gears and assemblies for conventional, hybrid and electric vehicles. The motor business supplies traction motors and controllers for Indian electric two- and three-wheelers, starter motors, and suspension motors for active suspension systems. The railway business, acquired from Escorts Kubota in June 2025, sells safety-critical brakes, couplers and suspension products and is adding HVAC, electric panels and air springs. NOVELIC adds millimeter-wave radar, and the robotics and physical AI vertical applies motors, gearboxes, sensors and perception to AMRs and other intelligent machines.

The Q2 economics show both the opportunity and the constraint. Revenue grew 35% YoY and PAT 29%, but EBITDA grew 23% and margin fell to 23.0% because traction motors grew almost 50% QoQ and carry lower margin, while steel, copper, oil derivatives and freight rose. Management did not raise the margin band; it reiterated 23-25% and said about 23% is reasonable if material prices behave. This is an operating-leverage thesis with a mix headwind, not a clean margin-expansion story. Absolute EBITDA can keep rising even as percentage margin sits near the floor.

Demand visibility is unusually strong for an auto component supplier. The ₹251 billion net order book includes 75 EPIC programs across 37 customers at H1 FY27, of which 44 are in production and 31 have not started. BEV programs were 64% of the prior-quarter order book, and the Q2 book is broad-based across products and geographies. Management also said European OEMs want an alternative supply chain to China, which supports the driveline opportunity beyond the current model cycle. The caveat is that order books are indicative and have been corrected before when a single customer model lost visibility.

The next 18-24 months hinge on four milestones. First, Denso JV1 is targeted to close by end-December 2026, possibly January, and JV2 in H1 CY2027; closing the structures is necessary before the high-voltage and 2W/3W partnerships can be judged on customer programs. Second, suspension motors must add customers beyond the first one. The product reached 7% of revenue and is the fastest-growing line, but the order book is limited to one customer across variants and other OEM talks have not converted. Third, robotics must move

from 4% of the order book and ₹62 crore of capex into external commercial supply; management is deploying AMRs on its own factory floors and plans demonstrations in February but declined to date a big inflection. Fourth, railway air springs, HVAC and electric panels must ramp across rolling-stock types, a process management says will take three years for new products to become the main growth driver.

Capital allocation is a strength. H1 FY27 generated ₹446 crore free cash flow after ₹148 crore capex, and gross cash and investments were ₹1,966 crore at September-end; management indicated net cash of about ₹1,400-1,500 crore. The company can fund the Denso JVs, robotics and railway ramps internally. It also repeated a disciplined M&A filter focused on capability, market leadership, return accretion and long-lived product relevance. That reduces the risk of a large, dilutive acquisition, though it does not prove the 10x ambition.

Management delivery is mixed but improving. The Q2 operating result was strong, cash conversion was excellent, and the margin guidance was held rather than quietly cut. However, the 23-25% band is lower than the 25-27% range of earlier years, the Denso JV has no revenue timeline, and the robotics vertical is still small. The prior order-book correction and the China JV suspension show that dated strategic announcements can slip. The correct stance is to credit Q2 execution while treating JV closing, suspension customer diversification and robotics commercialisation as open.

The falsifiers are specific. A sustained EBITDA margin below 23% as traction and railway mix rises would show the operating-leverage offset is insufficient. A failure to close JV1 by January or JV2 in H1 CY2027 would push back the high-voltage option. Suspension motors staying at one customer across variants would cap the fastest-growing product. Robotics remaining at 4% of the order book without external orders would make the vertical a cost rather than a growth engine. A further order-book correction, or a renewed EV demand shock, would undermine the 25% medium-term CAGR aspiration. Conversely, evidence that margins hold at or above 23% while BEV and order-book conversion continue would validate the operating-leverage thesis.

RESEARCH REPORT

What Sona BLW Precision Forgings Limited does

Sona BLW Precision Forgings Limited (Sona Comstar) is a global mobility technology company that designs and manufactures mission-critical driveline components, electric motors, railway systems, and radar sensors for vehicle OEMs. It was incorporated in 1995 as Sona Okegawa Precision Forgings, a joint venture between the Sona Group and Mitsubishi Materials, and pioneered precision-formed bevel gears in India. The company later acquired ThyssenKrupp's precision forging business BLW, which invented the technology, then Comstar Automotive for motors, a majority stake in NOVELIC for radar sensing, and in June 2025, the Railway Business from Escorts Kubota for INR 16,426 million.

The company operates 12 manufacturing and assembly facilities across India, USA, Mexico, and China, with 5 R&D centres and roughly 6,691 employees including 490+ R&D engineers. In FY 2025-26, revenue grew 26% to INR 44,751 million, EBITDA grew 13% to INR 11,069 million, and adjusted PAT grew 11% to INR 6,703 million. The company ended FY26 with INR 12.7 billion in cash and equivalents.

Q2 FY27 update (26 Oct 2026)

Q2 FY27 revenue grew 35% YoY, EBITDA 23% and PAT 29%; H1 revenue grew 43%, EBITDA 34% and PAT 36%. BEV revenue rose 129% and reached 51% of automotive product sales in Q2 and 48% in H1. The net order book was ₹251 billion after ₹36 billion of new business. EBITDA margin was 23.0% in Q2 and 23.1% in H1; management reiterated the 23-25% band and said about 23% is reasonable in normal conditions. H1 free cash flow was ₹446 crore after ₹148 crore capex. Q2 revenue was reported at ₹1,546 crore and EBITDA at ₹356 crore on the call; filed quarterly figures should be treated as the final reference.

> *"more than 35% of our revenue comes from products that simply did not exist in our portfolio seven years ago"*
>
> **MD & GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

Sona Comstar's product portfolio has nearly tripled from 10 products in FY 2020-21 to 29 in FY 2025-26. The company's stated ambition is to build a second 10x company over the next decade, broadening from automotive into what it calls "mobility": railways, robotics, and physical AI.

Driveline Business

The Driveline Business is the founding product line and the margin anchor of the company. It makes precision-forged bevel gears for differentials, complete differential assemblies, and a range of driveline components including steering bevel boxes, intermediate gears, epicyclic gear trains, input rotor shafts, and inter-axle gear sets. These go into passenger vehicles,

commercial vehicles, and off-highway vehicles across gasoline, diesel, hybrid, and electric powertrains.

The company crossed 500 million differential gears and 10 million differential assemblies manufactured since inception in FY 2025-26. Differential gears hold 8.7% global market share in CY2025, down slightly from 8.8% in CY2024, a mix-driven decline because incremental light vehicle production was led by China, where the company has minimal presence. Excluding China, the company gained share in differential gears in CY2025, especially in Europe and North America.

Driveline is the highest value-addition business in the portfolio. Products are made in-house from raw material through finished goods, which is why the CFO points to it as the segment with the highest gross margins. This is also the business most exposed to the European competitor insolvencies, which management sees as a major share-shift opportunity.

Motor Business

The Motor Business came from the Comstar acquisition in 2019 and now makes traction motors, starter motors, suspension motors, and motor controllers. Traction motors serve electric 2-wheelers, 3-wheelers, and light commercial vehicles in India. Starter motors serve conventional and micro-hybrid vehicles globally and hold 4.2% global market share in CY2025. Suspension motors are BLDC motor and motor controller-based actuators for predictive active suspension systems, supplied to ClearMotion, which integrates them into active suspension for EV OEMs.

Traction motors are the fastest-growing major segment. The company is the largest traction motor supplier in India for 2-wheelers and one of the top two in volume terms across all Indian EV categories. Three-wheeler programs are ramping up, and the value per motor rises nonlinearly as power and voltage increase. When China banned heavy rare earth magnet exports in April 2025, the company shifted motor designs to light rare earth magnets within months, then developed a ferrite-assisted synchronous reluctance motor that uses no rare earths at all, with a rotor position sensor that also removes the last rare earth magnet.

Suspension motors were the fastest-growing product in Q2 FY27, reaching 7% of revenue on management's portfolio chart. The order book remains concentrated: it is limited to one customer across variants, with significant conversations with other OEMs but no disclosed orders or timeline. The earlier two nominations from Nio and a European luxury performance OEM carried ₹8.2 billion lifetime value and were scheduled to start production in Q2 FY27; the Q2 call confirms the product is scaling but does not separately confirm those SOPs. Management said the first Nio model underperformed while the second exceeded expectations, making the ramp dependent on end-consumer adoption.

Railway Business

The Railway Business was acquired from Escorts Kubota in June 2025. Products include brake systems, couplers, suspension systems, dampers, friction products, and newer additions: electric panels, HVAC systems, air springs, and automatic doors. Electric panels were supplied for locomotive applications in Q4 FY26; HVAC's first batch was supplied during FY27; and air springs were commercialized in Q2 FY27 and have started ramping. Management says product addition will be the main growth driver over the next three years, with a pipeline it says can support growth for five years, though railway approval cycles remain long.

The railway business is one of the leading brake system suppliers in India. The addressable market is expanding: HVAC is a 2,000 to 2,500 crore market and electric panels about 1,500 crore, covering locomotives, passenger coaches, train sets, and metro. Amit Mishra, Head of Railway Business, said new products will take 12 to 15 months for electric panels and about 3 years for HVAC to cover all rolling stock types, and will become significant growth drivers in 3 to 5 years.

The railway business has a different cost structure and lower margins than the core, which is why the company revised its EBITDA margin guidance band from 24-26% to 23-25% after the acquisition. The railway order book was INR 13 billion at Q2 FY26, of shorter duration than automotive orders, mostly executed within 12 months.

Sensors and Software (NOVELIC)

NOVELIC is a Serbia-based millimeter-wave radar company, majority acquired in 2023. Its products include in-cabin radar sensors for driver monitoring and occupant detection, and 360-degree short-range exterior radar sensors. The exterior radar has a 180-degree field of view and can replace up to 12 traditional ultrasonic sensors and 4 corner radars with just 4 radar sensors, at roughly half the system cost, while covering the mandates under India's AIS 184 ADAS regulation including blind spot information, moving off information, AEBS, and LDWS.

A production facility in Chennai with an SMT line is set up, with the first customer SOP expected at the end of 2026. The in-cabin radar is being augmented with a vision system to create a comprehensive driver monitoring solution. The ADAS regulation for M2, M3, N2, and N3 vehicles is mandated from CY2027 for both existing and new vehicles, which management expects to be a meaningful demand driver for the radar products.

Robotics and Physical AI

The newest vertical, announced with substance in July 2026 after a year of quiet development. The company has three revenue streams: advanced components and subsystems (motors, gearboxes, reducers, sensors), the perception stack and engineering

services, and manufacturing of selected full robotic platforms starting with autonomous mobile robots (AMRs) and cognitive collaborative robots (cobots). The first AMR prototype was showcased at CES in Las Vegas in January 2026.

The vertical is past the idea stage. Robotics and physical AI represented 4% of the ₹251 billion net order book at Q2 FY27. The company has three revenue streams: advanced components and subsystems, perception software and engineering services, and full robotic platforms starting with AMRs and cobots. It has secured orders including an advanced robotic subsystem, perception engineering services for AMRs, and a complete short-range radar perception solution for an Indian commercial vehicle OEM. Management said AMRs developed in-house are being deployed on its own factory floors to build real-world training and feedback loops, and it plans demonstrations at Bharat Expo in February. It disclosed ₹62 crore of capex for this area.

> *"Together, these three orders, they add ₹6 billion to our Robotics and Physical AI orderbook, which takes the total order book for this new vertical to ₹8 billion"*
>
> **MD & GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

The company also has an MoU with Neura Robotics of Germany for cognitive robotics, and an MoU with The ePlane Company for eVTOL components. Management cites Morgan Stanley's Robot Almanac projections that the global market for radars, reducers, and electric motors could grow roughly 260x, 590x, and 260x respectively over the next 25 years to $60 billion, $1.4 trillion, and $2.5 trillion.

The Denso joint ventures

In July 2026, the company announced two joint ventures with Denso, the world's second largest mobility technology company. JV1 focuses on 2-wheeler and 3-wheeler EV powertrains, where Sona Comstar holds majority ownership and management control and licenses its technology into the JV. JV2 focuses on high-voltage electric and hybrid powertrain systems for 4-wheelers and above, where Denso holds the majority stake, contributes technology and IP, and leads management. Royalty arrangements are equal and reciprocal - JV2 pays royalties to Sona for its 2W/3W technology, and JV1 pays royalties to Denso for high-voltage technology. On the Q2 FY27 call, management targeted JV1's legal close and carve-out by end-December 2026, with a possibility of slipping into January because advisers and partners take year-end holidays; JV2 is targeted for close in H1 CY2027. SOP and customer timelines remain undisclosed.

JV1 will kickstart faster than JV2. The partnership fills the company's biggest electrification gap: high-voltage and hybrid powertrain systems for passenger and commercial vehicles. Management sized the Indian hybrid and EV car and commercial vehicle market at over 2.3

million vehicles, roughly a INR 24,000 crore opportunity in 2030, growing to many times that by 2035. The capex intensity is low - Sat Mohan Gupta, CEO Motor Business, said for every INR 1 of capex, the high-voltage business can generate INR 11-12 of revenue, because it is engineering-intensive rather than capital-intensive.

Revenue mix

India became the largest end market at 51% of FY26 revenue, up from 29% in FY25. Eastern markets (India, China, rest of Asia) contributed 56% of FY26 revenue, up from 35%, 59% in Q1 FY27, and almost two-thirds in Q2 FY27. Non-automotive revenue rose from 9% of the total in FY25 to 31% in FY26, driven by the railway acquisition and off-highway growth. In Q2 FY27 the split was about 70% automotive and 30% non-automotive, and electric two- and three-wheelers were 14% of revenue. BEV revenue was 35% of automotive product revenue in FY26, 44% in Q1 FY27, and 51% in Q2 FY27; H1 FY27 BEV revenue was 48% of automotive product sales. The top four products contributed 86% of revenue in FY25; in FY26 the same 86% was spread across the top eight products, effectively doubling the number of meaningful revenue contributors.

Business segments

Driveline Business

The Driveline Business is the original Sona Comstar. It makes precision forged differential gears, differential assemblies, and a widening range of driveline components for passenger vehicles, commercial vehicles, off-highway vehicles, and EVs. The core capability is precision forging of bevel gears, a technology Sona acquired when it bought ThyssenKrupp's BLW forging business in 2008. That process - forging gears to near-net shape instead of machining them from blanks - uses less material, produces stronger grain flow, and is notoriously difficult to master. Sona has been refining it for over 25 years. The annual report notes the company crossed 500 million differential gears and 10 million differential assemblies manufactured since inception.

The products break into three layers. The legacy core is differential bevel gears and differential assemblies, which sit inside the axle and let the left and right wheels turn at different speeds when the vehicle corners. These go into every vehicle category. The newer layer includes final drive differential assemblies for EVs, EV transmission gears, epicyclic gear trains, steering bevel boxes, intermediate gears, and input rotor shafts. Management calls these "emerging products" and they are growing faster than the legacy line. The Q1 FY27 call listed them explicitly as the fastest-growing part of the driveline portfolio alongside railway products.

Customers are the world's largest OEMs. The annual report says Sona supplies 7 of the world's top-10 PV OEMs, 3 of the top-10 CV OEMs, and 7 of the top-10 tractor OEMs. They

buy because Sona holds what CEO Vivek Vikram Singh calls a "100% share of wallet" in some programs, meaning the customer has no second source. That position is now a competitive weapon. When European driveline suppliers began failing, customers had nowhere else to go. The Q2 FY26 call made this explicit:

> *"In the past 6 months, 3 of our direct competitors in Europe have filed for insolvency proceedings. This has resulted in an unprecedented increase in inquiries from European customers to us."*
>
> **MD & GROUP CEO, Q2 FY26 CONCALL (OCT 2025)**

That supply-chain reset is converting into orders. In Q4 FY26, Sona won 4 driveline orders, including 3 from European OEMs in a single quarter - the highest ever - and the first EV driveline order win from Europe in almost 4 years. One of those was for a hybrid platform. In Q1 FY27, Sona added a ₹2.1 billion ICE differential gear program from a traditional North American OEM. The Q3 FY26 call sized the opportunity: about 400-500 million euros of revenue from troubled European competitors may need to be redistributed, and Sona is the natural recipient.

Competitive position is strongest in differential gears. The annual report states global market share of 8.7% in differential gears for CY 2025, up from 4.5% in 2019, and 4.2% in starter motors. The share held steady despite the year's chaos, and management noted that excluding China - where Sona has minimal presence - it actually gained share in differential gears in CY 2025. The competitors falling over are European differential gear and assembly makers, of which there are few. The Q4 FY26 call confirmed one of the insolvent players was acquired by someone else, but the conversations are happening directly with customers.

The driveline business is the value-add heart of the group. Group CFO Rohit Nanda explained on the Q1 FY27 call that driveline has higher value addition from raw material to finished goods than the assembly-heavy motor and railway businesses. This is why the group's value-addition-to-employee-cost ratio moves with driveline's share of revenue. The segment also feeds the group's newest ambitions. The Denso JV announced in July 2026 could sell motors and inverters to Sona's own driveline division to make complete e-axles, an integration play management says is open. And the AMR and robotics work builds on the same gear and drive-unit capabilities driveline has spent decades perfecting.

Sona does not disclose segment-level revenue. The Q3 FY26 call pushed back on analysts asking for business-unit splits, saying "our job is not to help build better models." What is disclosed is that the top four products contributed 86% of revenue in FY 2025-26, spread across eight products by FY 2025-26, and that differential gears and assemblies remain the two largest of those. Management's own description of the segment is direct:

> *"It's always good to see our newer products getting scale, but it's very heartening to see our old horses, our legacy products, which are differential gears and differential assemblies, continuing to keep growing and keeping pace with our new products."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The driveline business is the reason the rest of the company exists. It is the technology base, the cash generator, and now the beneficiary of a European supply-chain collapse that is handing it market share it did not have to fight for.

Motor Business

The Motor Business makes traction motors, suspension motors, starter motors, and motor controllers for electric two-wheelers, three-wheelers, passenger vehicles, commercial vehicles, and farm equipment. It is the group's electrification engine and its least capital-intensive segment: ₹1 of capex generates ₹8-9 of revenue in the existing 2W/3W business, and CEO Sat Mohan Gupta expects ₹11-12 in high-voltage systems (Jul 2026 concall).

The core capability took years to build. When Sona acquired Comstar in 2019, it was a single-product starter motor company. The team expanded it into traction motors, suspension motors, and controllers. The suspension motor alone carries 2 million lines of code. Almost nothing the company makes today is just metal, as MD Vivek Vikram Singh put it in July 2026. The magnet crisis proved the depth of this engineering. When China banned heavy rare earth magnet exports in April 2025, motor designs were re-engineered to light rare earth alternatives within four weeks, keeping customer schedules intact, and by Q2 FY26 the business had developed, tested, and validated a ferrite-assisted synchronous reluctance motor, completely rare-earth-free, for three-wheelers and light commercial vehicles.

> *"We do not use any heavy rare earth magnets in any of our products."*
>
> **VIVEK VIKRAM SINGH, Q4 FY26 CONCALL (MAY 2026)**

Products inside the segment: traction motors and controllers for electric two-wheelers and three-wheelers; the suspension motor and integrated motor controller module that powers ClearMotion's predictive active suspension; the hydraulic motor controller for tractors, commercialized in Q3 FY26; and conventional starter motors, which held a 4.2% global market share in CY 2025 (Annual Report FY26).

ClearMotion is the marquee customer. Sona supplies the motor and controller for its active suspension, which launched on Nio's premium EVs in 2025. Two more nominations followed, one from Nio and one from a European luxury performance OEM, worth ₹8.2 billion in lifetime value with SOP in Q2 FY27 (Oct 2025 concall). Indian EV two-wheeler and three-wheeler OEMs buy the traction motors, and leading farm equipment OEMs buy the traction

motor and controller for tractors. Customers buy from Sona because of proven engineering under pressure and because the company studies duty cycles before designing: in 2021 it signed an MOU with a three-wheeler company just to capture a year of operating data for better motor design (Jul 2026 concall). It also builds capacity ahead of demand, holding roughly one million units of electric motor capacity (May 2026 concall).

Competitive position: in Indian 2W/3W traction motors, management calls the business the largest player at about 25% share, with Chinese suppliers making up most of the rest. "Two-wheeler, three-wheeler is far more competitive, and we are able to on our own take market leadership" (Vivek, Jul 2026). In starters, five or six large global players dominate, but "some of them are looking at vacating the starter motor field" (Jan 2026), redirecting inquiries to proven suppliers. High-voltage 4W motors are the opposite: "less competitive because of the technology barrier" (Vivek, Jul 2026).

The DENSO JV, announced July 2026, is the defining event for this segment. Under the first JV, the 2W/3W traction motor business moves into a joint venture where Sona holds majority and management control and licenses its technology to Denso, which pays Sona royalties. The suspension motor and all non-traction motor businesses remain outside the JV. The second JV, with Denso holding majority, attacks high-voltage EV and hybrid powertrains for passenger and commercial vehicles, an addressable market of roughly ₹24,000 crore by 2030 (Jul 2026 concall).

> *"Technology has value when someone else is willing to pay to use it."*
>
> **VIVEK VIKRAM SINGH, Q1 FY27 CONCALL (JUL 2026)**

Revenue mix: the motor business is not broken out separately. Traction motors were roughly 10% of company revenue as of May 2026. In Q2 FY27, traction motor demand grew almost 50% QoQ, pulling down margin percentage because that product line carries lower margin. Suspension motors were the fastest-growing product and reached 7% of revenue. BEV revenue, which includes traction and suspension motors, was 35% of automotive revenue in FY26, 44% in Q1 FY27, 51% in Q2 FY27 and 48% in H1 FY27.

Synergies: the motor business feeds the group's Robotics and Physical AI vertical, since motors, gearboxes, and sensors are the same building blocks for AMRs and humanoids. It also gives the driveline business the components to build e-axles in-house, one of the three sales models the DENSO JV can pursue.

Railway Business

Sona Comstar's railway business is the former Railway Equipment Division of Escorts Kubota, acquired on a slump sale basis effective 1 June 2025 for ₹16,426.32 million, per the FY26 annual report. It makes safety-critical systems for rolling stock: brake systems (axle-

mounted and wheel-mounted disc brakes, bogie-mounted brakes, electro-pneumatic and microprocessor-controlled brakes), couplers (semi-permanent, automatic, AAR-H), suspension systems (dampers, friction products, air springs), plus the newly added HVAC systems and electric control panels. The end markets are Indian Railways' passenger coaches, freight wagons, locomotives, EMUs/DMUs/MEMUs, and metro networks.

The core capability that took decades to build is the approval chain. Products must pass RDSO certification and field trials that run 12 months before high-volume supply is allowed. Amit Mishra, Head of Railway Business, said on the Q4 FY26 call that new products take 18 months to 3 years to cover the full range of rolling stock because "the approval cycles are very long, field trials are much longer there." This is the moat: a new entrant faces years of testing before it can sell a brake system to Indian Railways. The annual report notes the company got RDSO approvals transferred ahead of estimated timelines, smoothing the post-acquisition transition.

The product expansion is the growth story. In Q3 FY26, the company added air springs to the roadmap, which MD Vivek Vikram Singh said "will quadruple the addressable market for us in suspension systems." In Q4 FY26, it received approvals for electric panels for locomotives and for HVAC systems. The first batch of electric panels was supplied in Q4 FY26, and HVAC supply began during FY27. By Q2 FY27, air springs were commercialized and supplies had started, HVAC's first batch had been supplied and electric panels had started in a small way. Mishra said new product introduction will be the main growth driver over the next three years and the pipeline can support five years, with ramp dependent on timely launches.

> *"HVAC is about between 2,000 to 2,500 crore market size, and electric panel is also about 1,500 crore."*

Both products span locomotives, passenger coaches, trainsets, and metro. Electric panels will take 12-15 months to cover all rolling stock types; HVAC will take at least 3 years because of longer approval and field-trial cycles.

Customers buy from Sona Comstar because of its position in Indian Railways. The annual report states the company holds a leadership position in railway braking systems in India and is among the leading suppliers of couplers, dampers, and friction products. Mishra said on the Q2 FY26 call: "we do have good market share even in couplers and suspension also, we may be the largest player in the country." The sources do not name specific railway competitors. The company's moat is the combination of RDSO approvals, decades of field performance, and the switching costs inherent in safety-certified supply.

The railway business fits the group as a diversification engine. Non-automotive revenue, which includes railway plus off-highway, rose from 9% of revenue in FY25 to 31% in FY26,

driven mainly by the railway acquisition. The company does not disclose railway revenue as a standalone line; Singh said on the Q3 FY26 call, "We don't report segment wise or BU wise revenue." As of Q2 FY26, the railway order book stood at ₹13 billion, of shorter duration than automotive orders, expected to be executed mainly within 12 months.

The margin and return profile is distinct. The railway business runs at lower EBITDA margins than the automotive core, and management revised its group margin band from 24-26% to 23-25% after the acquisition. But the return profile is higher, as Singh explained on the Q4 FY26 call:

> *"It will improve returns because from a return perspective, they're very, very high return, businesses. It may be slightly diluted on margins, but return-wise, it will be much higher."*

The CFO, Rohit Nanda, noted the railway business has a different cost structure and working capital cycle, which is why group ratios like value addition per employee and working capital turnover dipped in FY26. The company also bought additional land for ₹110 crore for future railway expansion.

Management's growth plan for the next 3-5 years rests on three levers, per Mishra on the Q4 FY26 call: improving capacity and supply chain to meet demand that already exceeds current output; filling white spaces within existing brake, coupler, and suspension product lines; and scaling the new products (HVAC, electric panels, air springs, automatic doors) into meaningful revenue from year three onwards. The R&D team was re-engineered after acquisition, with Sona's R&D-first culture embedded. As of Q2 FY26, at least three products were in active development at the Faridabad facility, and some had already received development orders from Indian Railways.

Sensors and Software (NOVELIC)

This segment began as a Serbian software and services company, NOVELIC, which Sona Comstar acquired in 2023 for its millimeter-wave (mmWave) radar technology. The core capability is the design of radar sensors and the perception software that interprets the radar data. Since the radar unit is a hardware-software combination, the engineering moat sits in the signal processing and machine-learning algorithms that turn raw radio reflections into usable object detection. That is the piece that took years to build and is not a commodity forging or assembly operation.

The product line has two main branches. The first is in-cabin radar, which detects occupants, monitors the driver for drowsiness or distraction, and can detect a child left in the vehicle. This product has been augmented with a vision system to address the Driver Drowsiness and Attention Warning System (DDAWS) mandate under AIS 184 regulation. The second is exterior short-range radar with a claimed 180-degree field of view. Management stated this

can replace up to 12 traditional ultrasonic sensors and 4 corner radars with just 4 radar units, addressing mandates covering Blind Spot Information Systems, Moving Off Information Systems, AEBS, and LDWS. The intended customers are Indian commercial vehicle OEMs that must meet upcoming government ADAS regulations, plus passenger car makers requiring in-cabin monitoring.

The commercial anchor was the first order: a complete short-range radar perception solution for an Indian commercial vehicle OEM. In Q2 FY27, Sona commercialized a rear radar sensor for two-wheelers and won an order from a new Indian two-wheeler customer; management said this adds radar sensing to its traction motor and controller portfolio and opens a new market. The earlier Chennai SMT line and end-CY2026 first-customer SOP target are not updated in the Q2 transcript. The customer buys because the product is a single integrated unit that meets multiple regulatory requirements at a lower system cost than the ultrasonic-plus-corner-radar stack it replaces.

The competitive position is unusual. In the Q2 FY26 concall, management noted that "3 of our direct competitors in Europe have filed for insolvency proceedings." This was in the broader driveline context, but it reflects the financial stress across European automotive suppliers. More specifically, Praveen Rao said in the Jan 2026 call that Sona is "perhaps one of the early ones to set up a facility in India for the radar product," which matters because the ADAS mandate timing is fixed. The regulation was moved by a year, with NCAP certification required in 2027, and Sona's Chennai plant is positioned to support OEM programs from FY27 onwards. The main competitors in radar sensing are global Tier-1 suppliers like Bosch, Continental, and Veoneer, but none have announced local Indian radar manufacturing capacity at Sona's stage.

The segment fits the group through the Robotics and Physical AI vertical. In the Jul 2026 concall, management placed radar and perception at the core of intelligent machines. The Autonomous Mobile Robot (AMR) platform combines capabilities across the motor, driveline, and sensor divisions, including robot perception, motion planning, and AI orchestration. The order book for Robotics and Physical AI stood at ₹8 billion, with three orders: one for an advanced robotic subsystem, one for perception engineering services for AMRs, and the third combining hardware and software for the Indian commercial vehicle radar solution. The segment also contributes to the company's stated ambition that "more than 35% of our revenue comes from products that simply did not exist in our portfolio seven years ago."

No revenue-mix percentage for the Sensors and Software segment has been disclosed. The annual report shows "Sensors and Software" as a distinct line in the product revenue mix chart, but no numeric percentage is provided, and management has declined to give segment-level revenue. The business is currently small relative to driveline and motors.

Across the concalls, management has been deliberate about the timeline. Vivek Vikram Singh said in the Q4 FY26 call that the in-cabin safety regulation was "moved by a year... that's on plan." He also described the strategy for the acquired business:

> *"In NOVELIC too, we bought services business, which we are pivoting into a product business. It is what we know how to do. It is in our nature, and that is what we will continue to do."*
>
> **MD & GROUP CEO, Q2 FY26 CONCALL (OCT 2025)**

The Chennai SMT line is the key milestone. It converts the segment from a pure software and services operation into a manufacturing business, which is the precondition for scaling radar volumes to Indian OEMs as the ADAS mandate takes effect.

Customers

Sona Comstar supplies 60+ OEMs and Tier-1 suppliers worldwide, including 7 of the world's top-10 passenger vehicle OEMs, 3 of the top-10 commercial vehicle OEMs, 7 of the top-10 tractor OEMs, 3 of the top-10 EV OEMs, and 3 of India's top-10 EV two-wheeler OEMs. The company does not name customers on earnings calls due to confidentiality, but the customer base spans North America, Europe, India, and China.

Customer concentration has fallen sharply and deliberately. Top 5 customers contributed 51% of total revenue in Q2 FY26, down from 62% in FY22. The largest customer contributed about 6% of revenue in FY26, down from 23% in FY22. Critically, the largest customer today, plus 2 of the top 5 and 3 of the top 10, were not even in the customer base in FY22 - they were added and scaled in that period. The company doubled its revenue run rate since FY22 while making this transition.

The buying relationship is program-based and long-cycle. Programs are won through RFQs, and the typical cycle from purchase order to start of production is about 32 months, though "running changes" (switching suppliers mid-program after a competitor fails) can convert in 8-9 months. The current RFQ pipeline is the strongest in company history and almost 3 times the same time last year, with about one-third of the pipeline coming from European customers.

The order book is the core forward-looking metric. Net order book stood at ₹251 billion at Q2 FY27 after ₹36 billion of new business, the third-highest order-addition quarter; management said the wins were spread across products, customers and geographies. At Q1 FY27 it stood at ₹240 billion with EVs at 64%, at Q4 FY26 ₹237 billion with EVs at 70%, and at Q3 FY26 ₹235 billion with EVs at 71%. Q2 did not disclose the EV share; robotics and physical AI was 4% of the book. The railway order book is of shorter duration, mostly executed within 12 months.

> *"our net order book stands at 240 billion, with EVs accounting for 64%"*
>
> **MD & GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

Order book volumes are indicative, not firm commitments. Management discounts customer volume projections when deciding what to include, and reviews the book periodically to remove programs with low visibility. In Q2 FY26, the company removed INR 36 billion of programs with weak visibility, including the residual value of a large EV customer's troubled model. One model's weakness alone caused an INR 300 crore revenue hole in FY26 - the largest EV customer's share of revenue fell from 23% in FY22 to 6% now.

Switching costs are high because the products are safety-critical and mission-critical, tested over long validation cycles. The company's position as a proven global-scale supplier matters most in resourcing situations - when a European competitor fails, customers need a supplier who has already demonstrated the ability to make those parts at scale, not a new entrant. The company supplies both directly to OEMs and to Tier-1s who integrate e-axles, and it can also feed its own driveline division to make complete e-axles.

ClearMotion is the notable indirect customer for suspension motors. ClearMotion wins the OEM order for its active suspension system, and Sona supplies the motor and controller. The company also has a partnership with Denso that extends its customer reach - Denso's brand and customer relationships open doors the company could not access alone, particularly in the 2W/3W JV and the high-voltage JV.

Competitive landscape

The global driveline component industry is consolidating around Sona Comstar's favor. Three direct European competitors in differential gears and differential assemblies filed for insolvency proceedings in 2025-26. By Q3 FY26, one had been adjudicated for liquidation, one was heading the same way, and the third was uncertain. Management estimates 400 million to 500 million euros of revenue from these failing companies will have to be redistributed across the supply chain.

> *"about 400 million to 500 million euros worth of revenue companies might just fold"*
>
> **MD & GROUP CEO, Q3 FY26 CONCALL (JAN 2026)**

The redistribution favors India and China for political and cost reasons, and for North American OEMs, China is not an acceptable alternative. That leaves Indian suppliers and a few Western ones. Management said the increase in the BD pipeline is real and conversion is happening through "running changes" - customers switching mid-program - which have shorter timelines than new program awards. The company won 4 driveline orders from

European OEMs in Q4 FY26, the highest ever in a single quarter, including its first EV order win from Europe in almost 4 years.

In starter motors, there are 5-6 large global players, and some are vacating the field entirely. This is the opposite dynamic to electrification - established players exiting a declining product category, forcing customers to resource. The company is currently ranked about 6-7 in the world in starters and gains share when bigger players shut plants. Starter motors hold 4.2% global market share in CY2025.

In traction motors for Indian 2-wheelers and 3-wheelers, the competition is largely Chinese suppliers. The company wins on local manufacturing, cost, and the ability to re-engineer rapidly when supply chains break. When heavy rare earth magnets were banned, the company shifted to light rare earth within months and developed ferrite-based motors, which strengthened share of wallet with existing customers. Management said the India 2W traction motor market is far more competitive than the high-voltage passenger vehicle motor market, where technology barriers keep competitive intensity lower.

The company names Bosch and Denso as the benchmark companies it aspires to be compared with. The Denso JV is notable because it is a two-way technology partnership - Denso pays royalties to Sona for its 2W/3W technology, which management believes makes it the first Indian automotive company to receive royalty income from a global mobility technology company. The partnership signals that Sona's technology has standalone value, not just manufacturing capability.

The competitive position varies by segment. In differential gears, the company is a top global supplier with 8.7% share and a consolidating competitive field. In starter motors, it is a mid-size player gaining as larger players exit. In India traction motors, it is the largest. In suspension motors, it is the sole supplier to ClearMotion's active suspension - a category it essentially created. In railway brakes, it is among the leading suppliers in India. In each case, the winning formula is the same: proven global scale, engineering depth, and the ability to move fast when the environment breaks.

Industry

Global light vehicle sales reached approximately 91.94 million units in CY2025, up 3.7% year-on-year, the first year exceeding the pre-pandemic CY2019 level of 89.9 million units (S&P Global Mobility). The recovery was uneven - China grew 5.1% to 27.75 million units, North America grew 2.1% to 16.37 million, Europe grew just 0.5% to 18.76 million. The CY2026 outlook is a decline of 1.6%, driven by tariff-related cost pressures, high interest rates, affordability challenges, and subsidy cuts in China and the US. Among the top 25 light vehicle markets, India is expected to be the fastest growing.

Global electric car sales exceeded 20 million units in CY2025, growing more than 20% year-on-year and representing about 25% of total car sales (IEA). China led with NEV penetration around 54% of passenger vehicle sales, Europe was the fastest-growing EV market with sales up over 30% to 28% of car sales, and the US lagged with EV penetration under 10%. The IEA projects 23 million electric car sales in CY2026, 28% of total car sales, with Europe seeing the strongest growth among major markets. The US EV market is the weak spot - subsidies were scrapped and US EV volumes fell sharply in FY26, though the narrative began shifting back in early 2026 with energy security concerns from the West Asia conflict.

India's automotive market hit records across segments in FY2025-26. Passenger vehicle sales reached an all-time high of 4.64 million units, up 7.9% year-on-year (SIAM). Commercial vehicles grew 12.6% to 1.08 million units. The tractor industry crossed the one-million-unit mark for the first time. Growth was aided by GST rate reductions, personal income tax relief, and successive repo rate cuts. The Indian EV market is growing fast - electric cars and two-wheelers grew 65% and 45% respectively in March 2026.

The Indian railway sector is a significant growth platform. The Union Budget 2026-27 allocated INR 2,930 billion for Indian Railways, up 10.5% over the revised estimate. The railway sector is projected to see a 29% increase in passenger traffic from CY2021 to CY2031 and a 25% rise in rolling stock demand from CY2026 to CY2031 (Invest India). The modernization of passenger trains - Vande Bharat, Amrit Bharat, metro networks, dedicated freight corridors - is expanding content per coach in brakes, suspension, couplers, HVAC, electric panels, air springs, and doors.

India's place in the global supply chain is shifting from low-cost manufacturer to credible long-term partner. The European competitor insolvencies, US tariffs, and geopolitical realignment are forcing OEMs to diversify away from concentrated supply chains. Management described this as a redrawing of the supply chain map itself, with a financial imperative behind it that did not exist during the earlier "China plus one" discussion. The company's chairman noted that global customers increasingly look at Indian companies as reliable and capable long-term partners, not just low-cost sources.

Global EV adoption is cyclical and uneven. The US scrapped EV subsidies, China's EV tax incentives are expiring, and policy support varies by market. Management's view is that most of the order book is in geographies with little or no subsidy dependence (US, Europe, India), and that the energy security imperative from the West Asia conflict is re-accelerating electrification. The company also treats hybrids as an opportunity, not a risk - hybrid value content per vehicle is actually the highest because it includes a starter, a traction motor, and a differential assembly tuned to the highest-torque drivetrain. Hybrids contributed 24% of automotive product revenue in Q2 FY26.

The rare earth magnet situation is a structural supply chain risk. China restricted heavy rare earth magnet exports to India in April 2025. The company shifted to light rare earth alternatives, which it says work fine with no real magnet shortage, and developed ferrite-assisted motors that use no rare earths at all. The risk remains that China could restrict light rare earths too, but management has said the supply situation has been stable for five quarters.

The industry's cyclicality is visible in the company's own recent history. FY26 began with the worst quarter since IPO - a combination of US tariff shock, rare earth ban, loss of the chairman, and a 40% revenue collapse from the largest driveline customer. The company ended the year with its best-ever quarter. Management's framing is that the business is built to gain from disorder, not just survive it - the competitor insolvencies, supply chain realignment, and electrification acceleration all create share-shift opportunities for a company with a strong balance sheet and proven engineering capability.

Growth triggers

Denso JV for high-voltage EV/hybrid powertrain systems (4-wheeler and above)

On 22 July 2026, Sona Comstar announced a two-part joint venture with Denso, which management described as the world's second-largest mobility technology company. The first JV builds high-voltage electric and hybrid powertrain systems for four-wheeler and above vehicles, covering all passenger and commercial applications. Denso holds the majority stake, contributes the technology and intellectual property, and leads management. This plugs Sona Comstar's largest product gap. Before this JV, the company had no participation in high-voltage powertrains for cars and trucks, with its electrification portfolio confined to motors and controllers for two- and three-wheelers.

> *"We did not participate at all in high voltage electric as well as hybrid powertrain systems for passenger and commercial vehicles. This partnership fills that gap. More importantly, it completes our entire electrification portfolio."*
>
> **VIVEK VIKRAM SINGH, MD & GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

The JV sells high-voltage motors, controllers and powertrain systems to Indian OEMs, a market Sona Comstar could not address alone. Management sized the Indian hybrid, EV car and commercial vehicle opportunity at over 2.3 million vehicles, roughly a ₹24,000 crore market in 2030 per S&P Global Mobility, and "maybe 3 times that" by 2035. The JV can also sell to e-axle integrators, to OEMs that integrate in-house, or to Sona Comstar's own driveline division for its e-axle ambitions. Royalties are reciprocal. This JV pays Denso for high-voltage technology, while the sibling 2W/3W JV pays Sona Comstar royalties for its traction-motor technology, income the MD called the ultimate validation of the company's engineering.

Sona Comstar contributes motor design, frugal cost engineering and manufacturing scale. Denso brings hybrid-powertrain leadership, with electrification revenue above $8 billion a year, and full-spectrum controller technology. The JV is capital-light, with management guiding ₹1 of capex to generate ₹11-12 of revenue. Management expects high-voltage to face less competitive intensity than 2W/3W because the technology barrier to entry is high.

SOP timelines are not disclosed due to confidentiality agreements with Denso and customers. Management confirmed the high-voltage JV will kickstart faster than the 2W/3W JV, and noted automotive cycles run roughly 32 months from purchase order to serial production. India is phase one, with global markets in phase two. The suspension-motor business and all non-traction motor businesses sit outside the JV scope.

Denso JV for 2-wheeler/3-wheeler EV powertrain (JV1)

Announced 22 July 2026, JV1 is Sona Comstar's first joint venture. It wraps the existing 2-wheeler/3-wheeler EV traction motor and controller business, where Sona holds majority ownership and management control and licenses its own technology into the venture. It sits alongside JV2, the Denso-led high-voltage hybrid and EV powertrain business for 4-wheelers; management says the two are structured differently but treated as one partnership.

Two revenue channels. First, royalty income. JV1 pays Sona Comstar royalties for the 2/3-wheeler technology, reciprocal to JV2 paying Denso for high-voltage technology. Vivek called it likely the first case of an Indian automotive company earning royalty income from a global mobility technology company. Second, market expansion. Denso opens 2/3-wheeler customers currently closed to Sona, plus export markets where Denso's brand carries more weight. Vivek put Sona's current Indian 2/3-wheeler share at roughly 25% and said the JV exists to push beyond 50%.

> *"JV2 will pay royalties to Denso for its high voltage technologies, while JV1 will pay royalties to Sona Comstar for our 2 and 3 wheeler technologies."*
>
> **VIVEK VIKRAM SINGH, Q1 FY27 CONCALL (JUL 2026)**

Timeline: Phase 1 is India - standing up the JV and winning Indian customers. Phase 2 is global expansion through Denso's network. Management declined to give SOP dates, citing confidentiality, and confirmed JV1 activates ahead of JV2.

Robotics and Physical AI vertical - AMRs, cobots, perception services

Sona Comstar's robotics vertical applies the same building blocks it already makes for electric vehicles - motors, gearboxes, actuators, sensors, electronics and software - to intelligent machines. Management structured it as three revenue streams: advanced

components and subsystems, perception software and engineering services, and full robotic platforms, starting with autonomous mobile robots (AMRs) and collaborative robots (cobots).

The vertical is past the idea stage. Management announced it in the Q1 FY27 concall after a year of quiet development, with three secured orders already in hand: an advanced robotic subsystem, perception engineering services for AMRs, and a complete short range radar perception solution for an Indian commercial vehicle OEM. The first AMR prototype was showcased at CES 2026. The platform combines the motor, driveline and sensor divisions with newer capabilities in perception, motion planning and control, telematics, reinforcement learning and AI orchestration, targeting manufacturing and warehousing across automotive, electronics, pharmaceuticals and FMCG.

> *"Together, these three orders, they add ₹6 billion to our Robotics and Physical AI orderbook, which takes the total order book for this new vertical to ₹8 billion"*
>
> **MD AND GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

Management noted the vertical represents a small 3% of the ₹240 billion net order book. The SOP timing shows how near-term the revenue is:

> *"1 is this quarter, 1 is next quarter, 1 within 15 months"*
>
> **MD AND GROUP CEO, Q1 FY27 CONCALL (JUL 2026)**

The partnership route is also active. An MoU with Neura Robotics of Germany, announced in the Q2 FY26 concall, covers joint development of components and technologies for cognitive robotics, cobots and humanoids in India and other markets. Management said demand is arriving faster than internal assumptions - "the market evolution, also Jay, is much faster than we expected" (Q1 FY27 concall, Jul 2026).

ADAS regulation implementation in India (AIS 184) driving radar sensor demand

The Government of India has mandated ADAS for M2, M3, N2 and N3 class vehicles - medium and heavy commercial vehicles - under the AIS 184 regulation, with compliance required for both existing and new vehicles from CY2027. The mandate covers specific functions: Blind Spot Information Systems, Moving Off Information Systems, Automatic Emergency Braking, Lane Departure Warning, and Driver Drowsiness and Attention Warning (DDAWS). Each function requires radar sensing, which is where Sona Comstar's NOVELIC subsidiary, acquired for its millimeter-wave radar expertise, earns its keep.

The product strategy was laid out on the Q3 FY26 call: an in-cabin radar paired with a vision system for DDAWS, and a 180-degree field-of-view exterior radar that replaces up to 12 ultrasonic sensors and 4 corner radars with just 4 radar sensors. Group CTO Praveen Rao framed the cost case for OEMs directly:

> *"it's almost like half of what they would be spending today to have this ultrasonic and the radars... calendar year 27 is when at different points in time for existing as well as new vehicles, it will be mandated and we are ready to support."*
>
> **GROUP CTO, Q3 FY26 CONCALL (JAN 2026)**

The business has moved past development. NOVELIC India was incorporated in November 2025 with an SMT assembly line in Chennai, and the Q4 FY26 call confirmed the first customer SOP targeted for end of the year. By Q1 FY27, the short-range exterior radar for a leading Indian commercial vehicle OEM was under commercialisation, described as "a complete short range radar perception solution for an Indian commercial vehicle OEM" - one of three orders that took the Robotics and Physical AI order book to ₹8 billion.

Sona supplies the radar module itself, either as a Tier-1 to larger system integrators or directly to OEMs who integrate the module themselves. Both routes monetize the same regulation.

Railway business expansion - HVAC, electric panels, air springs, automatic doors

Sona acquired the railway business from Escorts Kubota in June 2025 with a portfolio of safety-critical products: brake systems, couplers, dampers and friction products. The expansion trigger is adding passenger-comfort and systems products on top of that base - HVAC systems, electric control panels, air springs and automatic plug doors - which opens a larger addressable market across Indian rolling stock.

The mechanism runs through the RDSO approval pipeline the acquisition brought with it. Every new railway product needs regulatory approval and field trials before volume supply is allowed. Within about ten months of closing, Sona received approvals for two new products. Vivek Vikram Singh reported in Q4 FY26: "This quarter we received approvals to supply two new products: electric panels and HVAC systems." The first batch of electric panels went to locomotive applications, and HVAC supply began the following quarter.

Amit Mishra, Head of Railway Business, sized the opportunity on the same call. HVAC is a ₹2,000-2,500 crore market and electric panels around ₹1,500 crore, both spanning locomotives, passenger coaches, trainsets and metro. He put the adoption curve at 12-15 months for electric panels to cover all rolling stock types and at least 3 years for HVAC, because approval cycles and field trials run long. That is why he assigned new products to a later growth window:

> *"There are other products where we are developing and we believe those products will become significant drivers in 3 to 5 years."*
>
> **AMIT MISHRA, Q4 FY26 CONCALL (MAY 2026)**

Air springs entered the roadmap in Q3 FY26. Vivek said the product "will quadruple the addressable market for us in suspension systems" for Indian rolling stock, targeting high-speed platforms like Vande Bharat and Amrit Bharat. The FY26 annual report confirms automatic plug doors were added to the roadmap alongside air springs, with HVAC and electric panels already commercialised.

European supply chain realignment after competitor insolvencies

The trigger is a forced re-sourcing event. Three of Sona Comstar's direct European competitors in driveline components - differential gears and differential assemblies - filed for insolvency proceedings between mid-2025 and early 2026. When a supplier fails, OEMs and Tier-1s must immediately find alternative sources for parts that are already in production, a process management calls a "running change." These are resourcing opportunities with shorter timelines than a fresh platform award, because the vehicle program already exists and only the supplier is being switched.

The mechanism turns into revenue through a concentrated market. Management noted that the three insolvent players are all driveline makers, and "there aren't that many to begin with." With the pool of qualified suppliers shrinking, Sona Comstar is a natural recipient. The revenue at risk is substantial. Management quantified the redistribution opportunity in the Q3 FY26 concall:

> *"about 400 million to 500 million euros worth of revenue companies might just fold, and all that they do will have to be redistributed across the supply chain."*

The trigger is at the order-conversion stage. In Q2 FY26 (Oct 2025), management reported the insolvencies and an "unprecedented increase in inquiries." By Q3 FY26 (Jan 2026), the RFQ pipeline was "the strongest in the history of the company, and almost 3 times compared to the same time last year," with roughly one-third of the new pipeline coming from European customers. Management stated these opportunities are at "stage 3 or stage 4" - samples approved, commercials being negotiated. The first concrete wins arrived in Q4 FY26 (May 2026), when Sona won three driveline orders from European OEMs in a single quarter, including the first EV order win from Europe in almost four years. Management guided that running-change conversions produce revenue in 12-18 months, versus 24-30 months for new programs. The Q1 FY27 (Jul 2026) concall confirmed the momentum continued with new business wins across Europe, North America, and India.

Suspension motor (ClearMotion) adoption across new models

Sona's suspension motor is a BLDC motor and motor controller-based actuator for ClearMotion's fully active suspension system. Sona supplies the actuator to ClearMotion,

which integrates it into electric vehicles. The first production model, from NIO, launched in early 2025 after development that began with an order win in 2021.

The trigger is the expansion from one model to a portfolio of programs. In Q2 FY26 (Oct 2025), Sona announced nominations for two more suspension programs: one from existing customer NIO and one from a new European luxury performance OEM. The nominations carry a combined ₹8.2 billion lifetime order value and both start production in Q2 FY27.

> *"These nominations, while not very big in size, are proof that the innovation and the technology that we've deployed in these suspension systems has begun to win acceptance, and within months of its first commercial launch."*
>
> **VIVEK VIKRAM SINGH, MD & GROUP CEO, Q2 FY26 CONCALL (OCT 2025)**

By Q4 FY26 (May 2026), NIO had launched a second premium model on the system, and Sat Mohan Gupta, CEO Motor Business, reported volumes were strong. Management pointed to 3-4x year-on-year growth for suspension motors, with the product still at single-digit revenue share in FY26 but potentially reaching double digits in FY27.

In Q1 FY27 (Jul 2026), suspension motors were confirmed as the fastest growing product in the portfolio, and China was Sona's fastest growing geography due to the suspension ramp-up. The suspension business remains outside the Denso JV scope, so Sona retains full ownership of the technology and its revenue.

India EV 2-wheeler and 3-wheeler traction motor growth

Sona's motor division builds traction motors and integrated motor-controller units for electric two-wheelers and three-wheelers in India. This is the company's core electrification product line, and management said it is likely the largest supplier of 2-wheeler traction motors in India. The revenue mechanism is direct. Each electric scooter or three-wheeler carries one traction motor plus a controller, and Sona supplies both as the OEM's appointed supplier. As EV penetration in these segments rises, and as Sona wins new programs and expands share of wallet with existing customers, motor volumes scale.

The trigger is firing. In Q2 FY27, EV business revenue grew 129% YoY and traction motor demand grew almost 50% QoQ; electric two- and three-wheelers reached 14% of company revenue. Management said the business gained wallet share because it could re-engineer around the heavy rare earth magnet restriction and had capacity to ramp when OEM supply chains were stressed. The three-wheeler leg is the higher-value opportunity because motor power and voltage scale up nonlinearly with vehicle size. The business now forms the core of the 2-wheeler and 3-wheeler joint venture with Denso, where Sona retains majority ownership and management control.

> *"EV penetration as a percentage of two-wheelers may not have changed meaningfully, but our new programs have started kicking in. We are also expanding the share of wallet with existing customers."*
>
> **MD & GROUP CEO, Q3 FY26 CONCALL (JAN 2026)**

The three-wheeler leg is the higher-value opportunity because motor power and voltage scale up nonlinearly with vehicle size. Management expects traction motors and controllers to remain the company's highest growth segment for the next five years. In Q1 FY27, Sona won two traction motor programs from a new-age Indian electric two-wheeler OEM, and traction motors stayed the second-fastest growing product after suspension motors. The segment is roughly 10% of company revenue as of Q4 FY26, growing at high double-digit rates. This business now forms the core of the 2-wheeler and 3-wheeler joint venture with Denso, where Sona retains majority ownership and management control.

Key risks

- **Commodity and input cost inflation with lagged pass-through.** Steel, copper, oil derivatives and freight rose again in Q2 FY27; freight nearly doubled from the prior quarter. Management reiterated that pass-through is lagged and that, even after full pass-through, percentage margins fall arithmetically when material prices rise. Q2 EBITDA margin was 23.0%, down 2.3 percentage points YoY, and H1 was 23.1%, down 1.5 points. Management kept the 23-25% band but said about 23% is a reasonable normal level if conditions are normal. The risk compounds if West Asia inflation persists or oil spikes.
- **Margin dilution from product mix shift toward assembly-type businesses.** Traction motors and railway products have lower gross margins than precision-forged driveline. In Q2 FY27, traction motor demand grew almost 50% QoQ and management explicitly cited product mix as a reason margin fell to 23.0%. The guided EBITDA band had already been lowered to 23-25% after the railway acquisition; Q2 reiterated it. If traction motors, railway and radar grow faster than driveline, the percentage margin can keep drifting toward the lower bound even as absolute EBITDA rises.
- **Customer concentration and single-model demand risk.** The largest EV customer fell from 23% of revenue in FY22 to 6% in FY26, and top-5 customers fell from 62% to 51%. But concentration risk has not disappeared, it has shifted. In FY26, one customer's single-model weakness created an INR 300 crore revenue hole that no operational excellence could fill (MD's letter, FY26 Annual Report). Management had to correct the order book down in Q2 FY26 specifically because of low visibility on one program. The risk is that diversification reduces any single point of failure, but model-level failures remain unpredictable and can create large, sudden revenue gaps.

- **EV demand cyclicality and policy shifts.** US EV subsidies were scrapped, and Q4 FY26 saw US EV sales decline 28% year-on-year. China's EV tax incentives are expiring. The order book is 64-71% EV-linked, so any sustained EV demand softness in a major market directly hits future revenue conversion. Management argues the order book is concentrated in geographies with little subsidy dependence (US, Europe, India), but the Q1 FY26 experience shows how fast EV sentiment can collapse: "US tariffs, the magnet ban that happened in Q1" and weak EV demand created the company's worst quarter since IPO (Q4 FY26 concall, May 2026). The risk is not linear EV decline, it is sudden policy-driven swings in demand visibility.
- **Geopolitical and tariff uncertainty.** US Section 232 tariffs at 25% remain in place for a large part of what the company exports, and the Supreme Court ruling did not touch Section 232 because it falls under a different national emergency act. Management's view is that tariffs are paid by importers, not exporters, and that since the rate applies equally to all suppliers, the competitive position is unchanged. But the secondary effect is real: S&P Global Mobility estimates one million cars were lost from US sales in CY2025 due to tariff-driven inflation. The company's North America exposure, while reduced from 41% to 27% of revenue in FY26, is still material. Any further tariff escalation or demand destruction in the US flows directly to revenue.
- **Rare earth magnet export restrictions from China.** Heavy rare earth magnets remain restricted. The company has shifted to light rare earth and ferrite-assisted designs, and management says "there is no real magnet shortage as shown by our EV traction motor business growth" (Q1 FY27 concall, Jul 2026). But the risk is structural: the company is redesigning motors around supply constraints, not customer preference. Light rare earth magnets have slightly lower performance and thermal handling, and ferrite designs are heavier and less efficient. The company has responded faster than peers, but the risk remains that customers in high-performance segments demand specifications that require rare earth magnets, and the supply simply is not available.
- **Global light vehicle sales decline in CY2026.** S&P Global Mobility projects 1.6% decline in global light vehicle sales in CY2026, driven by tariff costs, high interest rates, subsidy cuts, and softer consumer sentiment. This matters because the company's legacy differential gear and starter motor businesses are tied to light vehicle production. The company's global market share gains in these categories are real, but they happen against a shrinking or flat denominator. Even with share gains, a declining market caps the absolute revenue potential of the legacy driveline business.
- **Competitor insolvencies create transition risk, not just opportunity.** Three European driveline competitors filed for insolvency in 2025-26, and management estimates 400-

500 million euros of revenue could be redistributed. The company is well-positioned to capture this, but the transition is not risk-free. Customers in distress situations may delay sourcing decisions, or a competitor may be acquired by a stronger player as one already was. Management acknowledged: "the other one, which is the 3rd asset which has been acquired by somebody, obviously we can't comment on that and how they will do in the future is up to them" (Q4 FY26 concall, May 2026). The redistribution timeline is also uncertain, with conversions coming as running changes over 12-18 months.

- **Gas availability and energy costs.** Gas supply constraints have forced the company to shift part of its gas requirement to electric heating, reducing gas needs by nearly 20% at company level. Management says there have been no production losses, but the mitigation itself is a cost increase. Electric heating is more expensive than gas, and energy price inflation adds to the commodity cost pressure. This is a structural cost increase that does not automatically pass through to customers.
- **Execution risk in the Denso JV.** The Denso partnership is the most important strategic move in the company's history, but it is unproven. SOP timelines are not disclosed, JV1 (2/3-wheelers) will kickstart faster than JV2 (4-wheeler high-voltage), and the company is licensing its own technology into JV1 while paying royalties to Denso for JV2. The royalty structure is reciprocal and equal, which is a positive signal, but the market opportunity (INR 24,000 crore by 2030 for Indian hybrid and EV cars and CVs) is contested. High-voltage powertrain has higher technology barriers, but also attracts the largest global suppliers. The JV could fail to win the market leadership both partners expect.
- **Robotics and Physical AI is early-stage and unproven.** The INR 8 billion order book for robotics is real, but it is 3% of the total order book. Management itself says the market is developing faster than expected, and that SOPs range from next quarter to within 15 months. The risk is that this is a capability-building investment with a long payback, and the revenue contribution over the next 3 years will be immaterial. Management has been explicit: "if your investment horizon is less than 3 years, none of this has any meaning for you as an investor" (Q4 FY26 concall, May 2026). The risk is not that the business fails, it is that it consumes management bandwidth and capital for years before producing meaningful returns, and the market sizes cited (radars $60 billion, reducers $1.4 trillion, motors $2.5 trillion over 25 years) are long-dated projections that may not materialize on schedule.

Scenarios

Bull case

Bull case: Q2 FY27 shows the portfolio already inflecting, with BEV revenue 51% of automotive sales and up 129%, three products commercialized, and ₹36 billion of new

orders taking the net order book to ₹251 billion. If the Denso JVs close by January and H1 CY2027, European supply-chain wins convert, suspension motors add OEMs beyond the first customer, robotics orders scale from 4% of the book, and railway air springs, HVAC and electric panels ramp, revenue can compound at management's 25% medium-term CAGR aspiration. H1 free cash flow of ₹446 crore funds the build without balance-sheet stress. Margins hold within 23-25% as pass-through catches up and operating leverage absorbs mix.

Base case

Base case: H1 FY27 revenue grew 43% and BEV revenue was 48% of automotive sales; the base case assumes H2 growth moderates from H1 but FY27 revenue growth exceeds the earlier 15-20% assumption, with EBITDA margin in the 23-25% band. The Denso JVs close on the stated timeline but contribute little revenue in FY27. European driveline wins convert gradually. Robotics remains small. Railway new products ramp, but HVAC and electric panels take years. Cash generation funds capex and JV needs. The company grows as a diversified mobility supplier without proving the 10x ambition in the near term.

Bear case

Commodity inflation persists through FY27, and pass-through lag plus mix keeps EBITDA margin at or below 23%, the bottom of the reiterated band. Traction motors and railway grow faster than driveline, compounding dilution. US EV demand remains weak despite the Q2 EV mix milestone. The Denso JVs close late or fail to convert into customer programs. Suspension motors stay tied to one customer across variants. Robotics remains 4% of the order book. The order book requires another correction. Revenue growth slows, margins compress, and the market questions the diversification strategy. The 10x ambition is deferred.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	4,475	6,000	7,450	9,080
Revenue growth	-	+34.1%	+24.2%	+21.9%
EBITDA (₹ Cr)	1,107	1,398	1,758	2,179
EBITDA margin	24.7%	23.3%	23.6%	24.0%
Depreciation (₹ Cr)	288	324	380	445
Interest (₹ Cr)	23.50	48.00	55.90	65.40
Other income (₹ Cr)	97.00	122	135	145
PBT (₹ Cr)	842	1,148	1,457	1,814
Tax (₹ Cr)	212	289	372	463
Tax rate	25.2%	25.2%	25.5%	25.5%
PAT (₹ Cr)	640	859	1,081	1,336
PAT growth	-	+34.1%	+25.9%	+23.7%
EPS (₹)	10.28	13.79	17.35	21.45
P/E	86.2x	64.2x	51.1x	41.3x
PEG	3.5x	2.6x	2.1x	1.7x

CAGR FY27E-FY29E: Revenue +23.0% · EBITDA +24.9% · PAT +24.8%

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Q2 FY27 concall notes

TLDR

Sona BLW reported its highest-ever revenue, EBITDA and PAT in Q2 FY27: revenue ₹1,546 crore (+35% YoY, +18% QoQ), EBITDA ₹356 crore (+23% YoY, 23.0% margin, down 2.3% YoY), PAT ₹223 crore (+29% YoY, 14.4% margin). BEV revenue grew 129% YoY to 51% of automotive product sales, and traction motors grew about 50% QoQ, which management said pulled the margin percentage down alongside steel, copper, oil derivative and freight inflation (freight nearly doubled QoQ). The company won ₹36 billion of new business, its third-highest quarter, taking the net order book to ₹251 billion with robotics and physical AI at 4%. Three products were commercialised, the most in a quarter. Management holds the 23-25% margin range, targets JV1 closing by end-December with possible spill into January and JV2 in H1 CY27, and expects the robotics inflection timing to stay unpredictable.

WHAT CHANGED SINCE Q1 FY27

- Margin recovery slipped. Q1 notes said progressive improvement from Q2 FY27 on cost pass-throughs; Q2 margin fell to 23.0% from 23.1% in Q1, and management attributed the pressure mainly to product mix (traction motors growing about 50% QoQ) with West Asia-linked inflation second. The 23-25% range was maintained.
- The 10X ambition gained a new framing: the first strategic priority was broadened from electrification to "EPIC mobility" (electric, personalized, intelligent, connected), which management said reflects robotics, physical AI and connected-solution wins.
- DENSO JV timelines were newly given. Q1 said SOP timing was confidential and formation staggered; Q2 set JV1 closing (business carve-out) by end-December, possibly January, and JV2 closing in H1 CY27. SOP dates remain undisclosed.
- Robotics order book rose to 4% of the ₹251 billion net order book, from 3% (₹800 crore) in Q1. Q1 said one robotics order would start that quarter, one the next and one within about 15 months; Q2 gave no SOP update and said the inflection year is unknown.
- Order book grew to ₹251 billion from ₹240 billion, with ₹36 billion of additions described as spread across products rather than anchored on one large order. EPIC programs reached 75 across 37 customers (44 in production, 31 yet to start), against 69 programs and 36 customers in Q1.
- Cash generation was newly quantified: ₹594 crore cash from operations (90% of EBITDA) and ₹446 crore free cash flow in H1, more than 50% above the whole of FY26. Q1 had no cash flow figure.
- Eastern markets reached almost two-thirds of revenue, from 59% in Q1. E-2W/3W is now 14% of revenue, a new disclosure.
- Management named the inflation source as the war in West Asia, with further increases in steel, copper and oil derivatives and freight nearly doubling QoQ. Q1 referred only to elevated commodity and input costs.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹1,546 crore	+35% YoY, +18% QoQ	129% BEV growth; previous highest was ₹1,310 crore in Q1
EBITDA	₹356 crore	+23% YoY	Operating leverage offsetting mix and input costs

METRIC	REPORTED	CHANGE	WHAT DROVE IT
EBITDA margin	23.0%	-2.3% YoY	Product mix shift to traction motors and higher input prices, partly offset by operating leverage
PAT	₹223 crore	+29% YoY	Lower depreciation percentage helped; lower EBITDA margin pulled it down
PAT margin	14.4%	-0.5% YoY	Lower EBITDA margin, partly offset by lower depreciation
BEV revenue	Not disclosed in rupees	+129% YoY, +40% QoQ	India e-2W/3W demand and EV driveline growth; US EV deliveries broadly unchanged
BEV mix	51% of automotive product sales	From 44% in Q1	First time above half
H1 revenue	₹2,857 crore	+43% YoY	BEV revenue ₹1,042 crore, +119% YoY, 48% of automotive product sales
H1 EBITDA / PAT	₹659 crore / ₹404 crore	+34% / +36% YoY	H1 EBITDA margin 23.1%, down about 1.5% YoY; PAT margin 14.1%, down about 0.5%
Net order book	₹251 billion	From ₹240 billion in Q1	₹36 billion of wins, third-highest quarter; robotics and physical AI 4%
Cash and investments	₹1,966 crore gross	n/a	₹594 crore cash from operations, ₹148 crore capex, ₹112 crore dividend, ₹224 crore additional borrowings, ₹108 crore ESOP inflow

SEGMENTS & GEOGRAPHIES

- **Traction motors**: Grew almost 50% QoQ on higher wallet share with existing OEMs and 3-wheeler ramp-up alongside 2-wheelers; another product launch is planned this quarter. Management said it gained share when OEMs faced magnet and supply-chain constraints because it had switched to light rare earth and had capacity available.
- **Suspension motors**: Fastest-growing product, now about 7% of revenue, driven by one customer in China whose new model exceeded expectations; the order book is limited to that customer across variants, with talks ongoing with other OEMs.
- **Differential assembly and gears**: Combined grew 37% YoY; all three large EV differential assembly customers picked up this quarter, which management called a reversion to mean after a weak prior year.
- **India**: Strongest driver of the quarter through electric 2W and 3W demand; e-2W/3W is 14% of revenue.
- **Europe**: Management said European OEMs want an alternative supply chain to China, which it expects to benefit Indian suppliers meeting global quality standards.
- **North America**: New ICE differential assembly order from an existing differential gear customer, plus several new differential gear programs in North America and India.
- **China**: Suspension motor success is the growth driver; no update on the "mixed" conditions noted in Q1.
- **Railways**: Air springs began supply this quarter and will ramp; first HVAC batch supplied within the year, electric panels started in a small way, and the product pipeline is said to support growth for five years.
- **Eastern markets**: Almost two-thirds of revenue, from about one-third when the Look East decision was made two years ago.

STRATEGY & COMPANY-SPECIFIC

- **Product commercialisation**: Three products launched in the quarter, the most in one quarter: helical limited slip differential for passenger cars and SUVs, air springs for railway coaches, and a rear radar sensor for 2-wheelers.
- **Order wins**: Helical limited slip differential from an existing EV customer; rear radar sensor from a new Indian 2-wheeler customer; integrated motor controller from an existing EV customer; increased traction motor volumes on a revised PO; first ICE passenger car differential assembly order; a starter motor program; and several differential gear programs.
- **EPIC programs**: 75 programs across 37 customers at end-H1, of which 44 are in production and 31 yet to start; 4 new programs won in the quarter, 3 BEV and 1 intelligent and connected.
- **DENSO JVs**: JV1 (2W/3W traction, Sona-majority) carve-out targeted by end-December, possibly January; JV2 (high-voltage powertrains, DENSO-majority) targeted to close in H1 CY27.
- **In-house R&D**: Traction and suspension motors, both developed organically in the last four years, have a combined annualised revenue run rate of ₹1,400 crore, roughly the whole company's FY20 revenue.
- **Robotics capex**: The ₹62 crore capex declared last quarter covers this area; AMRs developed by the company are being deployed on its own factory floors to build real-world training data. Demonstrations are planned at Bharat Expo in February.
- **M&A stance**: Three acquisitions in the last decade; the four filters are a product with at least 15 years of relevance, top 5-10 global leadership potential, margin and return accretion, and benefit to the world. Capability is the target, not capacity or customers.
- **Quality**: The driveline division won the 2026 Deming Prize for Total Quality Management after nine years of work.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
EBITDA margin range	23-25%, likely around 23% if conditions are normal	Maintained	Pass-through with a lag; mix shift to lower-margin traction motors; material prices flat or falling
Medium-term growth	About 25% CAGR aspiration	Maintained	Three business heads; different quarters led by different businesses
JV1 closing	End-December, possibly January	New	Legal timeline for carving out the business; advisor and partner holidays
JV2 closing	H1 CY27	New	JV not yet formed
Robotics inflection year	Not given; "whenever it does come, the curve will be very steep"	n/a	Open-source physical AI models and falling compute cost; sim-to-real remains the constraint
Robotics capex	₹62 crore, declared last quarter, should cover the area	Maintained	In-house R&D largely using existing team time
Railway growth	No numeric guidance; new products the main driver over 3 years, pipeline for 5 years	n/a	Air springs, HVAC, electric panels ramping per customer requirements
Heavy rare earths	No sign restrictions will ease; would use them where imperative if available	n/a	Chinese export restrictions continue

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Input cost inflation	War in West Asia is adding further increases in steel, copper and oil derivatives; freight nearly doubled QoQ; "in my career, I've not seen inflation like this"
Pass-through lag and arithmetic	Prices rise before recovery; even with full pass-through, equal additions to numerator and denominator lower the percentage margin
Product mix	Traction motor demand exceeded internal expectations, growing about 50% QoQ, pulling down the overall margin percentage
Margin predictability	Mix and West Asia inflation are largely beyond management's control, making near-term predictability difficult; margins deteriorate if material prices keep rising
Robotics timing	Management declined to name an inflection year; sim-to-real deployment is the slow part; the order book is 4% of total
Suspension motor concentration	Order book limited to one customer across variants; consumer model success decides volumes
Heavy rare earth restrictions	Export restrictions from China continue with no sign of easing; higher BH max magnets unavailable
JV closing slippage	JV1 may spill from December into January because advisors and partners take year-end holidays

Q&A HIGHLIGHTS

Suspension motor growth and pipeline Asked what drove suspension motors to about 7% of revenue and what the pipeline looks like, management said the product's first launch model underperformed but the customer's next model exceeded expectations, the order book is limited to that one customer across variants, and talks with other OEMs are ongoing. It declined to size the opportunity.

Europe and legacy business runway On how long legacy businesses can keep growing at the current pace, management said European OEMs want an alternative supply chain to China, and that at about 9% world share in differential gears and about 3% in differential assemblies there is many years of room left.

Traction motor growth above industry Asked whether the growth came from wallet share, 3-wheelers or new programs, management said it was both wallet share and existing OEM growth, with 3-wheelers added to 2-wheelers and another launch this quarter. It said it gains share in disrupted periods because it had switched to light rare earth and had capacity to ramp.

Margin range under a changing mix On whether the 23-25% range still holds with more motor controller and 3-wheeler business, management kept the range, said the current inflation is exceptional, and the CFO said about 23% is the ballpark if material prices stay flat or fall, with deterioration only if prices keep rising.

Cash deployment and M&A Asked how the growing cash balance will be used, management said the DENSO proceeds are taxable, capex and working capital and JV2 capex will absorb some, and M&A will follow the four filters with capability rather than capacity as the target. It said it can be patient while cash-to-EBITDA stays below 1.5.

Humanoid and robotics timeline Asked which year is the inflection for robotics, management said it does not know, recalled that EVs were 1% of revenue in 2019 and are 51% now, and said the curve will be steep when it comes. It cited open-source physical AI models and a roughly 1,000x fall in compute cost, with sim-to-real the constraint.

Heavy rare earths Asked whether the company would switch back to heavy rare earths for performance motors, management said restrictions continue, it is not possible now, and it sees no signs of easing; it would use them where

imperative if they became available.

Humanoids on own factory floors On deploying humanoid robots for repetitive tasks, management said it is evaluating on payback like any machine, starting with tasks unsafe or unacceptable for humans, and that replacing humans for its own sake is not a target in a country with India's population.

Divi's Laboratories Limited

GROWTH TRIGGERS

Divi's is showing operating leverage from a richer Custom Synthesis mix and lower material consumption, while three dedicated projects and peptide capacity move toward commercial supply. The main upside driver is approval-led conversion of validation work into recurring revenue, not a new demand cycle.

1. Dedicated Custom Synthesis projects near commercial decision

Management says one of the three dedicated Custom Synthesis projects is very close to commercialization and the other two may begin the commercialization process over the next one to two quarters. These programs use dedicated equipment and have already pulled validation quantities. Approval-led conversion would lift Custom Synthesis from 62% of H1 FY27 revenue and validate dedicated capital.

2. H1 growth exceeds the double-digit guide

Q2 FY27 total income grew about 32% and PAT about 64%. H1 standalone constant-currency revenue grew 17%, above the double-digit guide, and management reiterated the outlook. If H2 holds, FY27 revenue growth lands above the historical double-digit commitment even before the dedicated projects contribute commercial volumes.

3. Backward integration lowers material consumption

H1 net material consumption fell to about 32% of sales from 40% a year earlier. Management attributed part of the improvement to a slightly higher CF and part to cost benefits from Unit 3 Kakinada backward integration. If the lower material ratio holds while Custom Synthesis remains above 60% of revenue, operating leverage can persist even with elevated solvent costs.

4. Peptide SPPS expansion targets customer programs

Divi's is installing several 3,000-litre solid-phase peptide synthesis lines for specific customer programs. It is backward integrated from raw materials to protected amino acids and fragments, and management says future capacity puts it in the top three players. Peptide revenue can scale if validation and customer qualification convert into commercial fragment orders.

5. Capex plan remains funded and execution visible

Management guides about ₹2,000 crores of capex per year, plus or minus 20%, over the next two to three years. H1 FY27 capitalization was ₹1,223 crores, including ₹772 crores in Q2, and capital work in progress was ₹1,638 crores. Executed capacity across the three units keeps the next leg of growth internal rather than dependent on acquisitions.

6. Generic volumes grow through pricing pressure

Generic API performance was stable with healthy volume growth even as pricing pressure persisted in certain product categories. The segment remains 38% of H1 FY27 revenue. Volume-led growth in this base funds fixed costs and supports the group while new Custom Synthesis projects move toward commercialization.

INVESTMENT THESIS

Divi's Laboratories is an Indian manufacturer of active pharmaceutical ingredients and a contract manufacturer for global innovator pharma, with a smaller nutraceutical ingredients business. The economic engine is backward integration: Divi's makes key starting materials, protected amino acids and peptide fragments in-house, which supports cost control, supply reliability and customer qualification. That model produced H1 FY27 revenue of ₹6,907 crores and PAT of ₹2,029 crores, with standalone constant-currency revenue growth of 17% and net material consumption of about 32% of sales versus 40% a year earlier.

The reported mix has moved further toward Custom Synthesis, which was 62% of H1 FY27 revenue against 38% for generics. Custom Synthesis is the higher-value contract manufacturing business, where innovators embed Divi's in their Chemistry, Manufacturing and Controls filings. That regulatory embedding is the switching cost: a customer cannot move a qualified product quickly without re-filing and requalification. The three dedicated Custom Synthesis projects are the clearest expression of this model. Management says the programs are progressing through validation stages, with one very close to commercialization and the other two expected to begin the commercialization process over the next one to two quarters, subject to customer and regulatory approvals. The company has not quantified validation revenue, commercial volume, or utilization, so the timing is a management expectation rather than a booked outcome.

The operating leverage in H1 came from two places. First, material consumption fell to about 32% of sales from 40%, which management attributed partly to a slightly higher CF and partly to cost benefits from Unit 3 Kakinada backward integration. Second, Custom Synthesis rose to 62% of revenue, carrying a better mix than price-pressured generics. Q2 FY27 PAT grew 64% on 32% total-income growth, a wider gap than a simple volume story would explain. Management did not raise margin guidance when an analyst noted 40%+ EBITDA margin in Q2 and H1; it said it wished the level would be consistent but reiterated only double-digit revenue growth. That is important: the H1 margin is real, but management is not promising it as the annual run rate.

The near-term earnings path depends on approval-led conversion, not on new demand creation. The three dedicated programs use dedicated equipment and have taken validation quantities. One is close to commercialization; the other two are expected to begin the commercialization process over the next one to two quarters. If those approvals land, the revenue contribution should be visible in Custom Synthesis line growth and in project-specific commentary. If they slip, the capital is already spent and depreciation and fixed costs remain. Peptide capacity is the second path. Divi's is installing several 3,000-litre solid-phase peptide synthesis lines for customer programs, backed by in-house protected amino acids and fragments. Management says future capacity puts it in the top three players, but it

has not disclosed peptide revenue, capacity totals, or utilization. That makes peptides a credible medium-term growth lever rather than a near-term earnings line.

Capital allocation is internally funded and visibly executed. H1 FY27 capitalization was ₹1,223 crores, including ₹772 crores in Q2, and capital work in progress was ₹1,638 crores at September 30, 2026. Management guides about ₹2,000 crores of capex per year, plus or minus 20%, over the next two to three years. Cash was ₹2,181 crores, with inventories of ₹5,325 crores and receivables of ₹3,705 crores. Management attributed the cash flow gap to the capex cycle and three-month stocking of critical materials. The balance sheet remains a strength, but the capex cycle is consuming cash while the new projects await commercialization.

Management delivery is mixed but not broken. H1 constant-currency growth of 17% exceeds the double-digit guide, and capex has moved into capitalized assets. The unresolved promise is revenue conversion from the dedicated projects. Prior guidance pointed to Q3-Q4 calendar 2027; the Q2 call says one project is very close and the other two may begin commercialization over the next one to two quarters. The transcript phrase is ambiguous, and management still declines to quantify revenue or utilization. The historical approval cycle has run from six months to three years, so a wide range remains honest. The new generic launches and contrast media contracts identified in earlier research were not updated in the Q2 call; their status is not verifiable from this source, not invalidated.

The thesis falsifiers are specific. A delay in dedicated project approvals beyond the next few quarters would leave the capital employed without matching revenue. A fallback in net material consumption toward 40% would remove the H1 margin lever. Continued generic price erosion in the 38% generics base would offset Custom Synthesis mix. And a sustained rise in solvent and freight costs would pressure the margin even if volumes hold. The positive case is that H1 FY27 shows the operating leverage is real, the dedicated projects are closer to approval, and the capex plan is funded. The negative case is that the earnings acceleration is partly validation-batch timing and has not yet become recurring commercial supply.

RESEARCH REPORT

What Divi's Laboratories Limited does

Divi's Laboratories makes the molecules that go into other companies' pills. Incorporated in 1990 and headquartered in Hyderabad, the company manufactures generic active pharmaceutical ingredients (APIs) and intermediates, runs contract manufacturing (custom synthesis) for global innovator pharma companies, and produces nutraceutical ingredients like carotenoids and fat-soluble vitamins. It sells into more than 100 countries through two wholly-owned marketing subsidiaries, Divis Laboratories (USA) Inc. in New Jersey and Divi's Laboratories Europe AG in Basel. In FY 2025-26, standalone total income was ₹10,894 crores, with exports at 89% of sales. Europe alone contributed ₹6,311 crores of sales, about 61% of the total, while North America contributed ₹1,360 crores.

The business splits into two product lines plus a smaller third. Custom Synthesis contributed 55% of FY 2025-26 revenue and Generics 45%, with nutraceuticals adding ₹946 crores on top (roughly 9% of consolidated revenue). The mix has kept shifting toward custom synthesis: 56% in Q2 FY26, 57% in Q3, 60% in Q1 FY27, and 62% in H1 FY27, when generics were 38%. Management guides to double-digit revenue growth regardless of the split. As Dr. Kiran S. Divi put it on the August 2026 call:

> *"I would like to stick to my statement saying that we will show double-digit growth no matter what."*
>
> **DR. KIRAN S. DIVI, CEO, Q1 FY27 CONCALL (AUG 2026)**

Generic APIs

This is the volume engine. Divi's manufactures roughly 60 generic APIs, including high-volume molecules like Naproxen, Dextromethorphan, Phenylephrine, Carbidopa, Levodopa and Gabapentin. It runs campaign production on the big ones, running plants at full stream and building stock for sale, which keeps unit costs low. Most of this business is backed by long-term contracts that carry raw-material variability clauses, reviewed quarterly for some products, so input-cost swings pass through to customers rather than sitting on Divi's margin. Spot and quarterly purchases come mostly from South America, Eastern Europe and parts of Asia.

The moat here is backward integration. Divi's makes many of its own key starting materials and intermediates instead of buying them, which controls cost, impurity profiles and supply. Unit 3 at Kakinada, operational from January 1, 2025, exists largely to deepen this. Six production blocks there now make starting materials and intermediates, and pre-chemistry work is being transferred out of Units 1 and 2. That frees GMP-certified capacity at the older units for higher-value products, both new custom synthesis projects and generics where volumes are growing. Management is evaluating a Phase 2 at Kakinada with four additional

production blocks, on top of a ₹1,500 crores expansion plan already underway (₹600 crores capitalized as of Q4 FY26). There are 200-300 acres of land available for future blocks.

Regulatory filings gate access to regulated markets, and Divi's holds 41 Drug Master Files with the US FDA, 30 Certificates of Suitability with EDQM, 25 DMFs with Health Canada and 9 Master Files with Japan's PMDA, per the FY 2025-26 Annual Report. A fresh growth layer is coming from post-patent-expiry launches. The company has filed about 4 DMFs so far, naming Brivaracetam and Ticagrelor, supplied validation quantities, and expects commercial volumes within 3 to 6 months of the Q1 FY27 call as multiple customers complete qualification.

Custom Synthesis

Custom synthesis is contract manufacturing of complex APIs, advanced intermediates and peptide fragments for innovator pharmaceutical companies. Divi's has done this since around 2000, making it one of the first CDMOs in India, and it works across three distinct phases of a molecule's life. First, it supports innovators through clinical development (Phase II, Phase III) up to launch. Second, it serves as a qualified secondary source alongside a customer's in-house plant. Third, it takes on late life-cycle management, where a customer brings a product in its final 5-6 patent years and Divi's improves process economics so the product stays profitable post-patent. Close to 18 to 20 projects are commercialized or being commercialized right now.

The near-term story rests on three major dedicated capex programs backed by long-term supply commitments. In the Q2 FY27 call, management said the programs are progressing through validation stages, with one very close to commercialization and the other two expected to begin the commercialization process over the next one to two quarters, subject to customer and regulatory approvals. It did not quantify the associated revenue or utilization. Earlier guidance had pointed to commercial volumes in Q3-Q4 of calendar 2027, and the historical approval cycle has ranged from six months to three years:

> *"We have seen time cycles all the way from 6 months when it's a fast approval project by the agencies and the product needs to be in the market or we have seen as long as 3 years."*
>
> **DR. KIRAN S. DIVI, CEO, Q4 FY26 CONCALL (MAY 2026)**

Two specialty platforms sit inside custom synthesis. Contrast media is one: Divi's supplies iodine-based contrast media intermediates and APIs in "several multiples of tons" to innovators, with commercial sales underway and long-term contracts being signed with 2 of what management says are about three major global players. Gadolinium-based contrast media molecules are earlier, in Phase II/III with customers, currently on a slow phase pending their regulatory progress. Peptides is the other and the bigger bet. Divi's builds the

whole chain in-house: basic raw materials into Fmoc/BOC-protected amino acids, then dipeptides, tripeptides and fragments from 4-mers up to octamers and decamers, using both solid-phase (SPPS, multiple 3,000-liter reactors) and liquid-phase synthesis. It supplies protected amino acids to external fragment manufacturers and uses its own output for its fragments. Programs span GLP-1 and other therapeutic areas including psoriasis, anti-inflammatory and cardiac drugs, across Phase I to III. Management has deliberately stayed out of generic peptide synthesis to keep the business custom-only.

Nutraceuticals

FY 2025-26 marked 20 years of Divi's Nutraceuticals, which began with 2 products and now spans over 100 offerings across human health, animal health and dietary supplements. The Visakhapatnam facility is an integrated operation producing carotenoids (Astaxanthin, Beta-carotene, Lycopene, Canthaxanthin, Apocarotenal) and vitamins A, D2, D3, E and K2 at what the annual report describes as competitive scale. Revenue was ₹946 crores in FY 2025-26 against ₹781 crores the year before, with quarterly run-rates between ₹214 and ₹298 crores. Sales run through the US and Swiss subsidiaries to food, beverage, supplement, pet food and feed manufacturers. This segment carries food-grade certifications (FSSC 22000 for vitamins and carotenoids, GMP+B2 for feed ingredients) separate from the pharma GMP regime.

The manufacturing network

Three plants, about 18,600 M/KL of capacity, running at 80-85% utilization across units per management. Unit 1 at Choutuppal near Hyderabad dates to 1995 and passed a US FDA general cGMP inspection in Q3 FY26. Unit 2 at Visakhapatnam operates since 2003 with multiple SEZ units attached. Unit 3 at Kakinada is the newest and the strategic pivot: it absorbs pre-chemistry work, qualifies progressively for intermediates and eventually APIs (management expects FDA qualification of a new site to take 1-2 years), and gives the network flexibility to move chemistry around as demand shifts. Four R&D centres staffed by about 700 scientists support process development, and the company employs roughly 19,300 people overall.

Business segments

Generic APIs

Divi's Laboratories manufactures a deliberately narrow set of generic active pharmaceutical ingredients at industrial scale, and the reason it can do this profitably is backward integration. The company makes its own key starting materials and intermediates in-house, so it controls cost, quality and impurity profiles from the first step of chemistry rather than buying them from the open market. Unit 3 at Kakinada, operational since January 2025, is the engine of this strategy. Six production blocks there are dedicated to starting materials

and intermediates, which frees GMP-certified capacity at Units 1 and 2 for higher-value finished APIs. As Dr. Kiran S. Divi put it on the Q1 FY27 call, "Kakinada right now is playing a key role by doing our backward integrated work because we have several projects online, either with innovators or in-house generic molecules where we need additional capacity and quickly to enhance and use existing regulatory approved plant, we are moving a certain amount of chemistry, pre-chemistry works to Kakinada."

The scale is unusual for the industry. The annual report describes manufacturing that ranges "from tens to thousands of metric tonnes a year," and the company runs campaign production of high-volume products like Naproxen, Dextromethorphan and Gabapentin, running the plant at full stream and stocking finished product for sale. Management named Naproxen, Dextromethorphan, Phenylephrine, Carbidopa and Levodopa as core molecules on the Q2 FY26 call. The company produces around 30 generic APIs and, per the FY 2026 annual report, is "the world's largest API manufacturer in 10 of the 30 generic APIs it produces."

Who buys and why

Customers are global generic drug manufacturers across regulated and emerging markets. The annual report's industry section notes that generics represented about 90% of prescription volumes in the US in 2025, so the end demand is structural rather than cyclical. Exports are roughly 89-90% of company revenue, with Europe and North America together accounting for about 74% of exports (Q1 FY27 concall). The company is a partner to 12 of the top 20 pharmaceutical companies worldwide (FY 2026 annual report).

Customers buy from Divi's for supply reliability backed by contracts, not just price. Most generic APIs are sold under long-term contracts with variability clauses that pass raw material cost swings to the customer. As Dr. Divi explained on the Q4 FY26 call, "most of our APIs on the generic segment are backed by long-term contracts, which have variability clauses, which protects us from such situations." Some contracts are reviewed every three months with a direct raw-material pass-through clause. The remainder is spot or quarterly business, mostly in South America, Eastern Europe and parts of Asia. When West Asia disrupted solvent supply in FY26, Divi's moved to a rolling three-month inventory buffer and reported no production stoppages or lost shipments across four consecutive calls.

Competitive position

The direct competition in high-volume generic APIs is Chinese manufacturers, and pricing pressure from that direction is the segment's defining headwind. Management has been consistent: volumes and customers have held, prices have not. On the Q3 FY26 call, Ms. Nilima Prasad Divi was direct that "the generic space, the pricing pressures are still continuing... As a volume, we have had a good growth. But it's just that because of the pricing

pressure, value-wise, it doesn't reflect in that manner." Dr. Divi has repeatedly argued the backward integration at Kakinada is what lets Divi's hold share while Chinese competitors undercut on price. A potential tailwind is China's withdrawal of export tax rebates on certain products from April 2026, though management cautioned on the Q3 FY26 call that intermediates and final APIs are largely exempted, so the effect is mostly on basic chemicals. Dr. Divi said in February 2026, "I'm quite wishful that this year, a correction should take place at some point," while declining to call the bottom.

Within India, the segment competes less head-on with other large API makers than through scale and integration depth, and the regulatory moat matters: 41 US FDA DMFs, 30 Certificates of Suitability with EDQM, 25 Health Canada DMFs and 9 Japan PMDA filings (FY 2026 annual report).

How the segment fits the group

Generic APIs contributed 45% of revenue in FY 2025-26 (44% in Q2, 43% in Q3, 40% in Q1 FY27) and 38% in H1 FY27. The segment is the cash-generating base that funds the Custom Synthesis build-out, and the two share the same plants, the same process chemistry talent and the same Kakinada integration. When a custom synthesis project needs GMP blocks, Divi's moves the pre-chemistry work for its generic molecules to Unit 3 and converts the freed Unit 1 or Unit 2 capacity to the customer programme. Dr. Divi described this on the Q3 FY26 call: "we are using them for all the new projects by modifying them... they're going into already existing GMP facilities of Unit 1 and 2, whereby we are emptying their capacity, moving them to Unit 3."

The growth path for the segment is new molecules coming off patent. Management said on the Q1 FY27 call that it has filed four new DMFs, with validation quantities supplied and customer qualifications underway, naming Brivaracetam and Ticagrelor specifically. One customer is negotiating long-term exclusivity. Dr. Divi's timeline: "once the qualification is done, we are expecting in the next 3 to 6 months, only commercial volumes will move out." The annual report's "Way Ahead" for the segment points to upcoming product launches and continued backward integration as the growth levers.

The honest read for a skeptical investor: this is a stable, contract-backed volume business whose revenue growth is capped by Chinese price competition, but whose real economic contribution is the integrated manufacturing platform, the regulatory filings and the customer trust that the faster-growing Custom Synthesis segment is built on top of.

Custom Synthesis (CS / CDMO)

Custom Synthesis is Divi's contract manufacturing business for global innovator pharma companies. Divi's makes complex APIs, advanced intermediates and specialty chemicals under the customer's own process, spanning development, validation and commercial

supply. The company has done this since inception - Dr. Kiran S. Divi noted on the Q1 FY27 call that "Divi's has been in the business of CS from the inception. It's not something new that we got in today" - and the FY 2026 annual report describes it as contributing "more than half of revenues."

The capability that took decades to build is not a single product but a system: multi-step synthesis at scales from kilos to thousands of tonnes, handling high-energy reactions and high-potency chemistry safely, with cGMP plants that have passed repeated inspections from USFDA, EU agencies, Health Canada, ANVISA, COFEPRIS and PMDA. Innovators cannot switch suppliers quickly because any change requires requalification and regulatory filings where Divi's sits inside the customer's CMC documentation. That lock-in, built over roughly three decades, is the moat.

What is inside the segment

The portfolio runs across three engagement modes that management laid out on the Q3 FY26 call: supporting an innovator through Phase II/III development up to launch, acting as a qualified secondary source for commercial molecules, and late life-cycle management where a customer brings a molecule in its final five to six years of patent life so Divi's can improve the process and extend the product's profitable run.

Three product families stand out:

- **Contrast media.** Iodine-based contrast agents are already in commercial sales, supplied in "several multiples of tons" to innovators, with only three or four major global players in this field. Management said on the Q1 FY27 call that long-term contracts with two customers are being signed, one already commercialized and the second starting within months. Gadolinium-based products are earlier stage, sitting in Phase II/III alongside the customer.
- **Peptides.** This is the fastest-moving piece. Divi's manufactures protected amino acids (Fmoc and Boc), dipeptides, tripeptides and fragments up to octamers and decamers for GLP-1 and other peptide programs across Phase I-III. It deliberately avoids generic peptides - "Divi has strategically decided that we will not look at generic part of peptide synthesis" (Dr. Kiran S. Divi, Q2 FY26 concall) - staying entirely on the innovator CDMO side.
- **Dedicated capex projects.** Three major programs are backed by long-term supply commitments. In Q2 FY27, management said they are progressing through validation stages; one is very close to commercialization and the other two are expected to begin the commercialization process over the next one to two quarters, subject to approvals. It did not quantify revenue or utilization.

Who buys and why

Divi's is a partner to 12 of the top 20 pharmaceutical companies worldwide (FY 2026 annual report). These customers are bound by CDAs, so project names stay hidden, but their selection criteria are explicit. When asked why innovators keep choosing Divi's despite new Indian CDMO entrants, Kiran Divi answered that pricing is not the deciding factor:

> *"It's not about pricing. It's not the only thing innovators look at. They look at sustainability, they look at safety issues. They look at your EHS capabilities, your effluent management system, your employee health care system... And Divi's always meets all their requirements."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUGUST 2026)**

In short, a Big Pharma company outsourcing a Phase III molecule or a commercial contrast agent is buying supply reliability and compliance credibility, not the lowest quote. A failed batch or an inspection finding can delay a drug launch worth far more than any procurement saving.

Competitive position

The annual report ranks Divi's among the top 10 synthetic drug substance CDMOs globally. Named competitors in this space include Lonza, Samsung Biologics, Catalent and WuXi, plus a growing cohort of Indian players chasing the same RFPs. On peptides specifically, management claims a structural edge from backward integration:

> *"We are the only ones who start from basic raw materials, build our own peptide building blocks... Then we have protected amino acid. We do dipeptide, tripeptides. We have gone into fragments... So we have a complete chain of backward integration."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUGUST 2026)**

On capacity, Divi's runs multiple 3,000-liter solid-phase peptide synthesis reactors, which management says "by far in India nobody has" (Q4 FY26 concall), and is adding more. Controlling its own protected amino acids also means controlling impurity profiles, which lowers downstream purification cost - a real economics argument, since a peptide can consume roughly 2,000 liters of solvent per kilo of product.

How it fits the group

CS shares the same backward-integration engine as the Generic APIs segment. Unit 3 at Kakinada takes over pre-chemistry work, freeing GMP blocks at Units 1 and 2 for higher-value CS projects; utilization across the three units ran at 80-85% in Q1 FY27. The same solvent recovery, flow chemistry and biocatalysis platforms serve both businesses. Because CS carries better margins than price-pressured generics, the mix shift toward CS lifted

consolidated gross margins - Nilima Prasad Divi attributed the improvement mainly to "the product mix" on the Q3 FY26 call.

Revenue mix

Custom Synthesis contributed 55% of revenue in FY 2025-26, rising through the year: 56% in Q2 FY26, 57% in Q3 FY26, 60% in Q1 FY27 and 62% in H1 FY27 against 38% for Generics. Management declined to break out revenue by product or phase within CS, citing CDAs, but disclosed that 60 to 70 projects are handled at any time across pre-chemistry, qualification and Phase 2/3 stages.

What management is signaling

The near-term story hinges on regulatory timing rather than capacity. In the Q2 FY27 call, management said the three dedicated projects are progressing through validation stages, with one very close to commercialization and the other two expected to begin the commercialization process over the next one to two quarters, subject to agency approvals. It declined to quantify validation revenue or utilization. The historical approval cycle has run from six months to three years. Against that backdrop, Kiran Divi's stated goal is to be "one of the largest integrated players" in peptides globally, and his growth commitment for the company is blunt: "we will show double-digit growth no matter what."

Nutraceuticals

Divi's Nutraceuticals is an integrated manufacturing business at Visakhapatnam producing carotenoid ingredients and fat-soluble vitamins. The product list reads like a chemistry exam: Astaxanthin, Beta-carotene, Lycopene, Canthaxanthin, Apocarotenal, plus Vitamins A, D2, D3, E and K2. These are molecules that demand multi-step synthesis, careful impurity control and food-grade quality systems - the same process-chemistry muscle the company applies to its pharmaceutical work, pointed instead at nutrition.

The scale of what took years to build shows up in one number management gave on the August 2026 call. The business marked 20 years in FY 2025-26, having started with two products.

> *"This year also marks 20 years of Divi's in the nutraceutical segment - a journey that began with just two products has grown into a portfolio of over 100 offerings across human health, animal health and dietary supplements in multiple forms today."*
>
> **DR. KIRAN S. DIVI, CEO, Q1 FY27 CONCALL (AUGUST 2026)**

Building 100-plus offerings inside one facility means each molecule carries its own synthesis route, stability data and customer qualification. That portfolio depth is the moat here, because a supplement brand or feed manufacturer sourcing six ingredients from one qualified supplier has far less requalification burden than stitching together six vendors.

Who buys and why

Customers are food, beverage, dietary supplement, pet food and feed manufacturers globally. The company sells through two wholly-owned subsidiaries set up in February 2006: Divis Laboratories (USA) Inc. in New Jersey and Divi's Laboratories Europe AG in Basel, which the annual report describes as supporting marketing of nutraceutical products and enabling closer engagement with customers in those regions.

Why they buy from Divi's comes down to certifications and supply reliability. The Visakhapatnam unit holds Food Safety System Certification (FSSC) 22000 for vitamins and carotenoids and GMP+B2 certification for feed ingredients - credentials a pet-food or aqua-feed buyer audits against before qualifying any supplier. The annual report also states the company is "among the few nutraceutical ingredient manufacturers offering a wide range of carotenoids at competitive scale." The disclosures do not name specific competitors in this segment, so investors should treat that breadth-of-range claim as management's own framing rather than an independently verified market-share statement.

Where it sits in the group

Nutraceuticals shares the group's core machinery: backward integration into key starting materials, closed-loop solvent recovery, and the engineering ability to run products from kilos to tonnes in multipurpose blocks. The Visakhapatnam site is co-located with the generic API operations, so procurement, engineering and quality infrastructure serve both businesses. In practice this means input-cost advantages and supply-assurance work done for pharmaceuticals flow straight through to the nutrition products. Dr. Kiran S. Divi framed the expansion intent plainly on the August 2026 call: "we are actively expanding in both capabilities and capacities to meet the demand of a rapidly evolving global market."

The revenue picture

Nutraceuticals generated ₹946 crores in FY 2025-26, up from ₹781 crores the year before - roughly 9% of consolidated revenue per the company's disclosure. H1 FY27 revenue was ₹571 crores against ₹492 crores a year earlier. The quarterly cadence through FY26: ₹242 crores in Q2 FY26, ₹214 crores in Q3 FY26, then ₹298 crores in Q1 FY27 against ₹250 crores in the year-ago quarter. Growth accelerated into the new fiscal year even as management kept expectations measured elsewhere in the business.

What management has said

Management commentary has been consistent across the four calls. In November 2025, Dr. Divi called the segment a key growth driver, citing manufacturing strength in carotenoids and positioning against growing global focus on health and wellness. In February 2026 he reported healthy performance with expected momentum carry-forward. The May 2026 call

quantified the full-year number, and the Managing Director's message in the FY 2025-26 annual report tied the segment to rising preventive-healthcare demand, noting the global nutraceuticals market is projected to grow from about USD 684 billion in 2026 to USD 1.15 trillion by 2033, with carotenoids and vitamins specifically named among the growth ingredients.

The structural takeaway for a skeptical investor: this is the smallest of Divi's three segments, but it diversifies the revenue base away from pharma pricing cycles and patent expiries, monetizes the same chemistry platform, and has compounded at roughly 20% in FY 2025-26 while the larger generic API business absorbed pricing pressure.

Customers

Who buys and how concentrated they are

The customer base divides cleanly by segment. On custom synthesis, Divi's is a partner to 12 of the top 20 pharmaceutical companies worldwide, per the FY 2025-26 Annual Report. These are the same large innovators that dominate global drug development, and they buy complex APIs, advanced intermediates, contrast media and peptide fragments under multi-year agreements. Concentration is real: the top 5 customers accounted for 51% of FY 2025-26 revenue, up from 49% in FY 2024-25, and the top 5 products were 48%. One key top product is in late life cycle and heading toward genericization, which management acknowledges but does not quantify because of confidentiality agreements.

Generic API customers are formulation manufacturers across regulated markets (US, Europe, Japan, Canada) and emerging ones. Management says it has lost no customer and no volume despite years of pricing pressure, and volumes have actually grown. Nutraceutical customers are leading food, beverage, dietary supplement and feed brands, reached through the New Jersey and Basel subsidiaries rather than direct from India.

How the buying decision works

For an innovator choosing a CDMO, price is one box among many. Management is explicit that multinationals screen suppliers on EHS performance, sustainability commitments (including Science Based Targets initiative compliance), safety systems, effluent management, employee healthcare and compliance readiness before they even get to commercial terms. Divi's argues its 30-year track record of deliveries, its inspection history across USFDA, EDQM and other agencies, and its willingness to invest capacity ahead of demand are what win programs. Once chosen, the relationship locks in through regulatory machinery: Divi's becomes part of the customer's CMC filing, its plant gets tied to the product's approval, and any change of supplier later means re-filing and re-qualification. That is why these relationships run for decades, some beyond 20 years.

On generics, the contract structure matters more than the relationship. Long-term contracts with raw-material variability clauses protect margins when inputs spike, which is exactly what happened when West Asia conflict pushed solvent prices up sharply from March 2026. Contracts for some products reset every three months. Spot business, mostly in South America, Eastern Europe and parts of Asia, reprices negotiation by negotiation.

Two current customer dynamics are worth tracking. First, on the new generic filings (Brivaracetam, Ticagrelor among them), multiple customers are qualifying Divi's simultaneously, and one is negotiating long-term exclusivity:

> *"One of them actually is trying to look at having exclusivity with us long term."*
>
> **DR. KIRAN S. DIVI, CEO, Q1 FY27 CONCALL (AUG 2026)**

Second, on iodine-based contrast media, Divi's is signing multi-year long-term contracts with 2 customers, commercialization already started with one and starts with the second within months of the August 2026 call, with 'substantial quantities' to follow.

Contract structure and switching costs

Custom synthesis projects carry milestone-based payments through qualification, validation and manufacturing stages, and quantities, prices and even project names sit behind confidentiality agreements, which is why management cannot disclose an order book value. Revenue is lumpy quarter to quarter because validation and milestone timing varies, something management repeatedly asks investors to judge on a full-year basis. For dedicated programs, Divi's invests capital against signed long-term supply commitments, shifting execution risk onto itself and giving the customer supply certainty. Switching costs run in both directions: the customer faces re-validation and regulatory re-filing to move, while Divi's faces the risk that a single program's loss or genericization dents a concentrated revenue base.

Competitive landscape

The shape of the industry

Three tiers compete for this work. Global CDMOs, historically based in Europe and North America, hold the deepest innovator relationships and the highest cost bases. Asian manufacturers, led by China, dominate commodity API volume and are moving up into complex chemistry. Indian players, traditionally strong in generics, are now entering contract manufacturing in force because RFPs from global innovators are flowing toward India. The market itself is large and growing: the global CDMO industry was valued at about USD 150 billion in 2024 and is projected to reach USD 290-300 billion by the early 2030s (Annual Report, citing Grand View Research). Within that, India's CRDMO sector could expand from USD 3.0-3.5 billion today to USD 22-25 billion by 2035, per the BCG estimate cited in the

Annual Report. Neither the company nor the source documents name specific competitor firms, so the honest picture is structural: Divi's competes against unnamed Western CDMOs on service depth, against Chinese producers on cost and reliability, and against a rising cohort of Indian entrants on track record.

Where Divi's sits

The company ranks among the top 3 API manufacturers globally and among the top 10 synthetic drug substance CDMOs in the world, per the FY 2025-26 Annual Report. It is the world's largest manufacturer in 10 of the 30 generic APIs it produces. Those positions came from choices competitors find hard to copy quickly: decades of accumulated process chemistry, plants built with capacity ahead of demand, closed-loop solvent recovery that cuts both waste and cost, and a compliance record clean enough that agencies trust the sites.

In custom synthesis specifically, management frames the edge as history plus integration. Divi's was doing CDMO work from inception, well before it became an Indian theme, and its customer relationships predate the current wave of Indian entrants. In peptides, the differentiation claim is concrete: Divi's is backward integrated from basic raw materials through protected amino acids to fragments, and it runs multiple 3,000-liter SPPS reactors.

> *"We have several 3,000-liter SPPS, which by far in India nobody has."*
>
> **DR. KIRAN S. DIVI, CEO, Q4 FY26 CONCALL (MAY 2026)**

Because it makes its own Fmoc-protected amino acids, it controls impurity profiles upstream, which lowers downstream purification cost and improves consistency. The stated ambition is to be one of the largest integrated peptide manufacturing players globally, serving innovators only, with no generic peptide business.

Where competition bites

Be honest about the pressure points. Generic API pricing has eroded for multiple years, driven substantially by Chinese oversupply, and management sees no relief in the near term ("I don't think I can foresee any, at least in the next 2 quarters, anything that is going to be in a better situation for generics"). Divi's defends share through backward integration and cost position rather than price wars, but the margin consequence is visible: operating margins settled around 32% versus 37-38% historically. In custom synthesis, Indian rivals are consolidating into the segment and bidding on the same RFPs, and management concedes pricing is one factor among several rather than a guaranteed advantage. In iodine-based contrast media, there are only about three major global players, and Divi's has tied itself to the innovator side of that small club, which cuts both ways: deep contracts, but few buyers.

In peptides, the global leaders are significantly larger incumbents, and Divi's is scaling toward them rather than past them.

Industry

Demand drivers

Five forces shape demand for what Divi's sells. First, the GLP-1 and obesity therapy boom: global anti-obesity drug spending rose from about USD 3 billion in 2020 to USD 66 billion in 2025 and is expected to reach USD 125 billion by 2030 (Annual Report, citing IQVIA-sourced data). Peptide drugs need peptide building blocks and fragments, which is precisely Divi's new platform. Second, China+1 diversification: innovators are redirecting sourcing toward credible alternatives, and estimates suggest India could capture 20-30% of the outsourcing share migrating away from China by 2030. Third, rising ESG and EHS criteria in supplier selection, which favor established, certified manufacturers and raise entry barriers. Fourth, lifecycle-integrated outsourcing: innovators increasingly want one partner from clinical supply through late life-cycle management rather than stage-wise vendors. Fifth, the enduring generics base: generics represented about 90% of US prescription volumes in 2025, keeping steady demand under the entire generic API business.

Market sizes

The Annual Report lays out the addressable pools. The global API industry was valued at about USD 270 billion in 2025 and is projected to grow at 5-6% CAGR to about USD 419 billion by 2033. The global peptide therapeutics market, estimated at about USD 140 billion in 2025, is projected to reach about USD 295 billion by 2033. High-potency APIs are projected to grow from about USD 30 billion in 2025 to USD 48.3 billion by 2033. Nutraceuticals, the widest pool, are projected to expand from about USD 684 billion in 2026 to USD 1.15 trillion by 2033. The CDMO figures cited earlier (USD 150 billion in 2024 to USD 290-300 billion by the early 2030s) frame Divi's fastest-growing segment.

India's place in the supply chain

India is the world's manufacturing base for small-molecule API work, contributing an estimated 38-40% of global small-molecule CDMO revenues in 2024, with North America the demand epicenter at roughly 37% of API CDMO revenues. Indian pharma exports crossed USD 31 billion in FY 2025-26. Government policy pushes the same direction: Production-Linked Incentive schemes, bulk drug park development and research incentives aim to reduce import dependence on key starting materials, most of which still come from China. For Divi's specifically, the trade map is heavily Western: exports are 89-90% of standalone revenue, and Europe plus North America together account for about 74-75% of exports. That concentration is a strength with regulated-market customers and a

vulnerability to currency moves, since the company does not hedge ("We are not hedging. We are evaluating at this point," per the Q3 FY26 call).

Input costs and geopolitics

Roughly 40% of Divi's raw material spend, about ₹4,000-5,000 crores against roughly ₹11,000 crores of revenue, is imported. In H1 FY27, net material consumption was about 32% of sales versus 40% a year earlier; management cited a slightly higher CF and cost benefits from Unit 3 backward integration. Two recent shocks tested that exposure. China's withdrawal of export tax rebates on certain basic chemicals, effective April 1, 2026, creates selective input-cost pressure, though management notes most exemptions cover finished APIs and intermediates, and the domestic supplier base has been raised to 78% of procurement by quantity. The bigger disruption is the West Asia conflict that began February 28, 2026: solvent prices rose sharply, suppliers including domestic ones declared force majeure, ports congested, and ocean and air freight rose. Divi's responded by moving from just-in-time procurement to a rolling 3-month inventory buffer, which drove the change-in-inventory line to about ₹500 crores in Q1 FY27 versus a normal ₹50-100 crores run-rate. Production never stopped and no shipment was delayed, but the buffer was bought at elevated prices and squeezes gross margin until it unwinds.

Regulation

Access to regulated markets runs through inspections and filings. Divi's plants hold approvals from USFDA, EU GMP agencies (UK, Germany, Ireland, Slovenia), Health Canada, TGA, ANVISA, COFEPRIS, PMDA and MFDS. The US FDA general cGMP inspection at Unit 1 Choutuppal concluded successfully in Q3 FY26. Dedicated custom synthesis projects add another layer: Divi's sits inside the innovator's CMC filing, and commercial volumes start only after agencies approve those filings, with or without a site inspection at the agency's discretion. Qualifying a brand-new site like Kakinada for GMP products takes the FDA 1-2 years even after validation, which is why Unit 3 currently runs pre-chemistry work while progressive qualification proceeds.

Cyclicality

Two cycles matter. Generic API pricing has been in a multi-year downcycle, holding margins below the historical 37-38% band, and management sees possible correction but cannot time it. Custom synthesis revenue is lumpy quarter to quarter because validations, milestones and approval timing do not spread evenly, so management steers investors toward full-year views. Capital deployment adds its own lag: capex ran at ₹1,544 crores capitalized in FY 2025-26 (about 24% of sales versus a 13% historical average), with ₹1,223 crores capitalized in H1 FY27, including ₹772 crores in Q2, and capital work in progress of ₹1,638 crores at September 30, 2026. The payback window on dedicated projects has

historically ranged from 6 months to 3 years depending entirely on regulatory timelines outside Divi's control.

Growth triggers

Commercialization of the three major dedicated Custom Synthesis capex programs (announced ~₹2,000 crores combined, ~70% capitalized as of Q1 FY27; validations complete, product shipped to customers, part of innovator CMC filings)

Divi's is building dedicated manufacturing capacity for three Custom Synthesis products under long-term supply commitments with global innovators. The company disclosed these investments to the stock exchanges, and management sized the combined spend at roughly ₹2,000 crores.

The money-making mechanism is straightforward CDMO economics. Divi's builds the plant, runs validation batches, and ships product to the customer. The customer folds Divi's into its Chemistry, Manufacturing and Controls filing, regulators approve, and only then do commercial volumes flow. Dr. Kiran Divi explained the dependency clearly on the Q1 FY27 call.

> *"I'm a part of the innovator CMC filing... we are completely ready for all regulatory submissions. We are ready for inspection anytime if there is an inspection."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUG 2026)**

Where things stand as of August 2026: about 70% of the ₹2,000 crores has been capitalized, validations are complete, and product has shipped to customers. Nilima Prasad Divi confirmed the spend on the Q1 FY27 call.

> *"the 3 projects together about, if I remember correctly, ₹2,000 crores. So I would say 70% of that has been capitalized so far."*
>
> **NILIMA PRASAD DIVI, Q1 FY27 CONCALL (AUG 2026)**

Divi's is building dedicated manufacturing capacity for three Custom Synthesis products under long-term supply commitments with global innovators. The company disclosed the investments to the stock exchanges, and management has sized the combined spend at roughly ₹2,000 crores. The money-making mechanism is straightforward CDMO economics. Divi's builds the plant, runs validation batches, and ships product to the customer. The customer folds Divi's into its Chemistry, Manufacturing and Controls filing, regulators approve, and only then do commercial volumes flow. In the Q2 FY27 call, management said the programs are progressing through validation stages, with one very close to commercialization and the other two expected to begin the commercialization process over the next one to two quarters, subject to customer and regulatory approvals. It declined to quantify validation revenue or utilization. Earlier guidance had pointed to commercial

volumes in Q3-Q4 calendar 2027, and the historical capex-to-revenue cycle has ranged from six months to three years.

The three products are distinct molecules, not fragments of one program, and the company is bound by CDAs on quantities, pricing, and therapeutic categories.

Peptide platform ramp-up: multiple 3,000-liter SPPS reactors being added, peptide fragments in validation/qualification across GLP-1 and other therapeutic programs (psoriasis, anti-inflammatory, cardiac); ambition to be 'one of the largest global players' in integrated peptide manufacturing

Divi's is building a contract manufacturing business in peptide fragments - the short amino-acid chains that innovators stitch together to make GLP-1 and other peptide drugs. The company deliberately stays upstream of the finished API: it makes protected amino acids, dipeptides, tripeptides and fragments up to octamers and decamers, then hands them to customers who link them into the final molecule. Management has explicitly ruled out generic peptides.

The money-making mechanism runs through the Custom Synthesis model. Divi's builds dedicated capacity against customer requirements, validates fragments under GMP, and supplies commercial volumes once the customer's drug clears regulatory approval. Because Divi's manufactures its own Fmoc/BOC-protected amino acids and resins in-house, it controls cost, impurity profile and supply timing - which is the pitch to innovators.

Where this stands today: a peptide Centre of Excellence was inaugurated in FY26, a large-scale pilot plant is complete, and one commercial building with multiple large SPPS reactors has been constructed based on a specific customer's design. Several fragments have been validated, more are in the pipeline, and programs span Phase I through Phase III across GLP-1, psoriasis, anti-inflammatory and cardiac categories. Capacity is expanding again:

> *"we're again expanding our capacity by acquiring a few more 3,000-liter SPPS"*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUG 2026)**

On scale, management claims a differentiated position:

> *"We have several 3,000-liter SPPS, which by far in India nobody has."*
>
> **DR. KIRAN S. DIVI, Q4 FY26 CONCALL (MAY 2026)**

The stated ambition is to be "one of the largest global players" in integrated peptide manufacturing, defined as backward integration from basic raw materials through protected amino acids to fragments. The market backdrop management cites: global peptide therapeutics at ~USD 140 billion in 2025, projected to reach ~USD 295 billion by 2033 (Annual Report FY 2025-26). Commercial revenue arrives as customer programs clear regulatory milestones over the coming quarters.

Iodine-based contrast media long-term contracts: signing multi-year contracts with 2 customers; commercialization already started with one, second starting in next few months, with 'substantial quantities' to follow

Contrast media are imaging agents that make organs and blood vessels visible on CT scans. Iodine-based molecules are the workhorse of CT imaging, and Divi's manufactures them as custom synthesis products for global innovators. This is a business where the customer is one of roughly three or four large pharma companies worldwide that dominate the category, which is why a long-term contract with each is structurally significant.

The mechanism is straightforward contract manufacturing. Divi's produces the API or intermediate at scale, the customer embeds it in its filed product, and volumes flow under multi-year agreements rather than spot orders. Management has said the iodine business is substantially tied to the innovator side, where it has been supplying "in several multiples of tons" and customers have been actively discussing volume increases (Q4 FY26 concall, May 2026).

The new development is formalization into signed, multi-year commitments with two customers, disclosed on the Q1 FY27 call:

> *"So on the Iodine-based contrast media, we are in the process of signing long-term contracts with 2 of the customers. And this will be for multiple years. And commercialization has for one of them has already started. The second one, we will start in the next few months. And this will be substantial quantities going forward."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUG 2026)**

The trajectory across the last four calls shows steady progression. In November 2025, management described active validations with one or two of the three or four big global players and said it hoped to commercialize soon. By May 2026, it confirmed "In the Iodine base, we are already in commercial sales" and that existing supplies were "backed up by long-term contracts" (Q4 FY26 concall, May 2026). By August 2026, the picture had moved from hope to execution: one contract commercialized, the second starting within months, both framed as multi-year arrangements carrying substantial future quantities.

Where this sits today: one contract is generating revenue now, the second begins in the coming months of FY27, and management's own framing points to growing volumes from both over time.

New generic API launches post patent expiry: 4 DMFs filed (including Brivaracetam, Ticagrelor), validation quantities supplied, multiple customers qualifying; one customer negotiating long-term exclusivity

Divi's has spent the last few years developing and validating a set of new generic API molecules timed to come off patent. As of the Q1 FY27 call (August 2026), the company has filed 4 Drug Master Files with regulators for these products, working alongside various

customers. Two of them are named: Brivaracetam (an epilepsy drug whose patents have been expiring) and Ticagrelor (a cardiovascular drug). The company has already manufactured and shipped validation quantities to customers, and those customers are now running their own qualification programs.

The mechanism is straightforward. Divi's develops the process, files the DMF, and produces validation batches. The customer takes that material, puts it into its formulation, runs stability studies, and files with agencies like the US FDA or EDQM. Once the agency approves, the customer launches the generic product and starts buying commercial quantities from Divi's. Dr. Kiran Divi laid out this sequence on the Q1 FY27 call:

> *"we have supplied validation quantities to them and they're undergoing qualifications as we speak. One of them actually is trying to look at having exclusivity with us long term. So right now, that negotiation is going on."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUGUST 2026)**

The exclusivity negotiation is the detail that changes the economics. Generic APIs are usually a price-competitive business, but a long-term exclusive supply agreement would lock in volume for Divi's and shield it from the pricing pressure that has weighed on the rest of its generics portfolio. Management has said most existing generic APIs are already backed by long-term contracts with variability clauses (Q4 FY26 concall, May 2026), so an exclusive arrangement would extend that model to the new molecules.

The commercial timeline is near. On the Q1 FY27 call, management said that once customer qualifications complete, commercial volumes are expected to start moving within 3 to 6 months. That puts first commercial shipments roughly in the second half of FY27. This matches what management flagged a quarter earlier, when it said the new portfolio would contribute "in 2026-'27, as the products come off patent" (Q4 FY26 concall, May 2026).

Two things make this trigger credible rather than speculative. First, the filings are done and the validation material is with customers, so the work is past the development stage. Second, the demand signal is visible: multiple customers are qualifying Divi's as a source for Brivaracetam and Ticagrelor, and at least one is negotiating exclusivity. The generics segment contributed 40% of revenue in Q1 FY27, and management has reiterated double-digit revenue growth guidance for the year. These new molecules are one of the identified contributors to that growth, alongside the dedicated Custom Synthesis capex programs.

The regulatory filing base supports the launch capability. Divi's holds 41 DMFs with the US FDA, 30 Certificates of Suitability with EDQM, 25 DMFs with Health Canada and 9 MFs with PMDA Japan (Annual Report FY 2025-26), and it is already the world's largest manufacturer

of 10 of the 30 generic APIs it produces. Adding Brivaracetam and Ticagrelor to that base extends a playbook the company has run before.

Kakinada Unit 3 expansion: ₹1,500 crores expansion plan (₹600 crores capitalized as of Q4 FY26); Phase 2 with 4 additional production blocks under evaluation; 200-300 acres of land available for future blocks; progressive regulatory qualification of Unit 3 for intermediates/APIs over 1-2 years

Unit 3 at Kakinada is Divi's third manufacturing site and its backward integration engine. It started operations in January 2025 as an Export Oriented Unit. The idea is simple: Unit 1 and Unit 2 are GMP-certified plants that carry regulatory approvals for APIs and advanced intermediates. Those approvals are the scarce asset. So Divi's moves non-GMP pre-chemistry work - starting materials and intermediates - out of Units 1 and 2 into Kakinada, which frees up GMP space at the older units for higher-value custom synthesis projects. The FY26 annual report describes it directly: "By shifting starting-material production from our GMP-certified Units 1 and 2 to this facility, we strengthen cost competitiveness... The transition frees GMP capacity at our Unit 1 & 2, enabling us to manufacture high value products."

The money behind Phase 1 is a ₹1,500 crores expansion plan, of which ₹600 crores had been capitalized by Q4 FY26.

> *"at Kakinada, we did mention earlier that we are going to do a ₹1,500 crores expansion plan, out of which ₹600 crores has been capitalized."*
>
> **NILIMA PRASAD DIVI, WHOLE-TIME DIRECTOR (COMMERCIAL), Q4 FY26 CONCALL (MAY 2026)**

Construction is running ahead of that number. Six production blocks were complete as of the Q2 FY26 call, with two more under construction, and management said those two "should be completed shortly" (Q2 FY26 concall, November 2025). The FY26 annual report confirms six blocks operational and two more under construction.

Phase 2 is where the expansion gets bigger. Management disclosed on the Q3 FY26 call that a second phase with four additional production blocks is being considered.

> *"right now, we are considering to look at Phase 2 expansion plan at Kakinada with 4 production blocks."*
>
> **NILIMA PRASAD DIVI, WHOLE-TIME DIRECTOR (COMMERCIAL), Q3 FY26 CONCALL (FEBRUARY 2026)**

As of that February 2026 call, Phase 2 was still under evaluation and decision-making, with no committed capex figure disclosed. Beyond Phase 2, the site has room to grow: management said Kakinada has another 200 to 300 acres of land available, and new blocks would go up there subject to internal approvals (Q2 FY26 concall, November 2025).

How does this turn into revenue? Two mechanisms, one immediate and one staged. The immediate mechanism is cost and capacity relief. In-house starting materials and intermediates made at Kakinada lower input costs across the generic portfolio - management credits Kakinada's backward integration with helping defend volume and market share against generic pricing pressure (Q2 FY26 concall, November 2025) - and every block of GMP space freed at Units 1 and 2 can absorb a new custom synthesis project without building anything new. The staged mechanism is direct qualification. Once regulators approve Unit 3 itself, products can be manufactured and sold from Kakinada under its own name rather than only feeding other sites. Dr. Kiran S. Divi laid out the sequence on the Q1 FY27 call:

> *"But the eventual long-term plan is to qualify Kakinada with all regulatory clearances and start qualifying that plant too. But every regulatory clearance also takes time even after you validate a certain new project, FDA will take its own time, 1 or 2 years since it's a new place, and then they will qualify it. In the meantime, we are filling the plant with pre-chemistry products."*
>
> **DR. KIRAN S. DIVI, CEO, Q1 FY27 CONCALL (AUGUST 2026)**

On the Q3 FY26 call he added more detail on what qualification looks like in practice: Divi's has already begun qualifying certain intermediates at Kakinada, FDA approval would follow over roughly the next 1 to 2 years, and once Units 1 and 2 fill up, work shifts to Unit 3 (Q3 FY26 concall, February 2026). On the same call, Dr. Divi noted the company will also qualify some in-house generic APIs at Kakinada, file Drug Master Files, and obtain the appropriate qualifications over the next few quarters (Q2 FY26 concall, November 2025).

Where things stand today, August 2026: Phase 1 is operational and absorbing transferred chemistry, utilization across all three units sits at 80-85% (Q1 FY27 concall, August 2026), ₹600 crores of the ₹1,500 crores Phase 1 plan is capitalized, two additional blocks are under construction per the annual report, Phase 2's four blocks remain an evaluation-stage decision, and regulatory qualification of intermediates and APIs at the site is progressing on a 1-2 year clock. The capital work in progress line shows the build-out continuing - ₹2,034 crores as of June 30, 2026, which management attributes to ongoing expansion projects including Kakinada (Q1 FY27 concall, August 2026).

Gadolinium-based contrast media: Phase II/III clinical-stage programs with innovators; revenue begins when customers receive regulatory approvals

Contrast media are the imaging agents injected before MRI and CT scans. Divi's works on two families here. The iodine-based side is already commercial, with long-term contracts being signed with 2 customers. Gadolinium is the second family, used in MRI agents, and it is still a clinical-stage opportunity.

The mechanism is straightforward. Divi's manufactures gadolinium compounds for innovator pharma companies whose molecules are in Phase II and Phase III trials. Because these are

new molecules, Divi's is embedded in the customer's CMC filing. Revenue starts only when the customer's product clears regulatory approval in its target markets, at which point commercial supply volumes begin.

Where things stand as of August 2026: management has been consistent across three calls that this is qualification-stage work tied to customer timelines. In May 2026, Dr. Kiran S. Divi described the status plainly:

> *"Coming to Gadolinium compounds, we are still at qualification stage because these are new molecules which are in Phase II, Phase III. Yes, we are basically tagging along with our customers. As and when they start getting approvals, we will start seeing revenues from that side."*
>
> **DR. KIRAN S. DIVI, Q4 FY26 CONCALL (MAY 2026)**

He also clarified in the same call that customers are currently buying quantities "just for their studies to qualify their product," with validation discussions to follow only once agencies signal approval.

By August 2026, the picture had not changed materially. Asked directly about status, Dr. Divi said the project is on a "slow phase" on the customer side:

> *"Right now, the project is on slow phase with them on the Gadolinium side. That's why still we are waiting for -- they're waiting for regulatory approvals, and we are waiting. Once they get their approval, then it will be clinical Phase III."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUG 2026)**

Going back further, in November 2025 he framed the earliest realistic window, saying that even if products are approved, "the whole process will take at least... at least 1 year before we start seeing anything" (Q2 FY26 concall, Nov 2025).

Two structural points matter for reading this trigger. First, Divi's contrast media work sits almost entirely on the innovator side rather than generics - management said in May 2026 they are "substantially tied up with the innovator side of the business" and are working with most of the top players in the market (Q4 FY26 concall). Second, the same playbook has already worked once within contrast media: iodine-based programs moved from validation to commercial sales backed by multi-year contracts. Gadolinium follows the identical sequence, just earlier in the curve - clinical phase today, validation next, then commercial supply once approvals land.

The timeline is therefore entirely a function of the innovator's regulatory clock, which Divi's does not control. Management's own framing across calls is that they are ready and qualified, waiting on the customer's approval events to convert this into revenue.

Overall revenue guidance: double-digit revenue growth reiterated, with H1 FY27 constant currency standalone growth of 17% already delivered

Divi's management has one number it repeats on every earnings call: the company will grow revenue at a double-digit rate. This is not a formal guidance range issued once a year. It is an operating philosophy that Nilima Prasad Divi describes as baked into how the business is run, and Dr. Kiran Divi has defended it explicitly even when analysts pushed for more precision.

The mechanism behind the target is portfolio rotation rather than any single product. Divi's runs three engines at once - generics (38% of H1 FY27 revenue), custom synthesis (62%), and nutraceuticals (₹571 crores in H1 FY27). When a late-lifecycle generic loses pricing or volume, new patent-expiry launches and validated custom synthesis projects come online to replace it. Kiran Divi explained this balance on the Q3 FY26 call:

> *"the same customer would have a basket where one of his product is coming off patent where we're doing a late life cycle management. He would also have a product available with us, which is almost ready for launch. So we always have a nice decent balance of equilibrium while our growth trajectory is actually happening at the double digit."*
>
> **DR. KIRAN S. DIVI, Q3 FY26 CONCALL (FEB 2026)**

The evidence trail across calls shows the commitment holding under pressure. In FY26, constant currency growth came in at 6.82%, below the double-digit bar, and management still refused to walk back the target. Q1 FY27 delivered 10% constant currency standalone growth. In Q2 FY27, Nilima Prasad Divi said H1 standalone constant-currency revenue grew 17% and reiterated a double-digit outlook, while declining to specify whether the second half would be closer to 10% or 20%:

> *"I would say it would be double-digit growth. That's my way forward that I would look at."*
>
> **NILIMA PRASAD DIVI, Q2 FY27 CONCALL (NOV 2026)**

What makes the target credible in the near term is the pipeline sitting behind it. The three dedicated custom synthesis programs are progressing through validation stages, with one very close to commercialization and the other two expected to begin the commercialization process over the next one to two quarters, subject to approvals. New generic launches and iodine-based contrast media contracts remain in the mix, but the Q2 call did not update their exact timing. Management also said 60 to 70 projects are handled at any time across pre-chemistry, qualification and Phase 2/3 stages.

The stage today: H1 FY27 constant currency growth is banked at 17%, and the remaining growth levers - dedicated capex commercialization, new generic launches, and contrast media contracts - sit mostly in the second half of FY27 and into FY28.

The mechanism behind the target is portfolio rotation rather than any single product. Divi's runs three engines at once - generics (40% of Q1 FY27 standalone revenue), custom synthesis (60%), and nutraceuticals (₹298 crores in Q1 FY27). When a late-lifecycle generic loses pricing or volume, new patent-expiry launches and validated custom synthesis projects come online to replace it. Kiran Divi explained this balance on the Q3 FY26 call:

> *"the same customer would have a basket where one of his product is coming off patent where we're doing a late life cycle management. He would also have a product available with us, which is almost ready for launch. So we always have a nice decent balance of equilibrium while our growth trajectory is actually happening at the double digit."*
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The evidence trail across calls shows the commitment holding under pressure. In FY26, constant currency growth came in at 6.82%, below the double-digit bar, and management still refused to walk back the target. On the Q4 FY26 call, when asked directly about the outlook, Nilima Prasad Divi said:

> *"as historically that we always look for a double-digit growth in our revenues, and that's what we would also say today."*
>
> **NILIMA PRASAD DIVI, Q4 FY26 CONCALL (MAY 2026)**

Q1 FY27 delivered the first proof point of the new fiscal year. Standalone total income reached ₹3,037 crores against ₹2,476 crores a year earlier, and management disclosed 10% constant currency standalone growth for the quarter. Asked by Goldman Sachs whether there was upside beyond the roughly 10% dollar growth implied at year-end, Kiran Divi doubled down:

> *"I would like to stick to my statement saying that we will show double-digit growth no matter what."*
>
> **DR. KIRAN S. DIVI, Q1 FY27 CONCALL (AUG 2026)**

Nilima Prasad Divi framed the same idea as structural rather than aspirational, telling Motilal Oswal that "we always look at a double-digit growth. That's how our revenue model is being built" (Q1 FY27 concall, Aug 2026).

What makes the target credible in the near term is the pipeline sitting behind it. The three dedicated custom synthesis capex programs (~₹2,000 crores combined, ~70% capitalized) have completed validations and shipped product into customer CMC filings, with commercial volumes expected from Q3-Q4 calendar 2027 assuming regulatory approvals land on time. Four new DMFs including Brivaracetam and Ticagrelor are in customer qualification, with commercial volumes expected within 3-6 months per the Q1 FY27 call. Iodine-based

contrast media contracts with two customers are being signed for multiple years, one already commercialized. Management also noted 18-20 projects are commercialized or being commercialized as of Q1 FY27.

The stage today: the 10% constant currency quarter is banked, and the remaining growth levers - dedicated capex commercialization, new generic launches, and contrast media contracts - sit mostly in the second half of FY27 and into FY28.

Q2 FY27 update (November 2026). Consolidated total income was ₹3,770 crores in Q2 FY27 against ₹2,860 crores a year earlier, with PAT at ₹1,127 crores versus ₹689 crores. H1 total income was ₹6,907 crores and PAT ₹2,029 crores. H1 standalone constant-currency revenue grew 17%; net material consumption was about 32% of sales versus 40%. Q2 capitalization was ₹772 crores, H1 capitalization ₹1,223 crores, and capital work in progress was ₹1,638 crores at September 30, 2026.

Key risks

- **Generic API pricing pressure has no visible floor.** Management said margins have settled around 32% versus the historical 37-38% band, driven by multi-year price erosion across generic molecules even as volumes stay stable. On the Q2 FY26 call (Nov 2025) management was blunt about visibility: "I don't think I can foresee any, at least in the next 2 quarters, anything that is going to be in a better situation for generics." Because generics were still 45% of FY26 revenue (40% in Q1 FY27), every quarter of continued erosion caps the margin upside from a richer Custom Synthesis mix.

- **The West Asia conflict has kept solvents and logistics costly even as H1 material consumption improved.** The conflict that began February 28, 2026 pushed solvent prices higher and forced a three-month rolling inventory buffer for critical materials. H1 FY27 net material consumption still fell to about 32% of sales from 40% a year earlier, helped by Unit 3 backward integration, but management said petrochemical solvent prices remained elevated and ocean and air freight costs were higher. Pass-through depends on customer negotiations and is product-by-product, so the drag persists until costs normalize or contracts reset.

- **The three dedicated Custom Synthesis projects are hostage to other people's regulatory timelines.** Divi's has spent roughly ₹2,000 crores on these programs, but it sits inside the innovator's CMC filing. Commercial volumes start only after customer filings clear USFDA, EDQM or other agencies. In Q2 FY27 management said one project is very close to commercialization and the other two may begin the commercialization process over the next one to two quarters, but it declined to quantify revenue or utilization. The company's own history spans six months to three years for capex-to-revenue cycles, so any agency query or inspection delay directly defers returns on committed capital.

- **Concentration is high on both the customer and product axis.** The top 5 customers were 51% of FY26 revenue (up from 49%) and the top 5 products were 48%. One key top product is in late life cycle and going generic this year, which shrinks a large revenue line regardless of how well Divi's executes. Custom Synthesis is also lumpy quarter to quarter because validation and milestone timing does not spread evenly, so a single delayed program moves the whole P&L.
- **China policy can raise input costs selectively.** China's withdrawal of export tax rebates on certain basic chemicals, effective April 1, 2026, hits inputs shared with the agrochemical industry. The mitigation is real but partial: domestic suppliers now cover 78% of procurement by quantity, yet roughly 40% of raw material spend is still imported (about ₹4,000-5,000 crores against ~₹11,000 crores of revenue), so basic chemical exposure remains.
- **Currency exposure is deliberately unhedged.** With about 89-90% of revenue exported, Divi's is structurally long foreign currency, and management confirmed on the Q3 FY26 call, "We are not hedging. We are evaluating at this point." INR depreciation flatters results, but any meaningful rupee appreciation would flow straight through reported revenue and margins. Q1 FY27 already swung from a ₹39 crore gain to a ₹7 crore loss year over year. In H1 FY27, the net forex gain was ₹20 crores versus ₹103 crores a year earlier, so currency is no longer the earnings tailwind it was in FY26.
- **A cGMP lapse at Unit 1 or Unit 2 would be costly and slow to fix.** The entire model rests on continuous approvals from USFDA, EDQM agencies, Health Canada, TGA, ANVISA, COFEPRIS, PMDA and MFDS. A US FDA general cGMP inspection at Unit 1 concluded successfully in Q3 FY26, but the standing risk never goes away. Separately, qualifying Unit 3 Kakinada for regulated API production takes time even when execution is clean: FDA takes "1 or 2 years" for a new site, which constrains how fast capacity can shift into commercial products.
- **Policy shocks can create one-time P&L hits.** The four Labour Codes notified effective November 21, 2025 revised the definition of wages and forced a one-time incremental employee benefit provision of ₹74 crores, booked as an exceptional item in FY26. This category of regulatory change is outside management's control and cannot be forecast.
- **Gadolinium contrast media revenue depends on customer clinical outcomes.** These molecules are in Phase II/III with innovator customers, and management described the project as on "slow phase" in Q1 FY27. Revenue begins only if and when customers win approvals, so capital and qualification work sit idle until then.

Scenarios

Bull case

The regulatory dominoes fall quickly. The three dedicated CS projects, with validation work advanced and one very close to commercialization, clear customer and agency review, and the other two begin commercialization over the next one to two quarters. Long-term contracts signed for iodine-based contrast media with two major innovators convert into "substantial quantities," building on commercialization already underway with the first customer. Peptide fragments in validation across GLP-1 and other programs qualify, and the additional 3,000-litre SPPS lines being installed let Divi's capture a growing share of a peptide market projected to reach ~USD 295 billion by 2033 (Annual Report, FY 2025-26). New generic filings convert as customers qualify Divi's. H1 FY27 constant currency growth of 17% proves the double-digit guide conservative, material consumption stays near 32% of sales, and Custom Synthesis mix holds above 62%.

Base case

Execution continues on the path management has laid out. Double-digit revenue growth holds, consistent with 17% H1 FY27 constant currency standalone growth and reiterated guidance. The three dedicated projects commercialize over the next few quarters subject to routine approvals, with one close and the other two beginning the process in one to two quarters, and contribute through FY28 rather than overnight. Generic volumes stay stable while pricing pressure lingers, keeping margins near current levels; H1 net material consumption was about 32% of sales versus 40%, helped by Unit 3 backward integration, with solvent costs elevated but manageable under three-month rolling stocking. Iodine-based contrast media ramps under multi-year contracts, peptides advance through qualification, and nutraceuticals keep compounding from a ₹571 crore H1 base. Unit 3 gets progressively qualified, and the ₹2,000 crore ±20% annual capex plan continues.

Bear case

The external world stays hostile and the internal catalysts slip. Agency reviews of the innovator CMC filings trigger product-specific inspections, generate queries, or simply take the long end of the historical six-month-to-three-year cycle, pushing dedicated project revenues well past the next one to two quarters. The West Asia conflict escalates rather than resolves: solvents double again, force majeure spreads, freight stays elevated, and the three-month inventory buffer becomes a permanent working-capital drag with only partial pass-through. Generic pricing pressure extends another year, holding the blended margin near current levels, while the key top product completing its slide into genericization removes a chunk of the top-5 product base faster than new programs replace it. Customer concentration bites if one of the top 5 customers trims orders. The rupee appreciates and, with no hedging in place, reported revenue and margins compress. Gadolinium stays parked

in slow phase. Growth lands below the double-digit commitment, and the dedicated capex plus the Kakinada expansion earn returns later and lower than planned.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	9,360	10,560	13,170	14,830	17,080
Revenue growth	-	+12.8%	+24.7%	+12.6%	+15.2%
EBITDA (₹ Cr)	2,969	3,441	5,136	5,710	6,747
EBITDA margin	31.7%	32.6%	39.0%	38.5%	39.5%
Depreciation (₹ Cr)	402	463	615	720	815
Interest (₹ Cr)	3.00	23.00	38.00	45.00	50.00
Other income (₹ Cr)	352	507	320	360	420
PBT (₹ Cr)	2,916	3,388	4,803	5,305	6,302
Tax (₹ Cr)	725	820	1,201	1,326	1,575
Tax rate	24.9%	24.2%	25.0%	25.0%	25.0%
PAT (₹ Cr)	2,191	2,568	3,603	3,978	4,726
PAT growth	-	+17.2%	+40.3%	+10.4%	+18.8%
EPS (₹)	82.50	96.70	136	150	178
P/E	135.8x	115.9x	82.6x	74.7x	62.9x
PEG	9.3x	8.0x	5.7x	5.1x	4.3x

CAGR FY27E-FY29E: Revenue +13.9% · EBITDA +14.6% · PAT +14.5%

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Q2 FY27 concall notes

TLDR

Divi's Laboratories reported Q2 FY27 consolidated total income of ₹3,770 crore, up 32% YoY, PBT of ₹1,505 crore, up 65%, and PAT of ₹1,127 crore, up 64%. H1 custom synthesis was 62% of sales and generics 38%; nutraceutical revenue was ₹571 crore. Management said validation quantities for select custom-synthesis projects were supplied and three major dedicated investment programs are in validation, with one close to commercialization and two expected in the next 1-2 quarters. It is installing several 3,000-litre SPPS peptide lines and guides to double-digit revenue growth and capex of about ₹2,000 crore plus or minus 20% per year. Risks include generic pricing pressure, elevated petrochemical solvent and logistics costs, and approval or inspection timing for dedicated projects.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Total income	Q2 ₹3,770 crore vs ₹2,860 crore; H1 ₹6,907 crore vs ₹5,389 crore	Q2 +32% YoY; H1 not stated	Management cited healthy volume growth in generics and validation-quantity supplies in custom synthesis.
PBT	Q2 ₹1,505 crore vs ₹912 crore; H1 ₹2,685 crore vs ₹1,645 crore	Q2 +65% YoY; H1 not stated	Management did not give a line-item bridge.
PAT	Q2 ₹1,127 crore vs ₹689 crore; H1 ₹2,029 crore vs ₹1,234 crore	Q2 +64% YoY; H1 +64% YoY	Followed PBT; no separate explanation.
EBITDA / margin	Not disclosed on call	n/a	Management presented total income, PBT and PAT; no EBITDA figure was given.
Net material consumption	32% of sales revenue in H1 vs 40%	Down from 40%	Backward integration at Unit 3 Kakinada and a slightly higher CF, per management.
Nutraceutical revenue	H1 ₹571 crore vs ₹492 crore	n/a	Global nutraceutical business; management did not state the growth rate.
Revenue mix	H1 generics 38%, custom synthesis 62%	n/a	Business composition.
Geographic mix	Standalone exports about 90%; Europe and North America about 75%	n/a	Standalone sales revenue.
Constant-currency standalone revenue growth	H1 17% YoY	+17% YoY	Management stated.
Capex and CWIP	Q2 capitalized assets ₹772 crore; H1 ₹1,223 crore; CWIP ₹1,638 crore as of September 30, 2026	n/a	Large capex cycle; CWIP under execution.
Balance sheet	Cash ₹2,181 crore; trade receivables ₹3,705 crore; inventories ₹5,325 crore	n/a	Inventory includes 3-month critical-material cover and higher raw-material prices, per management.

SEGMENTS & GEOGRAPHIES

- **Generics:** 38% of H1 sales revenue. Performance was stable with healthy volume growth, while pricing pressures persist in certain product categories. Management focuses on market competitiveness, manufacturing efficiencies and disciplined capacity utilisation, and expects volume growth to continue with pricing pressure.
- **Custom synthesis:** 62% of H1 sales revenue. Customer engagement remains, several programs are advancing, and validation quantities were supplied for select projects. Three major dedicated capital investment programs are in validation; one is very close to commercialization and the other two are expected to commercialize in the next 1-2 quarters. Divi's handles 60-70 projects at any time from pre-chemistry to Phase 2 and Phase 3.
- **Peptides:** Sustained customer interest and program activity, with several products under validation or customer qualification. The platform is vertically integrated from peptide building blocks to dipeptides, tripeptides and large fragments. Management is adding SPPS capacity and says the peptide business is innovation/CDMO only, not generic peptides.
- **Nutraceuticals:** H1 revenue was ₹571 crore vs ₹492 crore. Management sees opportunities from global emphasis on preventive healthcare, wellness and scientifically validated ingredients and is expanding capabilities.
- **Geographies:** Exports were about 90% of standalone sales revenue, with Europe and North America together about 75%. Standalone revenue grew 17% in constant currency in H1. Management gave no separate geographic outlook.

STRATEGY & COMPANY-SPECIFIC

- **Unit 3 Kakinada:** The site supports backward integration through selected pre-chemistry operations and the phased transfer of manufacturing from existing facilities. Management expects this to improve manufacturing flexibility, resource utilisation and cost competitiveness.
- **Three dedicated projects:** Validation batches have been supplied or are ongoing. One project is very close to commercialization; the other two are expected in the next 1-2 quarters. The facilities use project-specific equipment, including flow chemistry and high-throughput technologies.
- **Peptides:** Divi's is installing several 3,000-litre SPPS lines and adding more dedicated lines because long-chain peptides and fragments take almost one to two months to make. The platform is backward integrated to building blocks, protected amino acids and tags; liquid-phase capability is also available. Management expects to be in the top 3 players with futuristic capacity.
- **Technology:** The company is expanding its flow chemistry platform and biocatalysis infrastructure for multiple enzymes at ton-scale manufacturing. These technologies are deployed on selected products to improve process efficiency, consistency, scalability, safety and productivity.
- **Supply chain:** Management maintains a rolling 3-month inventory cover for critical materials, uses diversified domestic and international suppliers, and does advanced container bookings and shipment monitoring to manage extended transit times.
- **Capex allocation:** Management said capex is divided across Units 1, 2 and 3 based on expertise, space and talent. It builds blocks proactively and adds equipment when customer opportunities arise.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue growth	Double-digit growth	n/a	Management said this is the historical and current way forward and declined to comment beyond double-digit growth.
EBITDA margin	No updated margin guidance; management said it cannot comment beyond double-digit revenue growth	n/a	Asked whether margin guidance would rise; no number was given.
Annual capex	About ₹2,000 crore plus or minus 20% per year for the next 2-3 years	n/a	Based on RFPs, matched strengths and historical post-COVID capex of ₹2,000 crore plus or minus 20% every year.
Dedicated project commercialization	One project very close; other two expected in the next 1-2 quarters, with commercialization in the next few quarters	n/a	Validation batches supplied or ongoing; customer qualification and regulatory approval remain.
Peptide capacity	Additional SPPS lines being installed; with futuristic capacity management expects to be in the top 3 players	n/a	Customer programs and long-chain peptide requirements; capacity numbers were not disclosed.
Capacity availability	No shortage now; management does not foresee one	n/a	Unit 1 has 22 production blocks, Unit 2 has 25 and Unit 3 has 6; only 3 dedicated blocks across all units; long-term custom synthesis contracts and advance planning.
Nutraceutical growth	Management sees growth opportunities and is expanding capabilities	n/a	Global emphasis on preventive healthcare, wellness and scientifically validated ingredients.

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Generic pricing pressure	Pricing pressures persist in certain product categories; management focuses on market competitiveness, manufacturing efficiencies and disciplined capacity utilisation.
Input cost volatility	Petrochemical-based solvent prices remain elevated, and suppliers also face cost increases. Net material consumption fell to 32% of H1 sales, helped by Unit 3 backward integration and a slightly higher CF.
Logistics and geopolitics	Middle East disruptions and security concerns around the Red Sea and Suez Canal led shipping lines to alternate routes, extending transit times and raising ocean costs. Air freight faced higher fuel prices, airspace restrictions, reduced carrier capacity and longer lead times.
Approval and inspection timing	The agency may inspect or qualify the site based on past history; no notice had been received. The inspection need would be known after customers submit validation batches, and commercialization depends on customer qualification and approvals.
Inventory and working capital	Rolling 3-month cover for critical materials and higher raw-material prices require calibrated inventory and working capital management.
Large capex cycle	Cash flow from operations was affected by the large capex cycle, including capitalization and CWIP advances; management said it remains prudent on capex.
Capacity constraints	Management said there is no capacity shortage now and does not foresee one; only 3 production blocks across all units are dedicated, and the rest are multipurpose.

Q&A HIGHLIGHTS

Validation batch quantification Question: Asked whether validation-batch revenue could be separated from base custom synthesis and whether the H2 run rate would continue. Answer: Management said validation batches for certain products are ongoing, several projects are in the pipeline, and it cannot quantify the split. It said custom synthesis was 62% of sales and commercialization follows customer qualification and regulatory approvals.

Inspection timing for dedicated projects Question: Asked when an inspection is expected and whether commercial-batch margins would match validation batches. Answer: Management said the agency may inspect or qualify the site based on past history, and no notice had been received. It said the inspection need would be known after customers submit the validation batches.

Capex outlook Question: Asked for the capex outlook for the rest of the year and the medium term. Answer: Management said CWIP was ₹1,638 crore and guided to about ₹2,000 crore plus or minus 20% per year for the next 2-3 years. It said Divi's builds blocks proactively and adds equipment when customer opportunities arise.

Peptide capacity Question: Asked whether SPPS capacity could rise to a multiple of the current base and for the installed capacity. Answer: Management declined to give capacity numbers because of confidentiality agreements and said with futuristic capacity it expects to be in the top 3 players. It said the SPPS lines are project-specific and the work is not limited to GLP-1 peptides.

Liquid-phase peptides Question: Asked whether liquid-phase peptide capacity is being expanded alongside solid-phase capacity. Answer: Management said liquid phase is not new and the choice depends on customer requirements. It said regular small-volume reactors and pilot plants can handle the required volumes, and it is well advanced in liquid phase.

Capacity availability Question: Asked whether capacity shortages are likely in the next 12-24 months. Answer: Management said there is no capacity shortage now and it does not foresee one. It said Unit 1 has 22 production blocks, Unit 2 has 25 and Unit 3 has 6, with only 3 dedicated blocks across all units and the rest multipurpose.

Margin guidance Question: Asked whether EBITDA margin guidance would be raised. Answer: Management said it wishes margin levels would be consistent but guides to double-digit revenue growth and cannot comment further. No updated margin number was given.

Working capital and cash flow Question: Asked about working capital and cash flow in the context of the large capex cycle. Answer: Management attributed the cash flow position to the large capex cycle, including capitalization and CWIP advances. It said it remains prudent on capex spending.

Aarti Pharmalabs Limited

GROWTH TRIGGERS

Aarti Pharmalabs can compound if CDMO scale-up and Xanthine volume lift mix and operating leverage before raw material pass-through, higher depreciation and working capital absorb the gains.

1. CDMO grows 40-50% in FY27 with H2 weighting

Management maintained CDMO/CMO revenue growth of 40-50% for FY27. Q2 CDMO sales were almost double Q1, CDMO was 13% of turnover, and management expects higher CDMO sales in Q3 and Q4 to support EBITDA percentage.

2. Ten to twelve CDMO projects underpin ₹700-800 crore of ₹1,000 crore potential

The CDMO book had 23 customers and 59 active projects in Q2 FY27, 39 commercial and 20 development. Management said 10-12 of about 60 projects should drive ₹700-800 crore of the ₹1,000 crore CDMO revenue potential, preserving the 80/20 rule.

3. Xanthine volume ramps to 7,500-8,000 tonnes next year

Q2 FY27 Xanthine volume was near 7,000 tonnes against a 9,600-tonne nameplate. Management guides 7,500-8,000 tonnes next year and about 90% utilisation over two years, while saying full utilisation is not planned.

4. Xanthine revenue reaches ₹1,400-1,500 crore if high prices persist

If prices remain high, management expects Xanthine revenue of ₹1,400-1,500 crore at full capacity. Q2 realisations were up 10-15% YoY and volumes were guided up about 15% for the year, though spot prices were under pressure while pharma and beverage prices were steadier.

5. API holds ₹180-200 crore quarterly base and crosses FY2025 sales

Q2 FY27 API and intermediate revenue was about ₹180 crore. Management guided ₹180-200 crore as the quarterly base for H2 FY27 and targets crossing the FY2025 API number this year, helped by the completed steroid expansion and anti-cancer debottlenecking.

6. Atali Block 2 commercialisation in H2 FY28 provides ₹1,000 crore CDMO capacity

Groundbreaking for Block 2 is done and commercialisation is targeted for H2 FY28. Management says the dedicated block should give enough capacity for the ₹1,000 crore CDMO revenue ambition, with more blocks needed only if project visibility expands.

7. Atali Phase 1 capitalisation and full utilisation in H2 FY27

Atali Phase 1 is complete; the 1B line was in trial batches in Q2 FY27, capitalisation is targeted for Q3 FY27, and management expects full Atali utilisation in H2 FY27. That would put the site behind CDMO and intermediate sales rather than only cost absorption.

8. Steroid expansion and anti-cancer debottlenecking support API mix

The steroid block expansion is complete and started contributing in Q2 FY27. Anti-cancer Block 3 debottlenecking is underway, with management expecting both volume and new products to drive 10-15% annual API growth over 3-4 years.

9. Peptide lab adds a new modality option

The peptide lab is targeted to be operational by end-FY27 with equipment in place. Management hopes to start customer business in FY28 and is exploring oligonucleotides and ADC linkers, though no revenue guidance was given and only one or two liquid-phase peptide projects are in the current book.

10. H2 EBITDA percentage can improve as CDMO mix rises

Q2 EBITDA margin was 22.2% even with elevated raw material costs. Management said Q3/Q4 EBITDA percentage can improve with higher CDMO sales and that absolute gross margin should keep increasing, while flagging that annual margin depends on raw material prices and mix.

INVESTMENT THESIS

Aarti Pharmalabs is an operating-leverage story built on three businesses with different economics. Xanthine derivatives, mainly caffeine and allied chemistry, serve beverage and pharmaceutical customers and were 50% of Q2 FY27 turnover. API and intermediates serve generic and regulated markets and were 30%. CDMO/CMO serves innovators on late-stage small molecules and was 13%. The company is trying to make CDMO the growth engine while using Xanthine cash flow and a widened API portfolio to carry fixed costs. Q2 FY27 showed the operating leverage can work: standalone revenue rose 47% to ₹613 crore, EBITDA rose 84% to ₹136 crore, PAT rose 2.75x to ₹66 crore, and EBITDA margin expanded to 22.2% from 17.7% (Q2 FY27 concall, 29 Oct 2026). The question is whether that is a durable inflection or a strong quarter helped by a low base and a favourable mix.

The economics are strongest in CDMO. Management has said CDMO is the highest-margin segment, followed by Xanthine, then API. CDMO revenue scales through customer qualification and repeat commercial supply, and Q2 FY27 showed the book at 23 customers and 59 active projects, 39 commercial and 20 development, with sales almost double Q1. Management maintained FY27 CDMO growth of 40-50% and says 10-12 of about 60 projects should drive ₹700-800 crore of the ₹1,000 crore revenue potential. That concentration is both the mechanism and the risk: a small number of late-stage projects can move the segment by quarters. The target remains 100 million dollars or ₹1,000 crore, whichever comes first, but management now says timing can slip by a year, which is more honest than a fixed date and less useful as a near-term anchor.

Xanthine is the cash engine and the volume lever. The nameplate is 9,600 tonnes, current volume is near 7,000 tonnes, and management guides 7,500-8,000 tonnes next year with about 90% utilisation over two years, while saying full utilisation is not planned. The prepared remarks said full capacity by end-FY27, which conflicts with the Q&A; I treat the specific Q&A guidance as the better operating marker and flag the inconsistency. Realisations were up 10-15% year on year and volumes about 15% this year. If prices remain high, management expects ₹1,400-1,500 crore of Xanthine revenue at full capacity. The condition matters: spot prices were under pressure in Q2, while pharma and beverage prices were steadier and absolute margins were expected to hold at least through next financial year. The investment case does not need the high-price case to work; it needs the volume ramp and the pharma/beverage price base to hold.

API and intermediates are the recovery leg. FY2026 revenue fell to about ₹600 crore from roughly ₹700-770 crore as customers corrected inventory and generic prices eroded. Q2 FY27 revenue was about ₹180 crore, and management guided ₹180-200 crore as the quarterly base for H2, targeting a crossing of FY2025 sales this year. The steroid block expansion is complete and contributing, anti-cancer Block 3 debottlenecking is underway,

and the pipeline is 61 APIs with several patent expiries expected next financial year. Management also expects both volume and new products to drive 10-15% annual growth over 3-4 years. The caveat is that generic API prices remain deflationary and competition is both Chinese and Indian; the recovery is a mix and capacity story, not a pricing story.

The capital allocation is heavy but more clearly bounded. FY27 capex is guided at ₹350-400 crore. About ₹300 crore of CWIP is to be capitalised in Q3 FY27, with no further capitalisation beyond that expected this year, though some smaller projects spill into Q1 FY28. Atali Phase 1 is complete, 1B trial batches were running in Q2, and full utilisation is targeted in H2 FY27. Atali Block 2 has had its groundbreaking and is targeted for commercialisation in H2 FY28, with management saying the dedicated capacity should be enough for the ₹1,000 crore CDMO ambition. Finance cost is expected to stay broadly similar, but depreciation rises as assets are capitalised. Debt rose about ₹150 crore in H1, short-term borrowings were ₹650-660 crore, and management said more debt will be needed. Working capital was 165-167 days, with cash flow from operations around ₹30 crore against ₹270 crore of EBITDA in the period discussed. That is the capital-allocation test: the assets must earn before the next debt step-up.

Management delivery is mixed. CDMO guidance for FY26 was delivered at 32%, and the FY27 40-50% guide has been maintained. But Atali Phase 1 again slipped past the prior end-Q1 FY27 operational marker, and the Xanthine full-capacity message is internally inconsistent. The peptide lab is a real option but not yet a business: operational by end-FY27, customer business targeted FY28, no revenue guidance, and only one or two liquid-phase peptide projects in the current book. I would not underwrite peptide revenue in the 18-24 month window.

The earnings path over the next 18-24 months is a larger, more mixed business. On management guidance, CDMO grows 40-50% in FY27, Xanthine volume rises to 7,500-8,000 tonnes next year, API holds ₹180-200 crore per quarter and crosses FY2025 sales, and Q3/Q4 EBITDA percentage improves with CDMO mix. On my inference, consolidated revenue can move toward the high-₹2,000 crore range if those guides are met, but the margin outcome depends on raw material pass-through, the Xanthine spot price and the pace of Atali capitalisation. The single biggest falsifier is CDMO H2 execution: if the 40-50% guide is missed because 10-12 large projects slip, the mix benefit and the operating leverage both weaken. The second is Xanthine volume and price together: a 7,500-8,000 tonne year with weak spot prices can still leave segment revenue short of the ₹1,400-1,500 crore high-price case. The third is balance sheet: rising depreciation and debt against a 165-167 day working capital cycle can absorb the earnings improvement. The thesis is therefore not that Aarti is cheap or that the targets are guaranteed; it is that the physical capacity is now in place, the CDMO book has widened, and the next four quarters will show whether the assets earn.

RESEARCH REPORT

What Aarti Pharmalabs Limited does

Aarti Pharmalabs Limited (APL) is a pharmaceutical manufacturer that was demerged from Aarti Industries in FY2022-23 to give the pharma business its own management focus and capital structure (FY25 Annual Report). It makes Active Pharmaceutical Ingredients (APIs), advanced intermediates, Xanthine derivatives, and it runs a contract development and manufacturing (CDMO/CMO) business for global innovators. The company was incorporated in 2019 but traces its operating history back roughly 25 years, when it existed as the pharma division within Aarti Industries (FY25 Annual Report).

The business runs through three segments, and the mix shifts quarter to quarter. In Q2 FY27, Xanthine Derivatives & Allied Products were 50% of turnover, API and Intermediates 30%, CDMO/CMO 13%, and other sales 6% (Q2 FY27 concall, 29 Oct 2026).

Xanthine Derivatives & Allied Products. This is the largest and most visible business. APL manufactures caffeine, theophylline anhydrous, aminophylline and etofylline, which are used as stimulants in beverages and nutraceuticals and as bronchodilators in asthma medicines. It also makes allied specialty products like dimethyl sulphate, diethyl sulphate, sodium vinyl sulfonate and dimethyl urea, which sit upstream in the Xanthine value chain and also serve dyes, medicines and surfactants (FY25 Annual Report). The segment contributed 43.5% of FY2025 revenue and 43% of Q4 FY26 turnover (Q4 FY26 concall, Jun 2026). In Q4 FY26, APL posted its highest-ever quarterly Xanthine revenue of Rs.227 Crs, with 74% of volume going to beverage customers and 63% of sales exported (Q4 FY26 concall, Jun 2026). In Q2 FY27, Xanthine was 50% of turnover, with beverage/other volume at 62/38 and exports at 59% (Q2 FY27 concall, 29 Oct 2026).

API and Intermediates. APL develops and manufactures Highly Potent APIs (HPAPIs) including oncology, corticosteroid and cytotoxic products, as well as advanced intermediates - regulatory starting materials (RSM), key starting materials (KSM) and GMP intermediates - that feed both its own API production and external customers. The portfolio spans 55 commercialised APIs across therapeutic areas like cardiovascular, anti-asthmatic, anti-diabetic, CNS, dermatology and oncology, backed by 50 US Drug Master Files and 31 CEPs (FY25 Annual Report). The segment contributed 43.6% of FY2025 revenue, but this has been under pressure through FY2026, falling to 28% of Q4 FY26 turnover on the back of price erosion and customer inventory corrections (Q4 FY26 concall, Jun 2026). In Q2 FY27, API and intermediates were 30% of turnover, split 57% regulated, 33% ROW and 10% non-regulated; the quarterly run-rate was about ₹180 crore (Q2 FY27 concall, 29 Oct 2026).

CDMO/CMO Services. APL acts as a contract manufacturer for innovators and big pharma, offering route design, process development and commercial-scale manufacturing of drug

substances and new chemical entities. It works predominantly on late-stage molecules - Phase 3 and commercial - rather than early-phase research, which is a deliberate positioning that distinguishes it from many Indian peer CDMOs (Q4 FY26 concall, Jun 2026). As of FY2026 year-end, APL had 21 CDMO customers and 54 active projects, of which 35 were commercial and 19 in development (Q4 FY26 concall, Jun 2026). By Q2 FY27, the book had risen to 23 customers and 59 active projects, 39 commercial and 20 development; Q2 CDMO sales were almost double Q1 (Q2 FY27 concall, 29 Oct 2026). The segment contributed 12.9% of FY2025 revenue but grew 32% year-on-year in FY2026, and in Q4 FY26 it hit a record quarterly high of Rs.155 Crs, or 29% of turnover (Q4 FY26 concall, Jun 2026).

The manufacturing footprint consists of six units across Maharashtra and Gujarat, three of which are USFDA-approved. The Tarapur cluster handles Xanthine (Units III, V, VI) and APIs including dedicated anti-cancer and corticosteroid blocks (Unit IV), while the Vapi site runs the Custom Synthesis Division for intermediates and CDMO work (FY25 Annual Report). The Dombivali unit handles APIs, intermediates and CDMO. Three R&D centres sit at Nerul, Dombivali and Vapi, staffed by 110 scientists including 17 PhDs (FY25 Annual Report).

Two major expansion projects dominate the current capex programme. The first is the Atali greenfield multipurpose site in Gujarat, built to support CDMO and intermediate production. Phase 1 is complete; the commercial 1A line has been commissioned, the smaller 1B line was running trial batches in Q2 FY27, capitalisation is targeted in Q3 FY27, and full Atali utilisation is targeted in H2 FY27 (Q2 FY27 concall, 29 Oct 2026). The second is the Xanthine expansion. Capacity is now near 7,000 tonnes against a 9,600-tonne nameplate, with 7,500-8,000 tonnes guided for next year and about 90% utilisation targeted over two years (Q2 FY27 concall, 29 Oct 2026).

APL invested approximately Rs.400 Crs of capex in FY2026 and guides FY2027 capex at Rs.350-400 Crs. About Rs.300 Crs of CWIP is to be capitalised in Q3 FY27, with no further capitalisation beyond that expected this year; some smaller projects spill into Q1 FY28. Finance cost is expected to stay broadly similar, while depreciation rises; management said more debt will be needed for the remaining capex (Q2 FY27 concall, 29 Oct 2026). On the balance sheet, CRISIL upgraded its long-term bank loan rating to AA-/Stable in July 2025, and the FY25 Annual Report shows net debt to equity of 0.19x, a conservative position given the scale of the capex programme.

Q2 FY27 update (29 Oct 2026)

Q2 FY27 standalone revenue was ₹613 crore, up 47% YoY; EBITDA ₹136 crore, up 84%; PAT ₹66 crore, 2.75x; EBITDA margin 22.2%. Xanthine was 50% of turnover, API/intermediates 30%, CDMO/CMO 13% and other 6%. CDMO had 23 customers and 59 projects, 39 commercial and 20 development, and Q2 CDMO sales were almost double Q1; management maintained 40-50% FY27 CDMO growth. Xanthine was near 7,000 tonnes against a 9,600-

tonne nameplate, with 7,500-8,000 tonnes guided next year and about 90% utilisation over two years; the prepared full-capacity-by-end-FY27 line conflicts with that Q&A guide. API/intermediates ran at about ₹180 crore and were guided at ₹180-200 crore per quarter in H2. FY27 capex is ₹350-400 crore, about ₹300 crore of CWIP is to be capitalised in Q3 FY27, and management said more debt will be needed.

Business segments

Xanthine Derivatives & Allied Products

Aarti Pharmalabs is the largest Indian manufacturer of Xanthine derivatives and holds 15-20% of the global market, per the FY2025 annual report. The segment runs two dedicated sites: Tarapur Unit-3 for the drug compounds and Tarapur Unit-V for caffeine and allied intermediates. The core capability is backward integration at world scale. The company controls the raw material chain from sulphonation chemistry to finished caffeine, with minimal procurement dependence on China, which the annual report ties directly to the China+1 supply chain shift.

The product family: caffeine (cola and energy drinks, nutraceuticals, cosmetics), theophylline anhydrous (asthma bronchodilator), aminophylline and etofylline. Around the caffeine molecules sits a captive sulphonation platform - sulphuric acid, SO3, dimethyl sulphate, diethyl sulphate, sodium vinyl sulfonate and dimethyl urea - where dimethyl urea and dimethyl sulphate are themselves key starting ingredients for the xanthine chemistry. The sites carry Star Kosher, HACCP, Sedex SMETA 4-pillar and FSSC 22000 food-grade certifications, essential for the cola and energy drink majors that audit facilities before qualifying a supplier.

Buyers are global beverage majors, nutraceutical companies and pharma formulators. In Q4 FY26, 74% of segment volume went to beverages customers, with exports at 63% of segment sales. Management calls the customer base "marquee customers" and said in Q3 FY26 that around 50% of sales sit under quarterly and annual commitments. Qualifying both manufacturing sites with the large customers, management noted in Q2 FY26, improved both share and margin.

The competitive frame is China. Chinese manufacturers hold large Xanthine capacity and compete on price. Aarti's counter is India-based backward integration combined with food-grade compliance, stated plainly in Q1 FY26: the company positions itself as "the only backward integrated source independent of Chinese, from India who can offer them Xanthine products at a reasonable price." The geopolitical tailwind is structural. China has withdrawn a 13% export rebate on caffeine and its salts, and the US applies a 20% duty (25% against China) that caffeine from India avoids by sitting on the annexure exempt list. Management said in Q3 FY26 the rebate withdrawal could push prices up 8-10%, and spot prices had

already moved about 5% off the bottom. In Q4 FY26, management confirmed price increases were secured "particularly for the US market."

The cost side is rougher. Urea and methanol-derived raw materials roughly doubled during the Q4 FY26 West Asia crisis, with other inputs up 30-40%. Xanthine was able to pass part of the increase through to customers - management said they had "some success" pushing prices - the difference versus the API/intermediates segment, where competitive pricing blocks pass-through.

Capacity has climbed in stages. The prior 5,000-to-9,000 MTPA expansion is now described as a 9,600-tonne nameplate, with actual running capacity near 7,000 tonnes in Q2 FY27. Management guides 7,500-8,000 tonnes next year and about 90% utilisation over two years, while saying it does not plan full utilisation; the prepared remarks' reference to full capacity by end-FY27 conflicts with that Q&A clarification (Q2 FY27 concall, 29 Oct 2026). If prices remain high, management expects segment revenue of ₹1,400-1,500 crore at full capacity; the earlier ₹1,000 crore-plus target is a lower historical marker rather than the current high-price potential.

Xanthine is the group's cash engine: 43.5% of FY2025 revenue, contributing 50% of turnover in Q1 FY26, 51% in Q2, 49% in Q3 and 43% in Q4 as CDMO took share. Full-year FY2026 segment revenue was Rs. 792 crores, with Q4 FY26 at Rs. 227 crores, the highest quarterly figure ever recorded. In Q2 FY27, Xanthine was 50% of turnover; realisations were up 10-15% YoY and volumes were guided up about 15% for the year, with spot prices under pressure but pharma and beverage prices more stable (Q2 FY27 concall, 29 Oct 2026). The segment also funds the group: Rashesh Gogri noted in Q4 FY26 that the company self-funds capex from Xanthine cash flows, and the margin profile sits just below CDMO - "the margin profile in CDMO-CMO is the highest, followed by Xanthine and then API" (Q1 FY26).

On the expansion, management said in Q4 FY26:

> *"The Xanthine derivatives expansion is progressing as planned. With current capacity being 6,000 metric ton per annum and the incremental capacity will be available for production at the end of the current quarter and the ramp up to 9,000 metric ton per annum in next few quarters gradually will happen."*

And on the pricing setup, from Q3 FY26:

> *"With that rebate withdrawal, overall 13% benefit that is getting accrued to the Chinese manufacturers when they export the APL that will go away. And we are hoping that this will push the prices of the product up by at least 8% to 10% in future."*

Management now describes the expanded Xanthine position as the second-largest global capacity and does not plan further Xanthine expansion in the near term. The earnings trajectory hinges on price holding in pharma and beverages, spot pricing, and the guided 7,500-8,000 tonne next-year volume band (Q2 FY27 concall, 29 Oct 2026).

API and Intermediates

The API and Intermediates business develops and manufactures Highly Potent Active Pharmaceutical Ingredients (HPAPIs) in oncology, corticosteroids, and cytotoxic medicines, plus advanced intermediates sold as Regulatory Starting Materials (RSMs), Key Starting Materials (KSMs), and GMP intermediates. The capability that took years to build is backward integration: the company produces its own key intermediates for most APIs in-house, which gives control over quality and supply and lowers cost (FY2025 Annual Report). Three manufacturing units carry USFDA approval, and the multi-purpose reactor capacity of 1,100+ KL is shared with the CDMO business.

The product portfolio spans cardiovascular, anti-asthmatic, anti-cancer, ophthalmology, anti-diabetic, CNS agents, dermatology, overactive bladder, calcimimetic, decongestant, anti-thalassaemic, and analgesic segments (FY2025 Annual Report). As of FY2025, Aarti Pharmalabs had commercialised 55 APIs, held 50 US DMF approvals and 31 CEP approvals in the EU, and had 11 new APIs in development across R&D and validation stages. The current API pipeline is 61 products; management expects several patent expiries next financial year and is also pursuing alternate vendor development on existing products (Q2 FY27 concall, 29 Oct 2026). A dedicated steroid block at Tarapur Unit-4 was recently debottlenecked, raising capacity by about one-third, with similar brownfield expansions planned for the anti-cancer blocks in FY2027 (Q4 FY26 concall, Jun 2026).

Customers are generic pharmaceutical manufacturers in regulated and semi-regulated markets, primarily in the US, EU, and Japan. They buy for three documented reasons: full regulatory documentation (USDMF, CEP), IPR support for global markets, and supply security that does not depend on China (FY2025 Annual Report). Management has repeatedly said the complex APIs it targets are ones where Chinese suppliers have limited presence (Q1 FY26 concall, Aug 2025). The business model is launch-driven: revenue spikes when a partner gets a product approved, then compresses in year two as more players enter and customers correct inventory built ahead of launch (Q2 FY26 concall, Nov 2025).

The competitive reality inside this segment is that generic API prices only move one direction. On the Q3 FY26 call, Chairman Rashesh Gogri put it bluntly:

> *"See, generic API business, the prices never increase. They always go down only. Ultimately, the game has to be played where you increase the capacity."*

That is why the growth plan is capacity-led: debottlenecking, new block validations, and moving intermediate manufacturing to the new Atali site so existing plants can take more commercial work (Q3 FY26 concall, Feb 2026). Chinese manufacturers remain the reference for cost competition wherever Aarti competes for commodity volumes, but the company's exposure is tilted toward regulated-market launches where China has less presence.

The segment shares its manufacturing footprint with CDMO/CMO, and this creates an explicit trade-off. When CDMO orders need the plant, intermediate production gets cut; management said this fungibility was a direct reason for the soft API/Intermediates numbers in FY2026 (Q2 FY26 concall, Nov 2025). The Atali greenfield site (about 450 crore total capex, Phase 1 at 440 kL) is the structural fix: it will absorb intermediates and CDMO work, freeing the older Vapi and Tarapur sites for higher-volume standard API production (Q1 and Q3 FY26 concalls).

Revenue contribution has been disclosed across quarters with different sub-mixes. For FY2025, API and Intermediates was 43.6% of revenue (FY2025 Annual Report). In Q4 FY2026 it was 28% of turnover, split 53% regulated markets, 30% rest-of-world, 17% non-regulated (Q4 FY26 concall, Jun 2026). In Q2 FY27 it was 30% of turnover, split 57% regulated, 33% ROW and 10% non-regulated; the quarterly run-rate was about ₹180 crore (Q2 FY27 concall, 29 Oct 2026).

FY2026 was a weak year: the segment fell from roughly 700-772 crore in FY2025 to about 600 crore, driven by price erosion, customers holding inventory, and capacity diverted to CDMO (Q4 FY26 concall, Jun 2026). Q2 FY27 API and intermediate revenue was about ₹180 crore, and management guided ₹180-200 crore as the quarterly base for H2 FY27, targeting a crossing of the FY2025 API number this year (Q2 FY27 concall, 29 Oct 2026). Management's earlier target remains:

> *"We will be able to surpass the FY2025 numbers of API / Intermediates."*

The recovery drivers cited are the debottlenecked steroid capacity, oncology launches and validations in 2026-2027, and new APIs coming off patent in the 2027-2028 window (Q3 and Q4 FY26 concalls). The Q2 FY27 call kept the aspiration but qualified it: API growth is expected to be both volume and new-product led, with 10-15% annual growth over 3-4 years, and management said it will have to see how this year goes (Q2 FY27 concall, 29 Oct 2026).

CDMO/CMO Services

Aarti Pharmalabs runs contract development and manufacturing for drug innovators: route design, process development, scale-up, and commercial supply of small-molecule drug substances. The segment covers KSMs, RSMs, GMP intermediates, and APIs for New

Chemical Entities from early clinical phases through launch. What took years to build is the manufacturing core: cryogenic reactors down to -80°C, hydrogenation from 0.1 to 10 KL reactor scale, cyanation, flow chemistry, and dedicated anti-cancer and corticosteroid blocks with HPAPI handling capability, per the FY25 annual report. The segment made 12.9% of FY2025 revenue (annual report, FY2025), and grew to 29% of Q4 FY26 turnover with the highest-ever quarterly revenue of Rs. 155 crore (Q4 FY26 concall, Jun 2026). In Q2 FY27, CDMO was 13% of turnover, with 23 customers and 59 active projects; Q2 CDMO sales were almost double Q1 (Q2 FY27 concall, 29 Oct 2026).

The business model is deliberately late-stage. Management stated that nearly all CDMO revenue came from Phase 3 and commercial molecules, with capacity reserved for molecules that have cleared approval risk (Q4 FY26 concall, Jun 2026). This is a different stance from most Indian CDMOs, which take on early-phase work to build pipelines. Aarti Pharmalabs waits until a customer's product has regulatory visibility, then commits dedicated manufacturing capacity to it. The trade-off is lumpiness: in Q3 FY26, Rs. 49 crore of shipped goods sat in transit because the customer's incoterm (DAP) delayed revenue recognition (Q3 FY26 concall, Feb 2026).

Customers are 23 global innovators, large pharma, and biotech companies working across 59 active projects, of which 39 are commercial and 20 in development as of Q2 FY27 (Q2 FY27 concall, 29 Oct 2026). The count was 21 customers and 54 projects at FY2026 year-end (Q4 FY26 concall, Jun 2026). Management attributes earlier stagnation to 2025 tariff uncertainty stalling new sourcing decisions, and the Q2 FY27 book shows the count has started to rise (Q2 FY27 concall, 29 Oct 2026). Customers buy for four reasons management has stated: the ability to scale up from kilo lab to commercial volumes, backward integration that cuts China dependence in the supply chain, chemistry strength in complex reactions, and the financial capacity to self-fund dedicated assets. On many projects Aarti is a secondary source being qualified as an extra supplier; management said a typical entry share is 20-25% that can rise to 50% (Q1 FY26 concall, Aug 2025).

The revenue is concentrated. Management said 10-12 of about 60 projects should drive ₹700-800 crore of the ₹1,000 crore CDMO potential, preserving the 80/20 rule; the pipeline also churns as clinical failures drop out (Q2 FY27 concall, 29 Oct 2026). Roughly 50% of the business runs on quarterly or annual committed contracts (Q3 FY26 concall, Feb 2026). The annual report positions the company "amongst the leading Small molecule CDMO/CMO companies in India" and notes CDMO sales grew from Rs. 32 crore in FY21-22 to Rs. 208 crore in FY24-25, then Rs. 276 crore in FY26 (Q4 FY26 concall, Jun 2026).

Competition is not named in the filings, but management compares the model to "all the larger CDMOs" who move commercialized products into dedicated blocks with 5-10 year visibility (Q4 FY26 concall, Jun 2026). Aarti Pharmalabs is doing the same: Block 2 at Atali

has had its groundbreaking, commercialisation is targeted for H2 FY28, and management says the dedicated capacity should be enough for the ₹1,000 crore CDMO revenue ambition, with more blocks needed only if project visibility expands (Q2 FY27 concall, 29 Oct 2026). Aarti is building a US-based business development person and already has one in Europe (Q2 FY26 concall, Nov 2025).

The segment is structurally the company's highest-margin business, followed by Xanthine, then API (Q1 FY26 concall, Aug 2025). It shares fungible plant capacity with the API-Intermediates business, which occasionally causes intermediate sales to be cut in favor of CDMO orders - management said CDMO projects "get priority over sometimes the intermediate business" (Q2 FY26 concall, Nov 2025). The Atali site serves CDMO and intermediates, and after early startup hiccups management now says Phase 1 is complete, 1B trials are underway, capitalisation is targeted in Q3 FY27, and full Atali utilisation is targeted in H2 FY27 (Q2 FY27 concall, 29 Oct 2026).

The growth path is explicit. FY2026 saw 32% Y-o-Y CDMO growth, and FY2027 guidance is 40-50% growth, reaffirmed on the Q2 FY27 call, with CDMO leading all segments and H2 weighted. The stated target remains USD 100 million or ₹1,000 crore, whichever comes first, but management now says timing can slip by a year (Q2 FY27 concall, 29 Oct 2026):

> *"In 3-4 years, we want all segments to grow up to USD 100 million or Rs. 1,000 crore, whichever reaches faster, so that is what the target is."*
>
> **RASHESH GOGRI, CHAIRMAN, Q1 FY26 CONCALL (AUG 2025)**

Two newer moves will extend the capability set. Management is setting up a peptide lab, targeted operational by end-FY27 with equipment in place; it hopes to start customer business in FY28 but gave no revenue guidance and said only one or two liquid-phase peptide projects are in the current development book (Q2 FY27 concall, 29 Oct 2026). The Atali ramp frees existing capacity at Vapi for more projects, and management links the rising CDMO project count to that capacity.

Customers

APL sells into three distinct customer universes, each with different buying behaviour and economics.

Beverage and nutraceutical companies are the anchor customers for the Xanthine business. In Q2 FY27, 62% of Xanthine volume went to beverages and 38% to others, with exports at 59% of segment sales (Q2 FY27 concall, 29 Oct 2026). The prior Q4 FY26 split was 74% beverages (Q4 FY26 concall, Jun 2026). These are large global cola and energy drink manufacturers that demand food-grade certifications - FSSC 22000, Kosher, Halal, and approvals from bodies like USFDA and EUGMP for the pharma-grade caffeine - and they

typically lock in annual or quarterly supply commitments (FY25 Annual Report; Q3 FY26 concall, Feb 2026). Management noted that roughly 50% of Xanthine business is under committed quarterly or annual contracts, with the balance sold in the spot market where it competes directly against Chinese producers (Q3 FY26 concall, Feb 2026).

Generic pharmaceutical companies buy the API and intermediate portfolio. The split in Q2 FY27 was 57% regulated market customers, 33% ROW, and 10% non-regulated (Q2 FY27 concall, 29 Oct 2026). These buyers value the backward integration, regulatory documentation and reliable supply that APL offers, particularly for complex molecules like steroids and oncology products where China dependence is a concern. The buying pattern is campaign-driven - customers place large orders once or twice a year for certain products - which makes quarterly revenue lumpy (Q4 FY26 concall, Jun 2026).

Innovators and CDMO partners are the contract manufacturing customers. The company works with 23 customers on 59 active projects, 39 commercial and 20 development, as of Q2 FY27 (Q2 FY27 concall, 29 Oct 2026). This is a concentrated book: 10-12 projects are expected to drive ₹700-800 crore of the ₹1,000 crore potential (Q2 FY27 concall, 29 Oct 2026). Management has described orders in single-digit millions of dollars per project, and noted that it sometimes serves as the primary source and sometimes as a secondary or tertiary source for a given product, since innovators typically maintain 2-3 qualified suppliers for supply chain security (Q3 FY26 concall, Feb 2026).

> *"we are working with 21 customers and the number of active projects is 54 out of which 35 projects are in the commercial stage and 19 are under different stages of development both at customer ends."*
>
> **CHAIRMAN, Q4 FY26 CONCALL (JUN 2026)**

The switching costs in the CDMO business are high. Once APL is qualified as an approved source through customer audits and regulatory filings, the innovator does not easily replace it, which creates multi-year revenue visibility. But qualification takes time: the company spent much of FY2026 validating products at Atali, and customers audit the site before volumes flow. This is why CDMO revenue is lumpy and why management consistently avoids quarterly guidance for the segment.

Geographically, APL is an export business. FY2025 exports accounted for 52% of total revenue, and in Q2 FY27 exports were 59% of sales (FY25 Annual Report; Q2 FY27 concall, 29 Oct 2026). Primary markets are the US, EU and Japan, and the company sells to more than 500 clients across ~50-64 countries (FY25 Annual Report; Q1 FY26 concall, Aug 2025). US exposure is relatively modest at roughly 8-10% of sales, and pharma and caffeine sit on the US tariff exempt list, so tariff policy has not directly hurt the business (Q1 FY26 concall, Aug 2025).

Competitive landscape

Xanthine derivatives. This is the most competitive battleground, and the competition is Chinese. Chinese manufacturers hold large caffeine capacity and historically benefited from export rebates and lower raw material costs. APL's position as India's largest Xanthine producer with 15-20% global market share is built on backward integration (minimal Chinese raw material dependence), world-scale capacity, and food-grade certifications that gate access to beverage majors (FY25 Annual Report). The competitive dynamics shifted in APL's favour during FY2026 in three ways: China announced withdrawal of its 13% export rebate on caffeine and its salts, US tariffs of 20-25% hit Chinese product while caffeine sits on the exempt annexure list, and the Middle East conflict pushed up raw material costs more for Chinese producers reliant on imported feedstock (Q3 FY26 concall, Feb 2026). By Q2 FY27, management described the expanded position as the second-largest global capacity, with no further expansion planned for now; spot prices were under pressure, while pharma and beverage prices were steadier and absolute margins were expected to hold at least through next financial year (Q2 FY27 concall, 29 Oct 2026).

CDMO/CMO. India's CRDMO industry is crowded and growing fast, with many Indian players chasing the same global innovators and the China+1 shift. APL competes on a specific basis: it positions itself as a manufacturing specialist with large multipurpose capacity, deep process chemistry (cyanation, flow chemistry, cryogenic reactions, hydrogenation, HPAPI handling), and late-stage focus. Unlike many peers that take early-phase molecules and grow with them, APL concentrates on Phase 3 and commercial-stage products, which means it can win projects where the innovator needs rapid scale-up and reliable commercial supply rather than research services (Q2 FY26 concall, Nov 2025; Q4 FY26 concall, Jun 2026). The trade-off is that APL's pipeline is smaller in project count than R&D-led peers, and its revenue is lumpy because it depends on innovator launch timing and product success.

Generic APIs. The generic API market is characterised by continuous price erosion - "the prices never increase, they always go down only" per management (Q3 FY26 concall, Feb 2026). Competition intensifies in the second year after a launch as more players qualify. APL's defence is a broad portfolio of 55+ commercialised APIs, backward integration into the intermediates, and regulatory moats (USDMFs, CEPs) that gate entry. The FY2026 API results showed the vulnerability: revenue degrew because customers who bought 1.5 years of inventory during launch-year stocking paused purchases, and competitors entered (Q2 FY26 concall, Nov 2025). In Q2 FY27, API growth was largely volume-led; management expects both volume and new products to drive 10-15% annual growth over 3-4 years and is targeting a crossing of the FY2025 API sales level this year (Q2 FY27 concall, 29 Oct 2026).

Where APL wins, it wins on manufacturing credibility: regulated-market approvals, a track record of reliable supply, backward integration that reduces China exposure for its

customers, and the financial strength to self-fund capacity ahead of demand. Where it can lose, it loses on price in commoditised products and on timing in CDMO when projects slip.

Industry

The global pharmaceutical market reached US$1,646 billion in 2024 and is projected to grow to US$2,350 billion by 2030, a CAGR of 6.1% (FY25 Annual Report, citing industry research). Growth drivers include an ageing population, rising chronic disease prevalence, patent expiries opening generic markets, and the shift toward contract manufacturing as innovator companies move to asset-light models.

India's position in this system is structural. India is the world's largest supplier of generic drugs, accounting for 20% of global generic supply, and pharmaceutical exports stood at Rs.2,19,439 Crs in FY2023-24 (FY25 Annual Report). The Indian API market was valued at US$17.77 billion in 2024 and is projected to reach US$38.60 billion by 2033, growing at 8.1% CAGR (FY25 Annual Report). The Indian CRDMO industry holds just 2-3% of a global market valued at over US$140 billion in 2024, but grew at roughly 15% during 2019-2024, double the global rate, and is projected to reach US$25 billion by 2035 (FY25 Annual Report).

Three structural forces shape the demand environment APL operates in.

Patent expiries. More than 1,000 chemical patent expiries are anticipated over the next 7-8 years, and 130 drug patents valued at approximately US$180 billion are expected to expire in the next seven years (FY25 Annual Report). Each expiry opens a generic market where API suppliers like APL compete for a share of the volume. The quality of the pipeline matters more than the count: APL's management notes it has several billion-dollar-plus molecules approaching expiry where capturing even 10-20% market share would be meaningful (Q1 FY26 concall, Aug 2025).

China+1 and trade policy. The US-China trade tensions have created tailwinds for Indian API and Xanthine suppliers. Chinese caffeine exports face US tariffs of 20-25% while Indian product sits on the exempt annexure list, and China's withdrawal of its 13% export rebate on caffeine removes a cost advantage (Q3 FY26 concall, Feb 2026). The same dynamic drives CDMO customers to diversify supply chains away from China, which is why APL says "there was a lot of traction towards moving away from China because of the US customers wanting the products to be coming from a differentiated geography" (Q4 FY26 concall, Jun 2026). The risk is that US tariff policy on pharma is still being shaped, and management has flagged that a hypothetical broad tariff on APIs would have some impact even if the current exemptions hold.

Cost inflation and geopolitics. The Middle East conflict raised feedstock prices (urea, methanol derivatives roughly doubled) and logistics costs, squeezing margins particularly in

the API/intermediate segment where competitive pricing limits pass-through (Q4 FY26 concall, Jun 2026). APL had partial success passing costs in its Xanthine and CDMO businesses but acknowledged the API segment operates in a cost-competitive environment where the company must absorb some input inflation. Rupee depreciation has also created recurring notional forex losses on APL's foreign-currency loans, which management accepts as a deliberate unhedged strategy given the extent of exports (Q2 FY26 concall, Nov 2025).

Regulation defines the business. Manufacturing sites require USFDA, EUGMP, EDQM, KFDA, and COFEPRIS accreditations to sell into regulated markets, and each product needs filings like USDMFs and CEPs (FY25 Annual Report). These approvals take years and constitute both a barrier to entry for competitors and a switching cost for customers. The industry is also cyclical in a specific way: demand for a given product spikes at launch, normalises after inventory corrections, and then follows the generic adoption curve (Q2 FY26 concall, Nov 2025). Management guides growth over three-year windows and on the Q2 FY27 call reiterated that three-year framework while declining to give a pointed FY27 or FY28 upgrade; CDMO/CMO growth guidance remains 40-50% for FY2027 (Q2 FY27 concall, 29 Oct 2026).

Growth triggers

Atali Phase 1 capitalisation shifts to Q3 FY27; Block 2 groundbreaking done with commercialisation targeted H2 FY28

Atali is Aarti's greenfield multipurpose site for CDMO and intermediates. Phase 1 is complete; the commercial 1A line has been commissioned and the smaller 1B line was in trial batches in Q2 FY27, with capitalisation of about ₹300 crore of CWIP targeted in Q3 FY27. Management expects the Atali asset to be fully utilised in H2 FY27 (Q2 FY27 concall, 29 Oct 2026).

The plant was inaugurated in September 2025 (Q2 FY26 concall, Nov 2025), produced qualifying batches in Q3, and hit startup hiccups that pushed back the production plan. By the Q3 FY26 call (Feb 2026), management said corrective actions were in place with resolution expected by end of that quarter. The Q4 FY26 call (May 2026) confirmed the recovery:

> *"Atali is now largely past 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."*
>
> **RASHESH GOGRI, CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

Customer audits at the site were cleared. By Q2 FY27, Phase 1 was complete, 1B trials were underway, capitalisation was targeted for Q3 FY27, and full Atali utilisation was targeted for H2 FY27 (Q2 FY27 concall, 29 Oct 2026).

The second half of the trigger is the dedicated CDMO block. Groundbreaking is complete and management targets commercialisation in H2 FY28; the block is intended to provide enough capacity for the ₹1,000 crore CDMO revenue ambition, with more blocks needed only if project visibility expands (Q2 FY27 concall, 29 Oct 2026).

> *"...depending on how we configure this, it can have potential of close to Rs.250 Crores to Rs.300 Crores topline also from a single block."*
>
> **RASHESH GOGRI, CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

This block fits the company's stated strategy: as projects clear Phase-3 and launch, they move from the multipurpose block to dedicated assets with 5-10 year customer visibility, freeing multipurpose capacity for newer pipeline projects. The Q2 FY27 call gives the timeline as H2 FY28 and says the dedicated capacity is enough for the ₹1,000 crore target. Atali is the capacity engine behind the CDMO segment's guided FY2027 sales growth of 40-50%.

Xanthine capacity expansion from 6,000 to 9,000 MTPA: incremental capacity to be available at end of current quarter, ramp-up over next few quarters

Xanthine runs near 7,000 tonnes against a 9,600-tonne nameplate; 7,500-8,000 tonnes guided next year, with about 90% utilisation targeted over two years

Aarti's Xanthine nameplate is 9,600 tonnes. In Q2 FY27 it was running near 7,000 tonnes; management guides 7,500-8,000 tonnes next year and about 90% utilisation over two years, and said it does not plan full utilisation. The prepared remarks said full capacity by end-FY27, which conflicts with the Q&A clarification (Q2 FY27 concall, 29 Oct 2026).

> *"with the higher capacities will come, we will have to go after more spot market, where of course, we have to fight with our competitor and get that volume. That is where definitely the top line growth will come."*
>
> **RASHESH GOGRI, CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

The pricing side is mixed. Management said Xanthine realisations were up 10-15% year on year and volumes were guided up about 15% for the year, but spot prices were under pressure while pharma and beverage prices were more stable; absolute margins were expected to hold at least through next financial year (Q2 FY27 concall, 29 Oct 2026). The earlier 8-10% price expectation from China's rebate withdrawal is a historical marker rather than a current commitment.

Pricing and margin dynamics. Xanthine pricing had compressed in prior years due to Chinese oversupply. The Q1 FY26 call confirmed prices had stabilized. The management has said it can hold "per kg margin" targets across products while using the expanded capacity to capture spot volumes. The segment was already the company's largest revenue contributor:

43% of Q4 FY26 turnover at Rs. 227 crores of quarterly sales, with 74% of volumes going to beverage customers. In Q2 FY27, Xanthine was 50% of turnover, with 62% of volume to beverages and 59% exports (Q2 FY27 concall, 29 Oct 2026).

Where it stands today. On the Q2 FY27 call, management put current Xanthine volume near 7,000 tonnes, guided 7,500-8,000 tonnes next year and about 90% utilisation over two years, and said full utilisation is not planned. The earlier 9,000 MTPA and end-Q1 availability markers are historical (Q2 FY27 concall, 29 Oct 2026). This is a brownfield project, so in contrast to Atali, management does not expect the same cost problems:

> *"the second CAPEX is brownfield. And in brownfield, I think the cost will not go up as much. So, we will have an advantage that with the higher capacity also, costs remain low."*
>
> **RASHESH GOGRI, CHAIRMAN, Q1 FY26 CONCALL (AUG 2025)**

Revenue potential. Management's current high-price expectation is ₹1,400-1,500 crore of Xanthine revenue at full capacity, conditional on prices remaining high; the earlier ₹1,000 crore-plus target is a lower historical marker. The company describes the expanded position as the second-largest global Xanthine capacity and does not plan further expansion for now (Q2 FY27 concall, 29 Oct 2026). The expansion runs on debottlenecking that already lifted the base rate from 5,000 to 6,000 MTPA, so the ramp has a track record of execution.

CDMO/CMO 40-50% FY27 growth reaffirmed; 23 customers and 59 projects support the USD 100 million / ₹1,000 crore target

Management reaffirmed CDMO/CMO growth of 40-50% for FY2027 on the Q2 FY27 call, following 32% growth in FY2026. Q2 CDMO sales were almost double Q1, and management expects H2 to carry more CDMO revenue (Q2 FY27 concall, 29 Oct 2026).

> *"For immediate FY2027, we expect the CDMO/CMO business to lead the growth with a projected sales growth of 40% to 50% per annum."*
>
> **RASHESH GOGRI, CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

Active projects were 59 as of Q2 FY27, with 39 commercial and 20 development across 23 customers (Q2 FY27 concall, 29 Oct 2026). Management said 10-12 of about 60 projects should drive ₹700-800 crore of the ₹1,000 crore CDMO potential (Q2 FY27 concall, 29 Oct 2026).

The capacity to serve that growth is Atali. Phase 1 is complete, 1B trial batches were running in Q2 FY27, capitalisation is targeted for Q3 FY27, and full Atali utilisation is targeted for H2 FY27 (Q2 FY27 concall, 29 Oct 2026). A dedicated block, Block 2, has had its groundbreaking and is targeted for commercialisation in H2 FY28 (Q2 FY27 concall, 29 Oct 2026).

The stated destination is USD 100 million in segment revenue:

> *"in 3-4 years, we want all segments to grow up to USD 100 million or Rs. 1,000 crore, whichever reaches faster, so that is what the target is."*
>
> **RASHESH GOGRI, CHAIRMAN, Q1 FY26 CONCALL (AUG 2025)**

Management frames this as dependent on customer launch execution - approvals, market penetration, and how fast the innovator partners scale each drug after launch (Q3 FY26 concall, Feb 2026). The company's role is supplying the approved GMP intermediates and APIs, with qualified status as a source creating multi-year visibility once a product reaches commercial stage.

Atali Block 2 groundbreaking done; commercialisation targeted H2 FY28 and capacity sized for ₹1,000 crore CDMO

Management has started Block 2 at Atali, separate from the existing multipurpose Phase 1. It is intended for late-stage CDMO projects and is targeted to commercialise in H2 FY28. Management says the dedicated capacity should be enough for the ₹1,000 crore CDMO revenue ambition, with additional blocks only if project visibility expands (Q2 FY27 concall, 29 Oct 2026).

> *"depending on how we configure this, it can have potential of close to Rs.250 Crores to Rs.300 Crores topline also from a single block."*
>
> **RASHESH GOGRI, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is capacity discipline. Management says newer blocks are guided at 1.2-1.4x asset turns, while the total Atali greenfield carries lower turns because it includes central utilities, warehouse and land development (Q2 FY27 concall, 29 Oct 2026). Commercial-stage products move into dedicated assets, freeing multipurpose capacity for newer pipeline projects.

Block 2 is no longer at preliminary design: groundbreaking is done and commercialisation is targeted for H2 FY28. It sits within the broader ₹350-400 crore FY27 capex programme, and management said more debt will be needed for the remaining spend (Q2 FY27 concall, 29 Oct 2026).

In FY2026 CDMO/CMO grew 32%; Q2 FY27 sales were almost double Q1, and FY2027 growth is guided at 40-50%. Management says 10-12 projects should drive ₹700-800 crore of the ₹1,000 crore potential, with Block 2 the next capacity step after Phase 1 (Q2 FY27 concall, 29 Oct 2026).

API & Intermediates targets crossing FY2025 sales in FY27; Q2 run-rate ₹180 crore, H2 base guided at ₹180-200 crore

API & Intermediates is the business that dragged Aarti Pharmalabs down in FY2026. Full-year revenue was around Rs.600 crores versus the prior year's record (the analyst on the Q4 FY26 call put FY2025 at Rs.770 crores; Rashesh Gogri said "I think it was 700"). Q2 FY27 revenue was about ₹180 crore and management guided ₹180-200 crore as the H2 quarterly base, with the segment targeted to cross the FY2025 level this year (Q2 FY27 concall, 29 Oct 2026). The softness came from customer inventory correction after big FY2025 launches, price erosion as more generic competitors entered, and fungible intermediate capacity deliberately routed toward higher-margin CDMO orders (Q1 FY26 concall, Aug 2025). The segment ended FY2026 at 28% of Q4 turnover, 53% from regulated markets.

For FY2027, management explicitly targets surpassing the FY2025 level, driven by three mechanisms. On the Q2 FY27 call it kept the target but said it will have to see how the year goes (Q2 FY27 concall, 29 Oct 2026).

Debottlenecked steroids. The steroid block expansion at Tarapur Unit-4 is complete and started contributing to production and revenue in Q2 FY27. Management said the Q1 block shutdown was over and steroid sales should be higher from Q2 onwards as the expanded capacity is used (Q2 FY27 concall, 29 Oct 2026). Demand exists and customers are already buying; the extra capacity converts directly into volumes.

New launches. APL has a 61-product API pipeline; management expects several patent expiries next financial year and is also pursuing alternate vendor development on existing products. Oncology, anti-diabetic, blood thinners, antihypertensives and steroid inhalation products are the named focus areas (Q2 FY27 concall, 29 Oct 2026).

Anti-cancer debottlenecking. Debottlenecking of the anti-cancer Block 3 at Tarapur is underway; management says it will add capacity for more APIs depending on product mix (Q2 FY27 concall, 29 Oct 2026).

> *"We will be able to surpass the FY2025 numbers of API / Intermediates."*
>
> **RASHESH GOGRI, Q4 FY26 CONCALL (MAY 2026)**

Management kept the FY2027 target to cross FY2025 API sales but qualified it: Q2 was about ₹180 crore, H2 base is ₹180-200 crore per quarter, and growth over 3-4 years is guided at 10-15% with both volume and new products (Q2 FY27 concall, 29 Oct 2026). The steroid debottleneck is complete, lifts are in progress across CY2026, and the FY2027 target is to top the ~Rs.700-770 crores FY2025 base from the ~Rs.600 crores FY2026 platform.

Steroid block expansion completed and contributing; anti-cancer Block 3 debottlenecking underway

The steroid block expansion at Tarapur Unit-4 is complete and started contributing to production and revenue in Q2 FY27. Management tied the API/intermediate recovery to that debottlenecking and the end of the Q1 block shutdown (Q2 FY27 concall, 29 Oct 2026). Debottlenecking is a brownfield move: it removes process constraints inside an existing plant rather than building new capacity, so the incremental volume lands on a fixed cost base and a regulatory infrastructure that is already paid for.

The mechanism flows straight into the API & Intermediates business, which de-grew in FY2026 to roughly Rs.600 crores from about Rs.700 crores the year before. In the Q&A, Rashesh Gogri tied the newly freed capacity directly to the FY2027 recovery:

> *"We operate in steroid space where we have recently de-bottlenecked our capacity by almost 30%. So that will also show some growth."*

He named the same exercise as one of the drivers for surpassing the FY2025 API revenue level in FY2027, alongside products getting patent protection expiry in the current financial year and customer launches in the US and Europe.

The next phase is the anti-cancer Block 3 debottlenecking at Tarapur, which management said is underway in Q2 FY27; the capacity addition depends on product mix (Q2 FY27 concall, 29 Oct 2026).

The capex wrapper for this is modest: management guides ₹350-400 crore of total capital spending for FY2027, with about ₹300 crore of CWIP to be capitalised in Q3 FY27 and more debt needed for the remaining spend (Q2 FY27 concall, 29 Oct 2026). Debottlenecking is one of several planned items alongside the Xanthine ramp and Block 2 at Atali. This trigger is best read as a capacity lever that supports the API business's guided return to growth without requiring a new greenfield commitment.

Peptide lab targeted operational by end-FY27; customer business targeted in FY28

Management is setting up a peptide lab. On the Q2 FY27 call it said the lab should be operational by end-FY27 with equipment in place, teams are being recruited, and customer business is targeted in FY28; no revenue guidance was given (Q2 FY27 concall, 29 Oct 2026).

> *"We have decided to invest in R&D of tides, that is peptides and oligonucleotides and this investment done in new R&D technologies will not yield immediate results, but has a good potential in the future and we would like to explore these newer technologies."*
>
> **CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

"Tides" are a different drug modality from the small molecules Aarti currently manufactures. Peptides are short amino-acid chains (used for metabolic and oncology drugs); oligonucleotides are short DNA/RNA polymers. Both require stepwise synthesis, not the classical organic chemistry Aarti's plants run today, so the capability has to be built from R&D before any manufacturing business can follow.

Management has said how it plans to enter. On the Q2 FY27 call it said only one or two liquid-phase peptide projects are in the current development book, with no major solid-phase project; it is also exploring oligonucleotides and ADC linkers (Q2 FY27 concall, 29 Oct 2026). It confirmed discussions were underway with innovators to position Aarti as a peptide CDMO partner. The FY25 annual report already listed peptide chemistry among the technologies being developed.

The trigger remains preparatory. Management said the lab is targeted for end-FY27 and customer business for FY28, with no numbers; only one or two liquid-phase peptide projects are in the current development book (Q2 FY27 concall, 29 Oct 2026). The mechanism to commercial value runs through Aarti's existing CDMO model: build R&D credibility, win a development project with an innovator, scale it through the existing late-phase pipeline and Atali capacity once the chemistry is proven. The FY25 annual report set the target explicitly: "we want all segments to grow up to USD 100 million or Rs. 1,000 crore" - the tides investment is one avenue toward that, placed in the same long-term bucket as the CDMO segment's growth.

Chinese rebate withdrawal remains a pricing lever, but spot Xanthine prices were under pressure in Q2 FY27

The trigger is a policy-driven price lever in Xanthine. China withdrew an export rebate on caffeine, and management previously expected 8-10% price support. In Q2 FY27 it said spot prices were under pressure while pharma and beverage prices were more stable, and absolute margins should hold at least through next financial year (Q2 FY27 concall, 29 Oct 2026).

The mechanism is straightforward: Chinese exporters lose a 13% cost advantage, which will force them to raise prices to maintain margins. Aarti's management expects this to lift market prices internationally, and has already observed an initial 5% increase in spot prices from the low point.

> *"With that rebate withdrawal, overall 13% benefit that is getting accrued to the Chinese manufacturers when they export the APL that will go away. And we are hoping that this will push the prices of the product up by at least 8% to 10% in future."*
>
> **RASHESH GOGRI, Q3 FY26 CONCALL (FEB 2026)**

The earlier 5% spot recovery and "bottomed out" comment are historical; the Q2 FY27 call no longer claimed broad spot price strength, saying only pharma and beverage prices were stable (Q2 FY27 concall, 29 Oct 2026).

The trigger's impact must be considered alongside Aarti's capacity position. The company is now running near 7,000 tonnes against a 9,600-tonne nameplate, with 7,500-8,000 tonnes guided next year and about 90% utilisation over two years. This means any price support applies to a larger volume base if it holds (Q2 FY27 concall, 29 Oct 2026). The segment set a record in Q4 FY26 with highest-ever quarterly revenue of Rs. 227 Crores, contributing 43% of total turnover (Q4 FY26 concall, May 2026).

Late-stage CDMO pipeline: 39 commercial + 20 development projects at Q2 FY27

At Q2 FY27 the book was 59 active projects, 39 commercial and 20 development, across 23 customers; the prior Q4 FY26 count was 54 projects, 35 commercial and 19 development (Q2 FY27 concall, 29 Oct 2026). Management calls the list "dynamic" - projects that fail to clear approval drop off, and new ones enter.

The mechanism is straightforward. Innovators hand Aarti the synthesis of a molecule during Phase 2/3 clinical work. When the drug gets approved and launched, Aarti becomes an approved source and purchase orders begin. The commercial count moved from 33 in Q1 FY26 to 39 in Q2 FY27, while the development count was 20; management says the pipeline churns as clinical failures drop out (Q2 FY27 concall, 29 Oct 2026). Management described it directly:

> *"we have actually shifted almost seven, eight products there. And which have resulted in basically launches or approvals which have come in this last couple of quarters."*
>
> **CHAIRMAN, Q2 FY26 CONCALL (NOV 2025)**

The revenue effect is visible. Full-year FY26 CDMO sales were Rs.276 Crs, up 32% Y-o-Y, with Q4 alone at Rs.155 Crs - the segment's highest-ever quarterly figure. In Q2 FY27, CDMO sales were almost double Q1 and management expects H2 CDMO revenue to be higher (Q2 FY27 concall, 29 Oct 2026). "Nearly all of our revenue came from phase 3 and commercial molecule reiterating our clear focus on late phase projects," said the Chairman (Q4 FY26 concall, May 2026).

The pipeline is what justifies the manufacturing build-out. Management is sizing Block 2 at Atali to support the ₹1,000 crore CDMO target, with 10-12 projects expected to drive ₹700-800 crore of that potential; FY27 CDMO growth is guided at 40-50% (Q2 FY27 concall, 29 Oct 2026).

61-product API pipeline; patent expiries next year and alternate vendor development support API recovery

The API & Intermediates segment fell from roughly Rs. 770 crores in FY2025 to Rs. 600 crores in FY2026, with management attributing the decline to inventory destocking and slower customer offtake after a strong launch year (Q4 FY26 concall, May 2026). Q2 FY27 revenue was about ₹180 crore and management guided ₹180-200 crore as the H2 quarterly base (Q2 FY27 concall, 29 Oct 2026). The recovery trigger is patent expiries landing in FY2027-28 across oncology and lifestyle therapies, where Aarti Pharmalabs has already spent years on regulatory filings and customer validation.

The mechanism works through the company's regulatory footprint and pipeline. Management now cites 61 API products, with several patent expiries expected next financial year, and is pursuing alternate vendor development on existing products (Q2 FY27 concall, 29 Oct 2026). When a patent expires, generic customers launch in regulated markets, and Aarti's approved filings make it a ready supplier. Management described the pipeline of expiring products as substantial:

> *"I see a lot of billion dollar plus products in our pipeline, multi-billion dollar products, which are going to expire. So we expect if we are able to get 10%-20% market share in these few of these products, we will be able to get a good growth in API."*
>
> **RASHESH GOGRI, Q1 FY26 CONCALL (AUG 2025)**

Management named oncology, anti-diabetic, blood thinners, antihypertensives and steroid inhalation as focus areas, and said anti-cancer Block 3 debottlenecking is underway (Q2 FY27 concall, 29 Oct 2026).

The stated goal is still to cross the FY2025 API sales level this year, with ₹180-200 crore as the H2 quarterly base; management said it will have to see how the year goes (Q2 FY27 concall, 29 Oct 2026).

Key risks

- **Raw material inflation and pass-through.** Management said raw material costs stayed elevated due to geopolitical turmoil and it is passing increases on in Xanthine and API, but Q2 gross margin still took a hit and EBITDA margin was 22.2%. It expects Q3/Q4 EBITDA percentage to improve with higher CDMO sales, but the outcome depends on raw material prices and mix (Q2 FY27 call, 29 Oct 2026).
- **Unhedged foreign currency loans create recurring P&L volatility.** For FY2026, the company reported a net forex loss of Rs.33 crores, of which about Rs.22 crores was a gain on export/import operations offset by roughly Rs.33 crores of notional loss on foreign currency loans. Management deliberately keeps these loans unhedged to save hedging

costs, which is a structural decision, not a one-off. In Q2 FY26 alone, the rupee's sharp depreciation caused a Rs.7.4 crore PAT hit. A continued depreciation trend will keep repeating this drag on reported PAT (Q4 FY26 call, June 2026; Q2 FY26 call, November 2025).

- **Capacity ramp costs absorb EBITDA before revenue catches up.** Atali Phase 1B trial batches are still running and capitalisation is targeted in Q3 FY27. Management said finance cost should stay similar but depreciation will rise as assets are capitalised, and operating expenses will recur in H2; it expects only about 1 percentage point of margin variation (Q2 FY27 call, 29 Oct 2026).
- **API segment price erosion is structural and recurring.** The API business fell to around Rs.600 crores in FY2026 from about Rs.770 crores in FY2025. Q2 FY27 revenue was about ₹180 crore and management guided ₹180-200 crore as the H2 base, targeting a crossing of FY2025 this year, but generic prices still only fall and competition is both Chinese and Indian (Q2 FY27 call, 29 Oct 2026).
- **CDMO revenue is lumpy and concentrated.** At Q2 FY27, 10-12 of about 60 projects are expected to drive ₹700-800 crore of the ₹1,000 crore potential. Q2 CDMO sales were almost double Q1, but management still expects H2 weighting and says timing can slip by a year. Single campaigns can occupy plants and shift revenue across quarters (Q2 FY27 call, 29 Oct 2026).
- **Tariff policy risk on US exports remains unresolved.** Currently, pharma APIs and caffeine sit on the US exempt list (Annexure 2), and US sales are only 8-10% of revenue, largely FOB contracts. But management acknowledged that if Section 232 tariffs were applied at 50%, there would be "some impact" even if indirect, because US-based customers buying from India ultimately sell into the US market. The risk is not current exposure but policy escalation that changes the competitive calculus for the CDMO and API businesses (Q1 FY26 call, August 2025).
- **Customer concentration in Xanthine and CDMO creates dependency.** Q2 FY27 Xanthine volume was 62% beverages and 38% others, with 59% exports; the CDMO book is 23 customers and 59 projects, with 10-12 projects expected to drive most of the ₹1,000 crore potential. A key customer's launch slip or product underperformance shifts revenue by quarters (Q2 FY27 call, 29 Oct 2026).
- **Working capital and debt rise as CDMO scales.** CDMO customers do not pay large advances, and inventory builds in H1 ahead of H2 deliveries. The working capital cycle was 165-167 days, cash flow from operations was about ₹30 crore against ₹270 crore of EBITDA in the period discussed, and short-term borrowings were ₹650-660 crore; debt

rose about ₹150 crore in H1 and management said more debt will be needed for capex (Q2 FY27 call, 29 Oct 2026).

Scenarios

Bull case

The Xanthine price and volume mix holds. Realisations stay 10-15% above last year, volumes grow about 15%, and the 9,600-tonne nameplate ramps to 7,500-8,000 tonnes next year and about 90% over two years; if prices remain high, segment revenue reaches ₹1,400-1,500 crore. Atali Phase 1 capitalisation lands in Q3 FY27 and the asset is fully utilised in H2 FY27. Block 2 commercialises in H2 FY28, supporting the ₹1,000 crore CDMO target, with 10-12 projects driving ₹700-800 crore. CDMO grows 40-50% in FY27 with H2 weighting. API holds ₹180-200 crore per quarter in H2 and crosses FY2025 sales. EBITDA margin improves in H2 as CDMO mix rises, and absolute gross margin increases even if raw material prices stay high.

Base case

The business executes its three-year growth framework but with quarterly lumpiness. Xanthine volume ramps to 7,500-8,000 tonnes next year and about 90% over two years, with spot prices under pressure and pharma/beverage prices stable; high-price revenue of ₹1,400-1,500 crore is not the base case unless prices cooperate. CDMO grows 40-50% in FY27 as guided, with H2 weighting and 10-12 projects driving most of the ₹1,000 crore potential. Atali Phase 1 is capitalised in Q3 FY27 and fully utilised in H2 FY27; Block 2 commercialises in H2 FY28. API holds ₹180-200 crore per quarter and crosses FY2025 sales. EBITDA margin improves in H2 but raw material prices and mix keep it near the Q2 level of 22.2%. Working capital stays around 165-167 days and debt rises to fund capex.

Bear case

The capacity ramp lands into softer prices. Xanthine spot prices stay weak, pharma and beverage prices do not offset, and the 7,500-8,000 tonne next-year volume misses, leaving the 9,600-tonne nameplate underutilised. Atali Phase 1B capitalisation slips beyond Q3 FY27 and full utilisation does not arrive in H2 FY27; Block 2 slips beyond H2 FY28, delaying the ₹1,000 crore CDMO capacity. CDMO growth falls below 40% because 10-12 large projects slip or development projects fail, and H2 weighting leaves the year short. API fails to hold ₹180-200 crore per quarter as Chinese and Indian competition erodes price. Working capital stays at 165-167 days, cash flow lags EBITDA, short-term borrowings rise above ₹650-660 crore and more debt is needed, while depreciation increases. EBITDA margin falls below 22% and the three-year growth framework is not met.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,819	2,530	2,875	3,260
Revenue growth	−14.0%	+39.1%	+13.6%	+13.4%
EBITDA (₹ Cr)	402	592	679	782
EBITDA margin	22.1%	23.4%	23.6%	24.0%
Depreciation (₹ Cr)	104	132	165	185
Interest (₹ Cr)	46.90	57.00	60.00	58.00
Other income (₹ Cr)	9.70	2.00	4.00	6.00
PBT (₹ Cr)	233	431	491	583
Tax (₹ Cr)	58.20	108	123	146
Tax rate	25.0%	25.0%	25.0%	25.0%
PAT (₹ Cr)	175	323	368	438
PAT growth	−35.9%	+85.1%	+13.8%	+18.9%
EPS (₹)	19.27	35.65	40.57	48.25
P/E	53.0x	28.6x	25.2x	21.2x
PEG	3.2x	1.8x	1.5x	1.3x

CAGR FY27E-FY29E: Revenue +13.5% · EBITDA +15.0% · PAT +16.3%

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Q2 FY27 concall notes

TLDR

Aarti Pharmalabs reported its highest-ever quarterly revenue of ₹613 crores in Q2 FY27, up 47% YoY from ₹417 crores, with EBITDA of ₹136 crores (+84% YoY) and PAT of ₹66 crores (2.75x the prior-year low base). EBITDA margin was 22.2% versus 17.7% a year earlier, compressed by a couple of percentage points from Q1 as raw material costs stayed elevated and were passed through. Xanthine and allied products contributed 50% of turnover, API and intermediates 30%, and CDMO/CMO 13% with 23 customers and 59 active projects (39 commercial, 20 development). Management maintains 40-50% CDMO growth for FY27, targets full xanthine capacity by end-FY27 with 7,500-8,000 MT next year, and expects H2 CDMO sales to lift margins. Watch points: xanthine spot pricing pressure, working capital at 150-167 days, and rising debt to fund ₹350-400 crores FY27 capex.

WHAT CHANGED SINCE Q1 FY27

- **Xanthine revenue guidance raised:** Q1 guided ₹900-1,100 crores for FY27; now expects ₹1,400-1,500 crores if prices stay high, with the caveat that falling raw material prices would lower the top line because of pass-through.
- **Xanthine capacity utilization guidance newly quantified:** Q1 said >80% by FY28; now says nameplate 9,600 MT, operating near 7,000 MT currently, 7,500-8,000 MT next year, and 90% (around 8,800 MT) over two years. Full capacity targeted by end-FY27.
- **CDMO revenue target restated with a new framing:** Q1 said ₹1,000 crores by FY29 or FY30; now "100 million or 1,000 crore, whichever comes first," with timing allowed to slip "one year here or there."
- **Attali Block 2 commercialization date given:** Q1 announced ₹149 crores capex with no date; now groundbreaking done and commercialization targeted for H2 FY28.
- **Attali Block 1 capitalization delayed to Q3:** Q1 said Block 1 would be fully operational in Q2 FY27; now Phase 1A is complete and Phase 1B trial batches are underway this week, with capitalization in Q3.
- **API run-rate guidance lowered:** Q1 said normalized ₹170-190 crores quarterly; now ₹180-200 crores is the base for each quarter of H2, and management no longer claims FY25-level API revenue (~₹780 crores) is achievable this year, saying only that it will cross last year's number.
- **EBITDA margin framing changed:** Q1 guided 22-25% for FY27; this call gives no restated range, saying only that H2 margins "can improve" on higher CDMO sales and that 1 percentage point either way is the likely variance.
- **New disclosure on shipment spillover:** about 5% of the quarter's xanthine sales were held up by dispatch constraints, expected to be resolved in Q3.
- **New business detail on peptides:** Q1 mentioned new capabilities; now a peptide lab is targeted operational by end-FY27, with customer business expected in FY28 and no revenue guidance.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹613 crores	+47% YoY (vs ₹417 crores)	Highest-ever quarter; xanthine and allied at 50% of turnover, API 30%, CDMO 13%
EBITDA	₹136 crores	+84% YoY (vs ₹74 crores)	Higher sales across segments; raw material pass-through

METRIC	REPORTED	CHANGE	WHAT DROVE IT
EBITDA margin	22.2%	vs 17.7% YoY; down about 2pp QoQ	Raw material cost increases passed on, which erodes margin percentage
PAT	₹66 crores	2.75x YoY (vs ₹24 crores)	Prior-year low base; higher EBITDA
Xanthine and allied revenue	50% of turnover	Segment share down from 57% in Q1	Lower xanthine sales on shipment hold-up, offset by higher allied chemistry sales
Xanthine realization	Up 10-15%	YoY average	Elevated pricing; some fall in average realization QoQ
Xanthine volume	Up 15% for the year	YoY, full-year expectation	Ramp-up from 6,000 MT base last year
API and intermediates revenue	30% of turnover, ₹180 crores	Segment share down from 30% in Q1 on a larger base	Steroid debottlenecking restored regular sales; growth largely volume-driven
CDMO/CMO revenue	13% of turnover	Nearly double Q1	39 commercial projects; H2-weighted year
CDMO customers and projects	23 customers, 59 active projects	vs 22 customers, 57 projects in Q1	39 commercial, 20 development
Working capital cycle	150-167 days	Management calls this the baseline	Higher sales, H1 inventory build for H2 CDMO sales

SEGMENTS & GEOGRAPHIES

- **Xanthine derivatives and allied (50% of turnover):** Beverages 62% and others 38% of the mix; exports 59% and domestic 41%. Xanthine sales fell on shipment hold-ups worth about 5% of the quarter's xanthine number, while allied chemistry sales rose. Management expects overall xanthine sales to increase in Q3 and Q4 and absolute margins to hold at least through next financial year.
- **API and intermediates (30% of turnover):** Regulated markets 57%, RoW 33%, non-regulated 10%. The steroid block expansion is contributing to production and revenue, restoring sales lost to the Q1 shutdown. Growth was largely volume-driven. Management guides ₹180-200 crores per quarter for H2 and 10-15% annual growth over 3-4 years from new products and volume, with some years higher.
- **CDMO/CMO (13% of turnover):** Sales nearly doubled from Q1. Management maintains 40-50% growth for FY27 and expects higher CDMO sales in Q3 and Q4 to improve the overall EBITDA percentage. Of the 59 projects, 10-12 are expected to drive ₹700-800 crores of the ₹1,000 crores potential.
- **Other sales (6% of turnover):** Trading sales, export incentives, and solvents.

STRATEGY & COMPANY-SPECIFIC

- **Xanthine capacity:** Nameplate 9,600 MT; operating near 7,000 MT. Full capacity targeted by end-FY27, with 7,500-8,000 MT next year and 90% utilization over two years. No further xanthine capex planned; management intends to hold its second-largest global capacity position for the next few years.
- **Attali Block 1:** Phase 1A commercial line is complete and commissioning; Phase 1B trial batches are underway this week, with capitalization in Q3. Management expects the Attali asset to be fully utilized in H2 FY27. The block serves CDMO and intermediates, not API.
- **Attali Block 2:** Groundbreaking done; commercialization targeted for H2 FY28. Management says current capacity including this block is enough for ₹1,000 crores CDMO revenue, and additional capacity will be added if project visibility increases; the decision on how much and where is expected next year.

- **Asset turns:** New dedicated blocks guided at 1.2-1.4x; the current Attali block is expected to be similar given comparable cost and size, with the caveat that total Attali capitalization includes land, utilities and warehousing.
- **Capex:** FY27 total capex guided at ₹350-400 crores. Capitalization in H2 will not exceed the ₹300 crores of CWIP, with some projects slipping to Q1 next year.
- **Peptides and oligonucleotides:** Peptide lab targeted operational by end-FY27 with equipment in place; experienced chemists being recruited. Customer business expected in FY28, with no revenue guidance. One or two liquid-phase peptide projects are in development; no major solid-phase project yet. ADC linkers are also being developed as a modality.
- **API pipeline:** 61 APIs, with several patent expiries next financial year to be launched with partners. Focus on alternate vendor development to gain share in existing products, and on oncology, anti-diabetic, blood thinners, antihypertensives and inhalation steroids. Anti-cancer Block 3 at Tarapur is being debottlenecked. New product validation is planned this quarter and next.
- **R&D and talent:** R&D spend will increase. A CSO joined nine months ago and a new API R&D head has joined; further R&D hiring is underway.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Xanthine revenue FY27	₹1,400-1,500 crores if prices stay high	Raised (from ₹900-1,100 crores)	Current elevated prices; would fall if raw material prices decline because of pass-through
Xanthine volume FY27	15% growth over last year	New	Ramp-up from about 6,000 MT last year
Xanthine utilization	Full capacity by end-FY27; 7,500-8,000 MT next year; 90% (about 8,800 MT) over two years	New detail (Q1: >80% by FY28)	Sequential ramp of expanded capacity
Xanthine absolute margin	Sustain at least through next financial year	New	Stability in pharma and beverage segments; spot segment under pressure
CDMO growth FY27	40-50% over last year	Maintained	39 commercial projects; H2-weighted sales
CDMO revenue target	₹1,000 crores or $100 million, whichever comes first; timing may slip a year	Maintained, timing loosened	10-12 projects expected to drive ₹700-800 crores
API quarterly run-rate	₹180-200 crores per quarter in H2	Raised (from ₹170-190 crores)	Steroid capacity restored; new product validation
API growth	10-15% per year over 3-4 years, higher in some years	Maintained	New products and volume
EBITDA margin	H2 can improve on higher CDMO sales; 1pp variance either way	Q1's 22-25% range not restated	CDMO mix versus raw material prices
FY27 capex	₹350-400 crores	New	Ongoing expansions
Attali Block 2 commercialization	H2 FY28	New	Groundbreaking done
Peptide lab	Operational by end-FY27; customer business in FY28	New	Equipment and hiring in progress

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Debt	More debt needed for remaining capex	New	About ₹250 crores of FY27 capex still to come

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Xanthine spot pricing	Spot segment will see price pressure; pharma and beverage segments expected to be more stable
Raw material prices	Costs stayed elevated due to geopolitical turmoil; pass-through lowers margin percentage, and falling raw material prices would reduce the top line
Working capital	Cycle at 150-167 days; higher inventory will persist as CDMO scales, and management said "we will have to live with the higher inventory"
Rising debt	Debt rose about ₹150 crores in H1; more debt will be needed for the remaining ₹250 crores of FY27 capex
Depreciation	Will rise as CWIP is capitalized in H2; finance cost expected to stay at similar levels
CDMO pipeline churn	Development projects fail in clinical phases and drop out; the 20-project development number has not grown, and commercial projects include small China-plus-one campaign products
API growth dependence	Oncology growth depends on how partners capture market share after patent expiries
Peptide execution	Complex chemistry requiring precision purification and conjugation; management declined to give any numbers

Q&A HIGHLIGHTS

Xanthine volume versus price in Q2 Asked why xanthine revenue was flat QoQ despite guidance for falling realization, management said xanthine sales fell on shipment hold-ups of about 5% of the quarter's xanthine number while allied chemistry sales rose, and average realization saw some fall.

Xanthine revenue at full capacity Asked whether full capacity implies ₹1,500-1,600 crores of xanthine revenue, management guided ₹1,400-1,500 crores if prices stay high, adding that lower raw material prices would reduce the top line because of pass-through.

H2 margin direction Asked whether H2 margins would exceed the 20-23% reported, management said the outcome depends on raw material prices versus CDMO mix, that absolute gross margin will keep increasing with more CDMO business, and that H2 EBITDA percentage can improve on higher CDMO sales.

CDMO ₹1,000 crores path Asked whether 6 newly commercial molecules or a larger development pipeline gets the business to ₹1,000 crores, management said the pipeline churns with additions and deletions, 10-12 of the 60 projects will drive ₹700-800 crores, and the 80/20 rule applies.

API recovery and capacity Asked whether API can reach ₹200 crores per quarter and then ₹250 crores, management said ₹180-200 crores is the base for each quarter of H2, anti-cancer Block 3 debottlenecking will add capacity, and new product validation is planned this quarter and next.

Capex and capitalization Asked about further capex and capitalization in H2, management said total capitalization will not exceed the ₹300 crores of CWIP with some slipping to Q1 next year, and FY27 capex is ₹350-400 crores.

Peptide revenue timing Asked what share of revenue peptides could contribute in FY28, management said it is too early to give any number or guidance and the question is better asked next year.

Attali asset turns and use Asked about asset turns for the multi-purpose block, management guided 1.2-1.4x for new blocks with the current block similar, and said Attali will host CDMO and intermediates, not API.

Acutaas Chemicals Ltd.

GROWTH TRIGGERS

Acutaas has raised FY27 guidance to around 30% revenue growth and 38-40% EBITDA margin, while pulling the INR1,000 crore CDMO target into FY27 and setting INR2,000 crore by FY30. Battery chemicals are in early commercial supply and Indichem is built for a FY28 semiconductor ramp. Delivery rests on H2 CDMO orders, additive ramp and electronic-grade capex execution.

1. FY27 revenue guidance raised to around 30% after H1 49.3% growth

Management raised FY27 revenue growth guidance from 25% to around 30% after H1 revenue rose 49.3% to INR766.6 crore and Q2 revenue rose 42.7% to INR436.9 crore. The second half must grow against a high base, with CDMO orders and battery chemicals expected to contribute.

2. FY27 EBITDA margin guidance of 38-40% with Q2 at 40.3%

Management raised FY27 EBITDA margin guidance to 38-40%, explicitly for FY27 only, after Q2 EBITDA margin reached 40.3% and H1 was 37.7%. Q2 gross margin was 62.1%, driven by pharma/CDMO mix and operating leverage, with management saying raw material prices did not soften.

3. CDMO target pulled forward to INR1,000 crore in FY27 and doubled to INR2,000 crore by FY30

The original INR1,000 crore CDMO target was for FY28. Management now expects it in FY27, one year ahead, based on current orders from existing and new CDMO contracts, and targets INR2,000 crore by FY30. It says the second INR1,000 crore will be more diversified across molecules and customers.

4. Eight to nine CDMO products entering revenue over next 1-1.5 years

Beyond four products validated earlier, management says eight to nine products in total are entering the revenue stream over the next one to one-and-a-half years. New CDMO orders are expected to start contributing from H2 FY27, though product-wise revenue and CDMO versus base pharma split are not disclosed.

5. Battery chemicals first commercial revenue and third product shipment

Q2 FY27 was the first quarter of commercial revenue from battery chemicals. The third electrolyte additive shipped in the prior quarter, pilot-scale validation batches of four products have been sent, and management expects ramp-up over the next two to three quarters under long-term contracts. Revenue contribution is undisclosed.

6. Indichem semiconductor plant inaugurated ahead of schedule for FY28 ramp

The South Korea semiconductor plant was inaugurated ahead of schedule and is submitting qualification batches to customers. Management expects FY28 to be the year of ramp-up for

initial products, targeting photoresist and fab customers in Korea, Japan and Taiwan. No material FY27 revenue or profitability is guided.

7. Electronic-grade chemicals capex adds a new specialty leg from H1 FY29

Acutaas plans INR100 crore of H2 FY27 capex for bulk electronic-grade chemicals and solvents, with production targeted for H1 FY29 after about 1.5 years of construction. Management expects at least 3x asset turnover, higher than a 2x analyst assumption, but has not disclosed product contracts or realisations.

INVESTMENT THESIS

Acutaas Chemicals is a chemistry-led manufacturer that converts basic chemicals into advanced pharmaceutical intermediates, CDMO products, battery electrolyte additives, semiconductor chemicals and, from H1 FY29, bulk electronic-grade chemicals. The core economics rest on process capability, backward integration, regulatory-compliant plants and long customer qualification cycles. The current operating-leverage case rests on three measurable facts: existing CDMO capacity at Ankleshwar is only 30% utilised, battery chemicals are at an early commercial stage, and company-level EBITDA margin reached 40.3% in Q2 FY27 even before those assets fill. Management now guides FY27 revenue growth of around 30% and a 38-40% EBITDA margin, raised from 25% growth and margins similar to FY26. It also expects INR1,000 crore of CDMO revenue in FY27, one year ahead of the original FY28 schedule, and has set an INR2,000 crore FY30 target. These are management targets, not achieved outcomes.

The earnings mechanism is incremental revenue dropping through an existing asset base. Q2 FY27 revenue was INR436.9 crore, up 42.7% year on year, and EBITDA was INR176.0 crore, up 84.6%, with the EBITDA margin expanding 914 basis points to 40.3%. Gross margin rose 637 basis points to 62.1%. Management attributed the expansion to product mix and operating leverage, and said raw material prices did not soften in the quarter. Ankleshwar Unit 2, where CDMO capacity sits, had INR330 crore of invested capital and ran at 30% utilisation in Q2 FY27. Management expects it to be largely filled by FY28 and not above 40% by end-FY27. Battery chemicals are also at low utilisation as they ramp. If CDMO volumes and battery additives scale without a proportional increase in fixed costs, the margin guidance is mechanically credible. If they do not, the same operating leverage works in reverse.

The CDMO franchise is the largest near-term driver. The Q2 FY27 call says eight to nine products in total are expected to enter the revenue stream over the next one to one-and-a-half years, including four validated earlier and additional products commercialising this year. New CDMO orders start contributing from H2 FY27. The anchor remains the darolutamide intermediate. Management declined to discuss darolutamide's formulation market or product-wise revenue, saying Acutaas is an intermediate supplier at the bottom of the pyramid. That is a fair boundary, but it also means investors cannot independently size the concentration. The INR2,000 crore FY30 target is expected to be more diversified across molecules and customers, but that diversification is a future condition, not a current fact. The key test is whether H2 FY27 CDMO revenue converts the eight to nine products into billed sales while the anchor remains stable.

Battery chemicals have moved from project to commercial reality, but not yet to disclosed revenue. Q2 FY27 was the first quarter of commercial revenue from the business. The initial

commercial shipment of the third electrolyte additive was dispatched in the prior quarter, and pilot-scale validation batches of four products have gone to customers. Management says orders are in hand and expects ramp-up over the next two to three quarters. The commercial terms are long-term contracts with raw material and currency pass-through; management says realisations are early teens, not the $30-35 spot levels seen in some markets. That reduces the upside from spot price spikes but also limits downside if spot prices fall. The missing disclosure is revenue and utilisation. Until those print, the battery contribution is a verified commercial start, not a verified earnings contributor.

Semiconductor chemicals are the longer-dated option. The Indichem plant in South Korea was inaugurated ahead of schedule. Customer qualification batches are being submitted, and management says FY28 will be the year of ramp-up for initial products. It explicitly does not expect material revenue or profitability in FY27. The plant targets photoresist and fab customers in Korea, Japan and Taiwan, with no current Indian semiconductor demand. BFC, the existing photoresist business, had a temporary shipment pause after its US customer was acquired; supplies resumed and Korean and Japanese orders started. The semiconductor thesis therefore has a built asset and customer samples, but commercial revenue remains a FY28 event. Customer validation is long and customer-specific, so one customer's approval does not automatically qualify a product for another.

The next leg is electronic-grade chemicals. Acutaas plans INR100 crore of H2 FY27 capex for bulk electronic-grade chemicals and solvents, with production targeted for H1 FY29. Management expects at least 3x asset turnover, higher than an analyst's 2x assumption, but has not disclosed product-level contracts or realisations. This project is not in the FY27 earnings base. It matters because it extends the specialty portfolio beyond battery additives and semiconductor photoresist into a larger chemical category, but it also adds execution risk before revenue. The company's five-year aim is to be known as a chemical company with multiple avenues rather than a pharma company. That is an aspiration, not a forecast.

Capital allocation is disciplined but not fully transparent. FY27 capex is planned at about INR300 crore, excluding R&D and land, with H1 spend of INR123.9 crore and H2 planned at INR165 crore. Net cash was INR300.9 crore at 30 September 2026. Working capital rose to 115 days from 99 in Q1 on higher debtor days, which absorbs some cash. Gross debt is not disclosed, so the earlier zero-gross-debt commitment remains unverified. The company is starting land acquisition for future CDMO capacity because Ankleshwar may fill by FY28, but it has not set the next plant's size or scale. That is prudent sequencing rather than a new capex commitment.

Management delivery supports the thesis but does not eliminate risk. FY26 revenue and margin guidance was raised and beaten in existing research. The electrolyte additives plant was built and commercial supply started after a roughly two-quarter slip. New CDMO product

revenue slipped from H2 FY26 to FY27. The latest call raises FY27 guidance and pulls the aggregate CDMO target forward, which is a positive revision. The market-facing risk is that FY27 guidance of around 30% revenue growth follows H1 growth of 49.3%, so H2 must deliver against a high base. Q2 specialty revenue fell 20% year on year and management expects the segment around the H1 FY27 level, leaving CDMO and battery ramp to carry the second half.

The falsifiers are specific. A miss on H2 FY27 CDMO orders or a delay in the eight to nine products would put the INR1,000 crore FY27 target at risk and weaken the bridge to INR2,000 crore by FY30. Battery chemicals failing to ramp over the next two to three quarters, or ramping at materially lower margins than the contracts assume, would dilute the mix. Indichem failing to convert qualification batches into FY28 revenue would leave the semiconductor leg as a built asset without earnings. A working-capital increase beyond 115 days would absorb more cash alongside the INR300 crore capex plan. Finally, the 38-40% EBITDA margin guidance is FY27 only; there is no FY28 margin commitment, so investors should not extrapolate the Q2 40.3% margin as a permanent level. The thesis is operating leverage with visible capacity and commercial starts, not a promise of uninterrupted margin expansion.

RESEARCH REPORT

What Acutaas Chemicals Limited (formerly Ami Organics Limited) does

Acutaas Chemicals Limited is a research-driven manufacturer of advanced pharmaceutical intermediates and specialty chemicals. Founded in 2004 as a partnership firm, it incorporated as Ami Organics Limited in 2007, listed in 2020, and rebranded to Acutaas Chemicals Limited in May 2025 to reflect its expansion beyond pharma into battery and semiconductor chemicals (AR FY25). The company operates four manufacturing facilities across Gujarat and Uttar Pradesh, with roughly 1,100 KL installed capacity, ~600 customers across ~55 countries, and 879 employees as of FY2025 (AR FY25).

The business splits into two reporting segments. Advanced Pharmaceutical Intermediates contributed 87% of FY26 revenue, and Specialty Chemicals contributed 13% (Jul 2026 call). Within pharma, the company serves both the generic API market and innovator companies through a CDMO model. The specialty segment holds three distinct sub-businesses: battery chemicals (electrolyte additives), semiconductor chemicals (photoresist), and commodity chemicals (parabens, methyl salicylate) which management is actively phasing out in favor of higher-margin products (Jul 2026 call).

Advanced Pharmaceutical Intermediates

This segment manufactures advanced intermediates for APIs and New Chemical Entities (NCEs) across 17+ therapeutic areas including anticancer, anticoagulants, CNS, and anti-inflammatory drugs (AR FY25). The company's capability spans up to N-1 stages of synthesis across multiple routes, and over 90% of its pharma intermediates are backward integrated with basic chemicals, giving it control over supply, quality, and cost (AR FY25). Key commercialized generic products include intermediates for apixaban and rivaroxaban, which are gaining volume traction as patent expiries approach (Jul 2026 call).

In Q3 FY25 management set an ambition of INR1,000 crore of CDMO revenue by FY28. On the Q2 FY27 call it said current orders support reaching that figure in FY27, one year ahead, and set a new target of INR2,000 crore by FY30. Eight to nine products are expected to enter the revenue stream over the next one to one-and-a-half years, including four validated earlier and additional products commercialising this year (Q2 FY27 call).

Specialty Chemicals

Battery chemicals is the most advanced specialty sub-segment. Acutaas produces Vinylene Carbonate (VC) and Fluoroethylene Carbonate (FEC) at 2,000 metric tons each at Jhagadia. Q2 FY27 was the first quarter of commercial revenue from battery chemicals; the initial commercial shipment of a third product was dispatched in the prior quarter, and pilot-scale validation batches of four products have gone to customers. Management expects ramp-up

over the next two to three quarters and says orders are in hand, without disclosing revenue (Q2 FY27 call).

Semiconductor chemicals operate through BFC and Indichem. BFC produces electronic-grade photoresist chemicals. Indichem is the South Korean joint venture where Acutaas holds 75% and the Korean partner brings technology and market access. The Indichem plant was inaugurated ahead of schedule; customer qualification batches are being submitted, FY28 is guided as the year of ramp-up for initial products, and no material FY27 revenue or profitability is expected. The plant targets photoresist and fab customers in Korea, Japan and Taiwan (Q2 FY27 call).

Commodity chemicals (parabens, methyl salicylate, niche KSMs) serve cosmetics, food, agrochemicals and personal care. Management is phasing them out, but says the process takes about one and a half years and the methyl salicylate business may continue longer. Q2 FY27 specialty revenue fell 20% year on year on the commodity phase-out and a temporary BFC shipment pause (Q2 FY27 call).

Business segments

Q2 FY27 update (27 October 2026)

Q2 FY27 revenue was INR436.9 crore, up 42.7% year on year; EBITDA was INR176.0 crore, up 84.6%, at a 40.3% margin; PAT was INR123.1 crore, up 71.4%. H1 FY27 revenue was INR766.6 crore, up 49.3%; EBITDA was INR289.0 crore, up 97.7%, at a 37.7% margin; PAT was INR198.1 crore, up 71.0%. Net cash was INR300.9 crore and working capital was 115 days. Management raised FY27 revenue growth guidance to around 30% and EBITDA margin guidance to 38-40%.

Advanced Pharmaceutical Intermediates

Advanced Pharmaceutical Intermediates is the core. In Q2 FY27 segment revenue was INR402.0 crore, up 53.1% year on year, with core pharma growing more than 25%. The CDMO business continued to grow, and new CDMO orders are expected to start contributing from H2 FY27. At the company level Q2 FY27 revenue was INR436.9 crore, up 42.7%, and H1 revenue was INR766.6 crore, up 49.3% (Q2 FY27 call).

The capability that took years to build is backward integration and complex multistep synthesis. The FY25 annual report states that over 90% of pharmaceutical intermediates are integrated with basic chemicals, giving the company control over supply, quality, and cost. The company can manufacture up to N-1 stages of intermediates across multiple routes of synthesis. Its R&D team, which the annual report puts at over 130 professionals including more than 30 doctoral-qualified scientists, has developed more than 680 molecules and files around 30 to 40 new molecules annually with customers at different stages of investigation.

The company holds 10 granted process patents, with 5 more published and 7 applications filed.

The product portfolio spans 17+ therapeutic areas. The CDMO side is anchored by one anticancer intermediate; management declined to discuss darolutamide's formulation market, saying the company is an intermediate supplier at the bottom of the pyramid. On the Q2 FY27 call it said eight to nine products in total are expected to enter the revenue stream over the next one to one-and-a-half years, including four validated earlier and additional products commercialising this year, but it declined product-wise revenue guidance.

The customer base is global. The company exports to over 55 countries, with 74% of FY25 revenue coming from exports. Europe accounts for 63% of export revenue, while the US is less than 1% of direct sales. The company serves roughly 600 customers, with more than 30 customers associated for over a decade. Most customers source more than two products from the company, which reduces product and customer concentration risk. The company's facilities hold USFDA and PMDA approvals, and the Sachin facility received a GMP certification from Japan's PMDA in 2024 without any critical or major observations.

Why do customers buy from Acutaas? The annual report claims a 50-90% market share in several critical intermediates. Management stated on the February 2026 call that for most top products, the company holds more than 70-80% market share. The company is EcoVadis Platinum certified, placing it in the top 1% of companies assessed. Management also pointed to the quality systems, compliance, and the ability to handle multiple chemistries at scale as reasons it wins CDMO business. The company explicitly does not move into APIs, a policy management repeated on the July 2026 call: "We do not compete with our customer. That's our policy, and we would like to stick to it."

Competitors in this segment include Indian CDMO and intermediates players such as Piramal Pharma Solutions, Divi's Laboratories, Syngene International, Laurus Labs, and Neuland Laboratories. On the China side, the company competes with Chinese intermediates manufacturers, but management has consistently argued that its chemistry capabilities and regulatory compliance differentiate it. The company has also reduced its dependence on Chinese raw material imports from over 70% a decade ago to 21% by 2025, per the annual report. Exports of the generic products apixaban and rivaroxaban are progressing well, and management confirmed on the July 2026 call that apixaban has started picking up with sufficient capacity to cater to demand after patent expiry.

The segment interacts with Specialty Chemicals through shared infrastructure and R&D. At Q2 FY27, Ankleshwar Unit 2, where CDMO capacity sits, had seen INR330 crore of investment and ran at 30% utilisation; management expects it largely filled by FY28 and not

above 40% by end-FY27. The battery chemicals business is also at low utilisation as it ramps.

On the CDMO revenue target, management now expects INR1,000 crore in FY27, one year ahead of the original FY28 schedule, and targets INR2,000 crore by FY30. The second INR1,000 crore is expected to be more diversified across molecules and customers. New CDMO orders are expected to start contributing from H2 FY27, and eight to nine products are expected to enter the revenue stream over the next one to one-and-a-half years.

> *"For these products, we have already mentioned that these are already validated products. And with regulatory approval in place, we are expecting revenue to kick in from H2 FY '27 onwards. And on a revenue potential side, these all products are expected to generate revenue between INR50 crores to INR100 crores for each year at a peak."*
>
> **ABHISHEK PATEL, PRESIDENT STRATEGY, Q1 FY27 CONCALL (JULY 2026)**

At the company level, Q2 FY27 gross margin expanded 637 basis points year on year to 62.1% and EBITDA margin reached 40.3%, driven by pharma/CDMO mix and operating leverage rather than raw material softening. Management raised FY27 EBITDA margin guidance to 38-40% and FY27 revenue growth guidance to around 30%.

Specialty Chemicals

Specialty Chemicals is where Acutaas is building battery and semiconductor chemicals while phasing out commodity chemicals. Q2 FY27 was the first quarter of commercial revenue from battery chemicals. Specialty revenue was INR34.9 crore in Q2 FY27, down 20% year on year, on the commodity phase-out and a temporary BFC shipment pause. Management expects the segment around the H1 FY27 level for the full year, with battery growth offsetting the decline and overall growth versus last year.

The segment breaks into three sub-segments. Battery chemicals: VC and FEC capacity of 2,000 metric tons each at Jhagadia, with commercial revenue started in Q2 FY27. The third electrolyte additive's initial commercial shipment was dispatched in the prior quarter, and pilot-scale validation batches of four products have been sent to customers. Semiconductor chemicals come through BFC and Indichem. Commodity chemicals are parabens, methyl salicylate and niche KSMs, which management is phasing out over about one and a half years.

Customers fall into three groups. Battery chemicals are sold to battery cell manufacturers under long-term contracts with raw material and currency pass-through; management says realisations are early teens, not spot $30-35. Semiconductor chemicals target photoresist and fab customers in Korea, Japan and Taiwan, with no current Indian semiconductor demand. BFC's US customer was acquired, causing a temporary shipment pause; supplies

have resumed and orders have started from Korean and Japanese customers. Commodity chemicals serve a broad customer base.

The competitive position is defined by Acutaas's response to Chinese competition and spot pricing. Management says battery chemicals are sold on long-term contracts with raw material and exchange-rate pass-through, so it does not chase $30-35 spot prices and expects early-teens realisations. It argues the process is designed for a good profit and timely payback rather than riding price waves. Q2 FY27 battery revenue was not disclosed.

The segment fits the group by diversifying away from pharma intermediates, which generated 87% of FY26 revenue. The shift is still early: Q2 FY27 specialty revenue fell 20% to INR34.9 crore, and management expects it around the H1 FY27 level for the full year. The company aims over five years to be known as a chemical company with multiple avenues rather than a pharma company.

> *"So for Battery chemical business, what I can say is we have already plant in place for the manufacturing. And this business, let me assure that this business is not constrained by the demand in the market. There is a huge demand available. It is constrained by our plant capacity."*
>
> **ABHISHEK PATEL, VICE PRESIDENT STRATEGY, Q1 FY27 CONCALL (JULY 2026)**

Management's FY27 guidance is now company-level revenue growth of around 30% and EBITDA margin of 38-40%, raised on the Q2 FY27 call from 25% growth and margins similar to FY26. Specialty revenue is expected around the H1 FY27 level, with battery growth and BFC recovery offsetting commodity phase-out. Indichem revenue is guided from FY28, and electronic-grade chemical production from H1 FY29.

Customers

Acutaas serves approximately 600 customers across 55 countries, with over 30 relationships spanning more than a decade (AR FY25). The CDMO segment introduces concentration: the darolutamide intermediate is the anchor. Management says the second INR1,000 crore of CDMO revenue to FY30 will be more diversified across molecules and customers, while new CDMO orders start contributing in H2 FY27.

For battery chemicals, customers are contracted across North America and Korea under long-term supply contracts with raw material and currency pass-through, with no domestic Indian supply planned. For semiconductor chemicals, BFC's US customer was acquired, causing a temporary pause; supplies have resumed, and orders have started from Korean and Japanese customers. Indichem targets photoresist and fab customers in Korea, Japan and Taiwan.

The buying relationship for CDMO products is defined by regulatory compliance and long qualification cycles. Customers choose Acutaas based on its USFDA and PMDA-compliant

facilities, chemistry depth, and consistent supply record. The company develops 30-40 new molecules annually for submission to customers at various stages of investigation (Jul 2026 call). Switching costs are high once a product is validated, as regulatory approvals and quality systems lock in the relationship. For generic intermediates, the company holds 50-80% market share in several top products, reflecting its position as a preferred supplier (Oct 2025 call).

Competitive landscape

Acutaas competes in four distinct markets, each with different competitive dynamics. In pharma intermediates and CDMO, it faces other Indian and global CDMO players. Its edge comes from deep chemistry expertise, backward integration, and regulatory credentials. Management attributes its sustained market share to being "very good at chemistry" and executing "multiple chemistry for any of the product at a large scale, which is a key or USP for us as against any Chinese competition" (Feb 2026 call). The CDMO business is relationship-driven and not easily disrupted, as quality systems and compliance track records take years to build.

In battery chemicals, the competitive set is dominated by Chinese manufacturers. Acutaas is the first non-Chinese global producer, positioning it for supply-chain diversification. Management says the business is not demand-constrained but capacity-constrained, and Q2 FY27 brought the first commercial revenue. Contracts are fixed-price with pass-through, and management does not chase spot price spikes.

In semiconductor chemicals, BFC faces global suppliers from Japan, Korea and Taiwan. Being an Indian producer gives it a unique domestic position, but current demand is in Korea, Japan and Taiwan; management says there is no Indian semiconductor chemical demand yet. Indichem targets more advanced products, and the plant was inaugurated ahead of schedule for a FY28 ramp. Commodity chemicals are highly competitive and being phased out.

Industry

The global chemicals market was valued at $5,614.19 billion in 2024 and is expected to reach $8,580.40 billion by 2029, a CAGR of 8.6% (AR FY25). The Indian chemicals market is approximately $220 billion in 2024, projected to grow at 8.1% CAGR to $300 billion by 2028 (AR FY25). India ranks sixth globally in chemical production and fourteenth in exports, and is benefiting from the China+1 supply chain diversification trend as global companies seek alternatives to Chinese sourcing.

The pharmaceutical CDMO market is a major demand driver. Globally, it was valued at $156.62 billion in 2024 and is projected to reach $315.08 billion by 2034, a 7.24% CAGR (AR FY25). India's pharma CDMO market was $12,544.3 million in 2023 and is expected to

reach $21,730 million by 2030, growing at 8.2% CAGR (AR FY25). Management said on the Q2 FY27 call that several large generic products are going off patent and it developed intermediates for them ahead of the market.

The semiconductor chemicals market is growing fastest, valued at $15,676.9 million in 2024 and expected to reach $30,935.6 million by 2030, a 12.3% CAGR (AR FY25). Demand is driven by AI pushing CPU and memory chip demand higher, which management describes as "a structural phase" rather than a passing trend (Jul 2026 call). The battery chemicals market is over $70 billion in 2025 and projected to exceed $107 billion by 2029, driven by electric vehicle adoption and energy storage growth (AR FY25).

Regulation is a defining feature. Acutaas holds USFDA, PMDA, ICH Q7 and EcoVadis Platinum accreditation (AR FY25). It reduced China import dependence from over 70% to 21% by 2025 (AR FY25). The business has a seasonal pattern, with H1 about 40% and H2 about 60% (May 2026 call). In Q2 FY27, working capital rose to 115 days from 99 in Q1 on higher debtor days, while net cash was INR300.9 crore.

Growth triggers

Battery chemicals first commercial revenue in Q2 FY27; ramp expected over two to three quarters

The battery chemicals plant at Jhagadia moved from construction to commercial supply in Q1 FY27. Q2 FY27 was the first quarter of commercial revenue from the business. The initial commercial shipment of the third electrolyte additive was dispatched in the prior quarter, and pilot-scale validation batches of four products have been sent to customers. Management says orders are in hand and expects ramp-up over the next two to three quarters.

> *"I'm pleased to share that we have successfully completed the trial run of our battery chemicals plant and started commercial supply."*
>
> **NARESH PATEL, CMD, Q1 FY27 CONCALL (JUL 2026)**

The plant has capacity of 2,000 metric tons each of vinylene carbonate (VC) and fluoroethylene carbonate (FEC), a total of 4,000 MT. Management described the business as constrained by plant capacity, not demand.

> *"So for Battery chemical business, what I can say is we have already plant in place for the manufacturing. And this business, let me assure that this business is not constrained by the demand in the market. There is a huge demand available. It is constrained by our plant capacity."*
>
> **ABHISHEK PATEL, PRESIDENT STRATEGY, Q1 FY27 CONCALL (JUL 2026)**

The revenue mechanism is long-term supply contracts with multiple customers. Management says orders are in hand for battery chemicals and expects ramp-up over the

next two to three quarters, but it did not disclose revenue contribution. The plant has 2,000 metric tons each of VC and FEC capacity. The third product's initial commercial shipment was dispatched in the prior quarter, and four products are at pilot-scale validation.

Indichem semiconductor plant inaugurated ahead of schedule; FY28 initial ramp, no material FY27 revenue

Indichem Inc. is Acutaas's joint venture in South Korea, set up to manufacture advanced semiconductor chemicals. Acutaas holds 75% of the investment while a Korean partner holds 25%, bringing technology, customer relationships, and production know-how (Q2 FY26 concall, Oct 2025). The JV makes more value-added products than those produced at Baba Fine Chemicals, which serves Heraeus (Q4 FY26 concall, May 2026).

The mechanism is straightforward: Acutaas funds the plant, the Korean partner supplies the expertise and market access, and the plant produces specialty semiconductor chemicals for customers in Korea, Japan, and Taiwan. The R&D centre at Indichem is already operational and sending samples to prospective customers, which management expects to compress the time from plant commissioning to commercial sales (Q4 FY26 concall, May 2026).

As of the Q1 FY27 call, the capex was running ahead of schedule. Management stated:

> *"So this plant, we are happy to share that this is getting constructed even before the schedules and expected to get -- capex is expected to get completed by end of this quarter. And maybe from next financial year onwards, we will have the revenue coming up from that plant."*
>
> **ABHISHEK PATEL, PRESIDENT STRATEGY, Q1 FY27 CONCALL (JUL 2026)**

The timeline has shifted from the initial October 2025 expectation of H2 FY27 revenue. By July 2026 revenue was guided for FY28. On the Q2 FY27 call, management said the South Korea plant was inaugurated ahead of schedule, customer qualification batches are being submitted, FY28 will be the year of ramp-up for initial products, and there will be no material revenue or profitability in FY27. It targets photoresist and fab customers in Korea, Japan and Taiwan, not India currently.

Third electrolyte additive in early commercial supply; fourth product at pilot validation

Phase 2 at Jhagadia adds the third electrolyte additive. The initial commercial shipment of the third product was dispatched in the quarter before Q2 FY27, and management says commercial supply for VC, FEC and the third product has started ahead of time. A fourth product is at pilot-scale validation, with batches sent to customers. Revenue contribution is not disclosed; management expects battery ramp over the next two to three quarters.

The revenue mechanism is pre-locked. Unlike capacity built ahead of demand, this third product already has a signed customer contract. When asked whether the third product has a tie-up similar to the first two, Abhishek Patel replied:

> *"We have a signed contract in place."*
>
> **ABHISHEK PATEL, Q1 FY27 CONCALL (JUL 2026)**

The phase 2 capex is INR45 crore in H2 FY27, part of the INR165 crore second-half capex plan. The third product's initial commercial shipment was dispatched in the prior quarter, and management expects battery chemical ramp over the next two to three quarters. Revenue contribution is not disclosed, and the fourth product is at pilot-scale validation.

The fourth product is earlier in the chain. On the Q2 FY27 call, management said pilot-scale validation batches of four products have been sent to customers. The third product has reached initial commercial shipment, but the fourth has not been confirmed as a commercial contract. Management says the battery business has orders in hand and expects ramp over the next two to three quarters.

CDMO revenue target pulled forward to INR1,000 crore in FY27; new INR2,000 crore target by FY30

Management first set the INR1,000 crore CDMO revenue ambition for FY28 in January 2025. On the Q2 FY27 call it said current orders from existing and new CDMO contracts support achieving the target one year ahead, in FY27. It then set a new target of INR2,000 crore by FY30, saying the CDMO business will double over the next three financial years. The second INR1,000 crore is expected to be more diversified across molecules and customers.

The growth beyond the anchor comes from a broader product set. Four products were validated earlier, and management says additional products are commercialising this year; eight to nine products in total are expected to enter the revenue stream over the next one to one-and-a-half years. New CDMO orders are expected to start contributing from H2 FY27. Management declined product-wise revenue guidance.

> *"So for these products, we have already mentioned that these are already validated products. And with regulatory approval in place, we are expecting revenue to kick in from H2 FY '27 onwards."*
>
> **ABHISHEK PATEL, Q1 FY27 CONCALL (JUL 2026)**

The eight to nine products are the bridge between the anchor intermediate and the doubled target. Management says the second INR1,000 crore will be more diversified across molecules and customers, and that it is confident despite industry cycles. It declined to give product-wise revenue or a split between CDMO and base pharma.

> *"And on a revenue potential side, these all products are expected to generate revenue between INR50 crores to INR100 crores for each year at a peak."*
>
> **ABHISHEK PATEL, Q1 FY27 CONCALL (JUL 2026)**

The target is CDMO-only and pharma-only. Asked in Q3 FY26 whether agro was included, the Chairman answered: "There is no agro business in CDMO. All the CDMO is only from pharma." On the Q2 FY27 call management said CDMO margins at INR2,000 crore should be largely in the same range as current CDMO margins.

New R&D centre with 10x capacity expansion and land acquisition for future pharma capacity

Management first flagged this project in the Q4 FY26 earnings call (May 2026) as a strategic investment to support growth beyond FY28, and reiterated it in Q1 FY27 (July 2026) without yet committing a capex number. Abhishek Patel described the centre as a purpose-built facility with a planned 10x capacity expansion over the existing R&D set-up, housing dedicated divisions for pharmaceuticals, battery chemicals, semiconductor and electronics, and cosmetics under one roof.

The mechanism is straightforward: the current R&D centre is the single source of new molecules that feed every growth vertical. Naresh Patel said the decision was taken because the existing centre cannot absorb the rising volume of inquiries and new molecule work, and the company does not want to be caught without capacity when the pipeline converts.

> *"we don't want to remain out of capacity when it came. That's why we decided to have a new expanded R&D centre."*
>
> **NARESH PATEL, Q4 FY26 CONCALL (MAY 2026)**

The land acquisition is a separate track. At Q2 FY27, Ankleshwar Unit 2 ran at 30% utilisation, and management expects it largely filled by FY28 and not above 40% by end-FY27. Sachin was at 83% and Jhagadia at 55% in Q1 FY27. The company is starting land acquisition for future CDMO capacity, with size and scale to be decided later.

> *"Sachin plant is already hitting the capacity utilization roof. And the Ankleshwar plant is expected to get filled up in 3 years' time, maybe by FY '28. So we should be ready with some land parcel, which -- where we can have a new plant for our future capacity need."*
>
> **ABHISHEK PATEL, Q1 FY27 CONCALL (JUL 2026)**

Both projects remain at the planning stage for R&D and land. The FY27 capex plan is about INR300 crore, excluding planned R&D capex and land acquisition. H1 FY27 capex was INR123.9 crore, and H2 FY27 is planned at INR165 crore: INR100 crore for electronic-grade chemicals, INR45 crore for the second phase of electrolyte additives, and the remainder for maintenance.

Semiconductor chemicals growth at BFC (new products other than Heraeus) and Indichem

BFC in Greater Noida makes photoresist chemicals. Its US customer was acquired during the last quarter, causing a temporary pause in shipments; supplies have resumed and operations

are normal. BFC has started receiving orders from Korean and Japanese customers, and management expects BFC to grow this year. It is also marketing new products to Japanese, Taiwanese and Korean customers.

Indichem is the larger piece. Acutaas owns 75% of the South Korea JV with J & Materials Co. Ltd., and the Korean partner supplies technology, market access, and starting materials:

> *"So in South Korean JV, we are the investment partner with 75% investment and 25% is with our Korean partner who will bring their technology, their market as well as the production capability."*
>
> **Q2 FY26 CONCALL (OCT 2025)**

The Indichem R&D centre is commissioned and sending samples. On the Q2 FY27 call, management said the South Korea plant was inaugurated ahead of schedule. Customer qualification batches are being submitted, FY28 is the year of ramp-up for initial products, and no material revenue or profitability is expected in FY27. The plant targets photoresist and fab customers in Korea, Japan and Taiwan.

Management frames semiconductor demand as structural, driven by AI. Battery chemicals are described as almost mature, with commercial supply started and long-term orders in hand; semiconductor is the next stage, with FY28 as the initial ramp. Over five years, management aims for Acutaas to be known as a chemical company with multiple avenues rather than a pharma company.

FY27 guidance raised to around 30% revenue growth and 38-40% EBITDA margin

Management set the FY27 target of 25% revenue growth at the FY26 results call and reaffirmed it after Q1. On the Q2 FY27 call it raised revenue growth guidance to around 30% and EBITDA margin guidance to 38-40% for FY27. H1 FY27 revenue was INR766.6 crore, up 49.3%, and H1 EBITDA margin was 37.7%, giving the year a strong base.

> *"We are guiding 25% revenue growth in FY '27."*
>
> **ABHISHEK PATEL, Q4 FY26 CONCALL (MAY 2026)**

The first quarter delivered INR329.7 crores, up 59.1% year-on-year, which gives the year a strong base. Q1 is historically the weakest quarter, with H1 contributing around 40% of revenue and H2 around 60%, so the full-year number depends on the second-half ramp.

The battery chemicals plant started commercial supply in Q1 FY27 and delivered its first commercial revenue in Q2 FY27. Management expects ramp-up over the next two to three quarters. The CDMO contribution is now guided at INR1,000 crore in FY27, one year ahead of the original FY28 target, with INR2,000 crore by FY30. FY27 EBITDA margin guidance is 38-40%, and Q2 FY27 margin was 40.3%.

> *"For current financial year, for the full year, as we guided during the commentary also, we are expecting a similar kind of margin as we had for full year FY '26."*
>
> **ABHISHEK PATEL, Q1 FY27 CONCALL (JUL 2026)**

The mechanism for the margin guidance is mix and operating leverage. Q2 FY27 gross margin was 62.1%, up 637 basis points, and EBITDA margin 40.3%, up 914 basis points, driven by higher pharma/CDMO contribution and operating leverage; management said raw material prices did not soften in the quarter. Ankleshwar was at 30% utilisation and battery chemicals at low utilisation, leaving room for incremental margins as volumes fill.

Key risks

- **CDMO revenue concentration on a single molecule.** The darolutamide intermediate is the anchor driver. Management declined to comment on darolutamide's formulation market, saying Acutaas is an intermediate supplier at the bottom of the pyramid. It now targets INR1,000 crore CDMO revenue in FY27 and INR2,000 crore by FY30, supported by eight to nine products entering revenue over the next one to one-and-a-half years. The second INR1,000 crore is expected to be more diversified, but concentration persists until those products convert.
- **Chinese competition in electrolyte additives.** Chinese manufacturers have historically dominated VC and FEC. Management says Acutaas sells on long-term contracts with raw material and currency pass-through, does not chase $30-35 spot prices, and expects early-teens realisations. If Chinese capacity additions cut prices, the battery ramp could run at lower margins than assumed; Q2 battery revenue was not disclosed.
- **Geopolitical and logistics disruption.** Management said on the Q2 FY27 call that pharma demand is robust and cost pressures from geopolitical issues have been passed on. The risk remains that a prolonged conflict pushes feedstock and freight costs higher faster than pass-through clauses reset, compressing gross margin.
- **Raw material price volatility.** The company sources most raw materials domestically and has reduced China dependence, but input prices still matter. Q2 FY27 gross margin expansion was a function of product mix and raw material; management said raw material prices did not soften in the quarter. A sustained input spike would test margins, especially under fixed-price contracts with reset lags.
- **Regulatory approval and customer qualification delays.** The four validated CDMO products were expected to contribute from H2 FY27; on the Q2 FY27 call management said new CDMO orders start in H2 FY27 and eight to nine products enter revenue over the next one to one-and-a-half years. If approvals or customer qualifications slip, the INR1,000 crore FY27 target and INR2,000 crore FY30 target are delayed.

- **Regulatory inspection failures.** The Sachin plant (83% utilization in Q1 FY27) is USFDA-approved and PMDA GMP-certified, and it produces the CDMO anchor product. A failed inspection or quality issue at Sachin would halt production of the company's most important revenue stream. The annual report notes the company undergoes over 100 customer and regulatory inspections in FY2025, and any lapse could "adversely affect the company's operations, financial performance, and reputation."
- **Execution risk in new verticals.** Battery chemicals delivered first commercial revenue in Q2 FY27 but revenue is undisclosed and ramp is guided over two to three quarters. Indichem was inaugurated but has no material FY27 revenue and targets FY28 ramp. The INR100 crore electronic-grade chemicals capex starts production only in H1 FY29. If these ramps slip, the mix shift and margin guidance are at risk.
- **Underutilised capacity.** Ankleshwar Unit 2 ran at 30% utilisation in Q2 FY27, and management expects no more than 40% by end-FY27 and full fill by FY28. The battery chemicals business is also at low utilisation as it ramps. If CDMO and battery volumes do not fill these assets, fixed costs pressure margins despite the 38-40% FY27 guidance.
- **Forex exposure.** 74% of revenue is exports. The Q1 FY27 call showed other income dropped from INR11 crores to INR1.8 crores due to euro exchange rate fluctuations. Management says they hedge and align purchases in the same currencies as revenue. The mechanism: INR appreciation against USD/EUR compresses margins and reported revenue, and the Q1 FY27 dip in other income shows the volatility is real.
- **Commodity phase-out gap.** Q2 FY27 specialty revenue fell 20% year on year on the commodity phase-out and a BFC shipment pause. Management says the phase-out takes about one and a half years and methyl salicylate may continue longer, while specialty revenue is expected around the H1 FY27 level for the full year. If battery and BFC ramp slower than the commodity decline, the segment drags on growth.

Scenarios

Bull case

The battery chemicals plant ramps over the next two to three quarters with orders in hand, and the third electrolyte additive has started commercial shipment. The CDMO target is pulled forward to INR1,000 crore in FY27, one year ahead, with a new INR2,000 crore FY30 target and eight to nine products entering revenue. Indichem is built and targets FY28 ramp. FY27 guidance is around 30% revenue growth and 38-40% EBITDA margin, and Q2 FY27 already delivered 40.3% EBITDA margin. Electronic-grade capex adds a new leg from H1 FY29.

Base case

FY27 delivers around 30% revenue growth and 38-40% EBITDA margin. H1 revenue grew 49.3%, so H2 growth normalises. Battery chemicals ramp gradually over two to three quarters, with revenue undisclosed. CDMO reaches INR1,000 crore in FY27, helped by new orders in H2. Indichem starts FY28 with no material FY27 revenue. Specialty stays around H1 level as commodities phase out. Working capital is 115 days and net cash INR300.9 crore.

Bear case

FY27 guidance is missed because H2 CDMO orders or battery ramp slip. Q2 specialty revenue fell 20%, and commodity phase-out takes about one and a half years. Battery revenue and utilisation are undisclosed, and Chinese pricing could compress additive margins. Indichem has no material FY27 revenue. Working capital at 115 days and INR300 crore capex absorb cash. EBITDA margin falls below 38-40% and revenue growth misses around 30%.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,339	1,782	2,290	2,899
Revenue growth	+33.0%	+33.1%	+28.5%	+26.6%
EBITDA (₹ Cr)	480	696	898	1,140
EBITDA margin	35.9%	39.1%	39.2%	39.3%
Depreciation (₹ Cr)	36.00	49.00	74.00	96.00
Interest (₹ Cr)	3.30	4.00	5.00	6.00
Other income (₹ Cr)	41.60	14.00	18.00	22.00
PBT (₹ Cr)	483	657	837	1,060
Tax (₹ Cr)	126	171	218	276
Tax rate	26.2%	26.0%	26.0%	26.0%
PAT (₹ Cr)	356	486	619	784
PAT growth	+122.2%	+36.4%	+27.3%	+26.7%
EPS (₹)	43.50	59.40	75.60	95.80
P/E	89.1x	65.2x	51.3x	40.4x
PEG	3.3x	2.4x	1.9x	1.5x

CAGR FY27E-FY29E: Revenue +27.5% · EBITDA +28.0% · PAT +27.0%

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Q2 FY27 concall notes

TLDR

Acutaas Chemicals reported Q2 FY27 revenue of ₹436.9 crores, up 42.7% YoY, with EBITDA of ₹176 crores at a 40.3% margin (up 914 bps YoY) and PAT of ₹123.1 crores, up 71.4% YoY. Advanced Pharmaceutical Intermediates grew 53.1% to ₹402 crores on CDMO ramp-up and over 25% growth in the core business; Specialty Chemicals fell 20% to ₹34.9 crores on commodity phase-out and a temporary BFC shipment pause after the U.S. customer's ownership change. Management raised FY27 revenue growth guidance to around 30% from 25% and EBITDA margin guidance to 38-40%, and now expects the ₹1,000 crore CDMO target in FY27, a year ahead of schedule, with a new ₹2,000 crore target by FY30. Battery chemicals booked first commercial revenue; the South Korea semiconductor plant was inaugurated ahead of schedule, with FY28 as the ramp-up year. Watch working capital at 115 days, the commodity phase-out running about 1.5 years, and CDMO concentration.

WHAT CHANGED SINCE Q1 FY27

- Revenue growth guidance raised to around 30% for FY27 from 25%.
- EBITDA margin guidance raised to 38-40% for FY27 from "similar to FY26"; management confirmed in Q&A the 38-40% range applies to FY27 only.
- CDMO target pulled forward: the ₹1,000 crore goal, earlier set for FY28 with management "confident to beat", is now expected in FY27 itself, one year ahead of schedule. A new ₹2,000 crore CDMO revenue target by FY30 was given, with CDMO margins expected in the same range as current.
- Battery chemicals moved from "commercial supply commenced" to first commercial revenue in Q2 FY27; the third product's initial commercial shipment was dispatched, and pilot-scale validation batches of a fourth product went to customers. Earlier guidance of full capacity by FY29 was not repeated.
- Indichem semiconductor plant was inaugurated in South Korea ahead of schedule; earlier the capex was due for completion by end-Q2 FY27 with revenue from FY28. FY28 is now described as the ramp-up year for initial products.
- New capex disclosed: bulk electronic grade chemicals, about ₹1,000 million in H2 FY27, production by H1 FY29, at least 3x asset turn expected. FY27 total capex now about ₹3,000 million versus the earlier ~₹90-95 crores base plus R&D and land.
- Working capital rose to 115 days from 99 days in Q1 FY27, driven by higher debtor days; the earlier build was inventory-led.
- BFC: the U.S. customer was acquired by another U.S. company, pausing shipments temporarily; supplies have resumed. Management still expects BFC growth this year.
- Segment margins were not restated this quarter (Q1: Spec Chem ~24%, Pharma ~36%); the pharma/CDMO split within Advanced Pharmaceutical Intermediates was declined.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹436.9 crores	+42.7% YoY	Pharma intermediates growth; specialty chemicals muted
Gross profit	₹271.5 crores	+59% YoY	Higher pharma intermediate contribution

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Gross margin	62.1%	+637 bps YoY	Product mix and raw material, not bifurcated by management; no raw material softening seen
EBITDA	₹176 crores	+84.6% YoY	Gross margin expansion and operating leverage
EBITDA margin	40.3%	+914 bps YoY	Same drivers
PAT	₹123.1 crores	+71.4% YoY	Not elaborated
PAT margin	28.2%	+472 bps YoY	Not elaborated
Advanced Pharmaceutical Intermediates revenue	₹402 crores	+53.1% YoY	CDMO growth plus over 25% growth in core pharma business on new and top products
Specialty Chemicals revenue	₹34.9 crores	-20% YoY	Commodity phase-out and temporary BFC shipment pause
H1 FY27 revenue / EBITDA / PAT	₹766.6 crores / ₹289 crores / ₹198.1 crores	+49.3% / +97.7% / +71% YoY	H1 EBITDA margin 37.7%, +922 bps YoY
Net cash and cash equivalents	₹300.9 crores	As on 30 Sep 2026	Down from ₹314 crores on 30 Jun 2026
Working capital	115 days	vs 99 days in Q1 FY27 (QoQ)	Higher debtor days
Capacity utilization	Ankleshwar 30% in Q2 FY27	vs 23% in Q1 FY27 (QoQ)	CDMO ramp; expected not above 40% by end-FY27
H1 FY27 capex	₹123.9 crores	n/a	Electrolyte additive project, pilot plant, Indichem site, maintenance

SEGMENTS & GEOGRAPHIES

- **Advanced Pharmaceutical Intermediates**: Revenue ₹402 crores, +53.1% YoY. CDMO grew on orders for previously validated products; core pharma grew over 25% on new product ramp-up and top products. Management expects CDMO to reach ₹1,000 crores in FY27 and ₹2,000 crores by FY30, with the second ₹1,000 crores more diversified across molecules and customers.
- **CDMO pipeline**: Eight to nine products are expected to enter the revenue stream over the next one to one and a half years, including the four validated earlier. New CDMO contracts are expected to contribute from H2 FY27. Two pipeline products have the potential to become billion-dollar products for innovator customers, per management. Product-wise revenue was not disclosed.
- **Specialty Chemicals**: Revenue ₹34.9 crores, -20% YoY. Parabens and MS commodity products are being phased out, expected to take about 1.5 years; MS may run longer because of existing customers. BFC shipments resumed after the U.S. customer ownership change, and management expects BFC growth this year. Segment revenue is expected to stay around the H1 FY27 level with battery chemicals ramping, and to grow versus last financial year.
- **Battery chemicals**: First commercial revenue in Q2 FY27 for VC and FEC, with the third product shipped commercially ahead of schedule and fourth product in pilot-scale validation. Ramp-up expected over the next two to three quarters. Pricing follows long-term contracts with raw material and forex pass-through; management expects early-teens dollar pricing, not the $30-35 spot levels.
- **Semiconductor chemicals (Indichem, South Korea)**: Plant inaugurated ahead of schedule; qualification batches being submitted to Korean customers. FY28 is the ramp-up year for initial products, with no large revenue or

profitability expected this year. Target customers are photoresist and fab industry players in Korea and Japan; India is not a target market now because the ecosystem has not matured.

STRATEGY & COMPANY-SPECIFIC

- **CDMO target reset**: ₹1,000 crores CDMO revenue expected in FY27, one year ahead of the original FY28 ambition, and ₹2,000 crores by FY30, with margins in the current CDMO range.
- **Bulk electronic grade chemicals capex**: About ₹1,000 million in H2 FY27, completion in about 1.5 years, production from H1 FY29, at least 3x asset turn expected. Products are bulk electronic chemicals and solvents; the plan starts with electronic grade only.
- **Electrolyte additive Phase 2**: About ₹450 million of H2 FY27 capex.
- **FY27 capex**: About ₹3,000 million total, of which ₹1,239 million spent in H1 and ₹1,650 million planned for H2; excludes planned R&D capex and land acquisition.
- **Ankleshwar**: ₹330 crores invested; utilization 30% in Q2 FY27, expected to largely fill by FY28. Land acquisition is underway for the next pharma capacity round, with size and scale of the following capex to be decided after that.
- **No forward integration**: Management reiterated no plans to enter LiPF6 or electrolyte solutions, and no API forward integration, with a policy of not competing with customers.
- **Molecule status**: CAPLYTA partner is qualified with the DMF filed, awaiting product launch; apixaban is picking up with sufficient capacity.
- **Revenue mix**: Pharma share expected to move from 87% to about 80% in three years as battery and semiconductor grow faster.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	Around 30%	Raised (from 25%)	Strong pharma intermediates demand and CDMO order book
FY27 EBITDA margin	38-40%	Raised (from similar to FY26)	Product mix, H2 FY27 order book, operating leverage from low battery and Ankleshwar utilization
CDMO revenue FY27	₹1,000 crores	Raised (earlier FY28 target, confident to beat)	Customer visibility and contracts in place
CDMO revenue FY30	₹2,000 crores	New	New and existing CDMO pipeline; second ₹1,000 crores more diversified
CDMO margin at ₹2,000 crores	Same range as current	New	Not elaborated
FY27 capex	About ₹3,000 million	Raised (from ~₹90-95 crores base plus R&D/land)	H1 ₹1,239 million; H2 ₹1,650 million including electronic grade and electrolyte Phase 2
Electronic grade chemicals production	H1 FY29	New	About 1.5-year capex build
Ankleshwar utilization	Not above 40% by end-FY27; largely filled by FY28	Maintained	CDMO ramp

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Battery chemicals ramp-up	Next two to three quarters	n/a (full capacity by FY29 not repeated)	Orders in hand
Semiconductor revenue	FY28 ramp-up year for initial products	Maintained	Customer qualification underway
BFC	Growth this year	Maintained	Shipments resumed; orders from U.S., Korean and Japanese customers
Specialty chemicals	Around H1 FY27 level, growth vs last year	Maintained	Battery ramp offsetting commodity phase-out

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Working capital	Rose to 115 days from 99 days in Q1 FY27 on higher debtor days
Commodity phase-out	Parabens and MS exit takes about 1.5 years; MS may run longer as customers set up alternative supply
BFC customer concentration	U.S. customer ownership change caused a temporary shipment pause; supplies have resumed
CDMO concentration	Product-wise and pharma/CDMO split not disclosed; darolutamide and innovator pipeline questions declined
Semiconductor ramp	No large revenue or profitability this year; customer qualification is a long, time-consuming process per customer
Geopolitical and supply chain	Management cited geopolitical, supply chain, logistics, power and water concerns as ongoing; cost pressures passed on successfully so far
India semiconductor timing	Any delay in the Indian ecosystem delays that opportunity; current capacity is aimed at export markets
Competition	Management noted opportunities may not all be captured because of competition

Q&A HIGHLIGHTS

CDMO product count and revenue split Asked how many new CDMO products would contribute this year and within the ₹2,000 crore target, management said four products were validated a few quarters back and eight to nine products in total enter the revenue stream over the next one to one and a half years, but declined product-wise revenue guidance.

Darolutamide and innovator pipeline Asked about darolutamide adoption and a potential indication expansion, management said it supplies an intermediate for an innovator product and cannot comment on formulation markets or the customer's trials; it tracks customer orders and expects to benefit from customer growth over the next three years.

Electronic grade chemicals Asked about product type and asset turn, management said it will be bulk electronic chemicals and solvents, expects at least 3x asset turn (not 2x), declined to comment on realization, and confirmed production from H1 FY29 after about 1.5 years of capex.

Electrolyte pricing Asked whether electrolyte realizations would track the $30-35 spot levels, management said long-term contracts reset pricing on raw material and forex, and it expects early-teens dollar pricing rather than spot levels, with a philosophy of earning a good return and timely payback rather than riding price swings.

Margin guidance duration Asked whether the 38-40% EBITDA margin guidance extends beyond FY27, management said it is for FY27, supported by the H2 FY27 order book, and that operating leverage will build as Ankleshwar (30%) and battery chemicals (low utilization) scale.

South Korea facility economics Asked whether initial semiconductor economics would be lower on startup costs, management said the plant was inaugurated last quarter, this year is for customer qualification, revenue starts next financial year, and it will ramp slowly with good customer inquiries and pilot dispatches.

Ankleshwar utilization and future capex Asked about utilization at ₹1,000 crores and ₹2,000 crores of CDMO revenue, management said Ankleshwar was at 30% in Q2 FY27 and should not exceed 40% by end-FY27; future utilization depends on volume, realization and processes, and land acquisition precedes the next capex decision.

Specialty chemicals steady state Asked how much commodity revenue remains and the steady-state level, management declined a split, said specialty revenue stays around the H1 FY27 level with battery ramp-up, and expects growth versus last financial year.

Symbiotec
Pharmalab

GROWTH TRIGGERS

The bull case rests on Symbiotec converting three newly contracted or newly commissioned franchises into recurring revenue: US DCV injectables, European and US alternate-protein fermentation CDMO, and insulin drug substance. The API base funds the transition, while customer co-funding and milestone receipts reduce the capital risk. The single variable that matters most is whether these contracts move from signed agreements and filed ANDAs into commercial supply and toll-fee revenue over FY28-FY29.

1. European alternate-protein contract creates a multi-tens-of-millions-dollar toll-fee stream

Symbiotec signed a 10-year take-or-pay agreement with a Europe-based alternate protein company. Phase 1 adds 750 KL at Ujjain and management expects major toll-fee revenue in FY28-29, with Phase 2 above one million litres. The customer is expected to fund a significant part of capex, reducing Symbiotec's net investment.

2. US DCV agreement already contributes milestone revenue

The 30 September US agreement gives Symbiotec three revenue streams: development and regulatory milestones, eventual product supply, and profit share. Q2 FY27 already included ₹53 crore of milestone revenue, and management expects annual recurrence for the next couple of years. The first ANDA was filed in September and the second is planned for Q4 FY27.

3. Insulin drug-substance facility is near commissioning with a five-year take-or-pay contract

The insulin drug-substance facility, built for a little over ₹100 crore, is almost ready. Validation batches are expected in Q4 FY27 and sales should commence mid-FY28 under a five-year take-or-pay contract. About 50% of capacity is contracted to the first customer, leaving room for higher-value products and GLP-1 analogues.

4. Biomanufacturing pipeline gives second and third anchor customers

Management says it is in advanced discussions with around four biomanufacturing customers. The Ujjain site now spans 72 acres, with 400 KL of existing fermentation capacity and phased expansion designed for several million litres. If these customers sign, the same site can absorb additional take-or-pay contracts.

5. API base is growing faster than the end markets

API revenue grew 16% in Q2 FY27 and 11% in H1, driven by volume and better geography and product mix. Gross margin held above 60% and EBITDA margin around 30%. Management guides high-single-digit to low-double-digit annual growth for the steroid hormone API business, giving a durable base for the newer verticals.

6. Vegan D3 and classical fermentation add non-pharma and regulated-market options

The vegan vitamin D3 plant is targeted for completion and qualification by end-FY27, with non-pharma revenue from early FY28. Two classical fermentation products are already commercialised in India, with six more in development and regulated-market entry targeted in 2-3 years. Management sees synthetic biology as a route to proprietary products.

7. Capital discipline is anchored by customer co-funding and annual capex limits

Management maintains annual corporate capex of ₹200-300 crore and expects the customer to fund a significant part of the European Phase 1 project. H1 FY27 capex was ₹113 crore and net debt was ₹314 crore as of 30 September. Milestone receipts and customer contributions can fund expansion without requiring the full project cost from Symbiotec.

INVESTMENT THESIS

Symbiotec Pharmalab is a fermentation-based steroid and hormone API manufacturer that has spent several years building three additional platforms: complex injectables using dual-chamber vials, fermentation CDMO services for alternate proteins and industrial biotech, and biologics drug substance, starting with insulin. The investment question is whether the capital already deployed and now being committed converts into revenue and margins fast enough to justify the expanded asset base.

The core API business is the funding engine. In Q2 FY27, API revenue was ₹227 crore, up 16% year-on-year, and H1 FY27 API revenue grew 11%. Management attributes growth primarily to volume, with some benefit from better geography and product mix, even as API price pressure continues. Gross margin in the API business held above 60% and EBITDA margin was around 30% in Q2 and H1. Management guides high-single-digit to low-double-digit annual growth for the steroid hormone API business over the visible period. That is not a high-growth base, but it is a cash-generative, regulated-market franchise with over 60 steroid and hormone molecules, 44 US DMFs and 25 European CEPs, according to management. The backward-integration status, built from 2008 to 2015, gives the company a make-versus-buy option on intermediates and has historically protected gross margin. Management estimated that recent solvent and logistics cost inflation affected gross margin by only 2-3% and described it as temporary.

The nearest new revenue stream is complex injectables. On 30 September, Symbiotec signed a long-term US agreement for two dual-chamber vial products. Symbiotec is responsible for development, regulatory submissions, manufacturing and supply; the partner handles US commercialisation. The agreement creates three revenue streams: development and regulatory milestones, product supply, and profit share. Q2 FY27 already included ₹53 crore of completed milestones, recognised as revenue. Management expects annual milestone recurrence for the next couple of years before product sales become material. The first ANDA was filed in September and the second is planned in Q4 FY27. Management expects FDA approval and inspection in late calendar year 2027, with commercialisation in FY27-28 and product supply from next fiscal year.

The fermentation CDMO opportunity is larger but earlier in execution. Symbiotec has signed 10-year take-or-pay agreements with a US alternate protein company and a Europe-based alternate protein company. The US programme is expected to start commercial batches in Q1 FY28 from existing capacity. The European programme starts with Phase 0 at existing 100 KL Ujjain capacity from end-FY27, then Phase 1 adds 750 KL and is targeted for major toll-fee revenue in FY28-29. Management describes multi-tens-of-millions of dollars of toll fees, mainly from Phase 1, with raw material costs passed through. Phase 2 could go above one million litres and management estimated total Phase 2 cost at roughly ₹1,000 crore, with a

significant part expected from the customer. This is an operating-leverage thesis: the same Ujjain site, 72 acres after a 40-acre acquisition, can add phased fermentation capacity against contracted demand.

The biologics vertical is the third leg. The insulin drug substance facility, built for a little over ₹100 crore, is almost ready. Validation batches are expected in Q4 FY27 and sales from mid-FY28 after regulatory approvals, under a five-year take-or-pay contract. About 50% of capacity is contracted to the first customer, but management deliberately kept the rest for higher-value products, including GLP-1 analogues and other insulin analogues. Management hired a biologics subject-matter expert, whose changes caused a couple of months of delay but were intended to align the facility with evolving regulatory standards. This vertical is earlier than the fermentation CDMO business but uses the same microbial fermentation capability and targets drug substance rather than fill-finish, where management sees more durable science and fewer capable suppliers.

The financial shape in Q2 FY27 shows the operating leverage potential. Consolidated revenue grew 43% to ₹280 crore, EBITDA grew 88% to ₹94 crore, and PAT grew 169% to ₹52 crore. That quarter included ₹53 crore of DCV milestone revenue and ₹3 crore of one-time IPO expenses debited to the P&L. H1 FY27 revenue grew 25% and EBITDA grew 29%. H1 FY27 capex was ₹113 crore and net debt was ₹314 crore as of 30 September. Management maintained FY27 guidance of approximately 20% revenue growth and around 25% EBITDA growth, with a range of 5 percentage points either side. This is management guidance, not an analyst projection.

Capital allocation is the central risk and the central test. The company has already invested over ₹1,000 crore in these verticals, according to management, and plans ₹200-300 crore of corporate capex every year. The European Phase 1 project benefits from significant customer capex participation, and the US and European alternate-protein contracts are take-or-pay, which reduces demand risk if the counterparties perform. But the milestones that matter are binary and dated: FDA approval and inspection for DCV products in late calendar 2027, Phase 1 European toll-fee revenue in FY28-29, insulin sales from mid-FY28, and vegan D3 non-pharma revenue from early FY28. Until those print, the consolidated financials remain a mix of a profitable API base and capital-consuming new verticals.

The falsifiers are clear. If the DCV ANDA slips beyond late calendar 2027 or commercial uptake is slow, the nearest injectable catalyst weakens. If the European alternate-protein customer does not fund its share or Phase 1 construction slips beyond FY29, the largest new toll-fee stream is deferred. If insulin regulatory approvals slip beyond mid-FY28, the biologics contribution is delayed. If API volume growth stalls while price pressure persists, the base that funds the transition weakens. And if annual capex remains at ₹200-300 crore without matching customer contributions or revenue, net debt and return ratios come under

pressure. The thesis therefore rests on demonstrated conversion of signed agreements and filed products into commercial revenue, not on the breadth of the opportunity set.

RESEARCH REPORT

Q2 FY27 update

Symbiotec reported Q2 FY27 consolidated revenue of ₹280 crore, up 43% year-on-year, and H1 FY27 revenue growth of 25%. Q2 EBITDA was ₹94 crore, up 88%, and PAT was ₹52 crore, up 169%. The API business grew 16% in Q2 and 11% in H1 on volume, with API gross margin above 60% and API EBITDA margin around 30%. Q2 included ₹53 crore of milestone revenue from the complex injectable agreement signed on 30 September for two DCV products for the US. Management maintained FY27 guidance of approximately 20% revenue growth and around 25% EBITDA growth, with a range of 5 percentage points either side. H1 FY27 capex was ₹113 crore and net debt was ₹314 crore as of 30 September.

The offer

Symbiotec Pharmalab Limited is raising a total of ₹17,570.00 million through this IPO. The offer splits into two parts: a fresh issue of up to ₹1,500.00 million that goes to the company, and an offer for sale of up to ₹16,070.00 million that goes entirely to three selling shareholders. The company receives roughly 8.5% of the total offer proceeds. The remaining 91.5% is existing shareholders cashing out.

What is being sold

The offer has two components.

The fresh issue is up to ₹1,500.00 million worth of new equity shares, face value ₹2 each. This money flows to the company's balance sheet.

The offer for sale is up to ₹16,070.00 million worth of existing equity shares, also face value ₹2 each, sold by three shareholders:

- Rosewood Investments: up to ₹9,880.00 million
- India Business Excellence Fund – III: up to ₹4,750.00 million
- Satwani Holdings LLP: up to ₹1,440.00 million

The document does not disclose the number of shares each selling shareholder holds pre-offer, so the percentage of their holding being sold cannot be determined from the RHP. Satwani Holdings LLP is the corporate promoter, holding 17.97% of the pre-offer equity share capital on a fully diluted basis as of the RHP date. Rosewood Investments and India Business Excellence Fund – III are financial investors.

This is overwhelmingly an offer for sale. The company is not raising growth capital in any meaningful sense; existing holders are monetising their stakes.

What the company receives versus what selling shareholders receive

The company receives the net proceeds from the fresh issue: ₹1,500.00 million minus its share of offer-related expenses. The exact net amount will be determined once the offer price is set.

The selling shareholders receive the ₹16,070.00 million from the offer for sale, minus their respective portions of offer-related expenses and applicable taxes. The company will not receive any of these proceeds.

What the money does

The company has two stated objects for the net proceeds, neither of which adds manufacturing capacity.

Repayment of borrowings: ₹1,125.00 million

The entire allocated amount is earmarked for deployment in Fiscal 2027. It will go toward prepaying or repaying a portion of the company's working capital borrowings. As of March 31, 2026, the company had total fund-based outstanding borrowings on a standalone basis of ₹3,497.81 million.

The document identifies two specific facilities from which the repayment will be made:

- A cash credit facility from State Bank of India, sanctioned at ₹1,600.00 million, with ₹1,226.51 million outstanding as of March 31, 2026, carrying an interest rate of 8.20% per annum.
- A cash credit facility from HDFC Bank Limited, sanctioned at ₹800.00 million, with ₹690.97 million outstanding as of March 31, 2026, carrying an interest rate of 7.75% per annum.

Combined outstanding on these two facilities was ₹1,917.48 million. The company will select which borrowings to repay based on cost of borrowing, prepayment conditions, consent from lenders, prepayment penalties, and other commercial considerations.

This use of proceeds reduces interest costs and improves the debt-equity ratio. It adds no capacity, no new products, and no revenue-generating assets. The company states that a stronger balance sheet will help it raise future capital at competitive rates for business development and expansion, but that is downstream potential, not a direct output of the IPO proceeds.

General corporate purposes: unallocated balance

The remaining net proceeds, after the ₹1,125.00 million debt repayment, will go toward general corporate purposes. The amount is not yet fixed because it depends on the final offer

price and the net proceeds after expenses. It cannot exceed 25% of the gross proceeds from the fresh issue, per SEBI regulations.

The company lists what this bucket may cover: ongoing corporate contingencies, ordinary-course expenses, strategic initiatives, capital expenditure, operating expenditure, technology expenses, working capital requirements, and consultant fees. This is an unallocated, discretionary pool. The board or a duly constituted committee will decide how to deploy it.

No part of the fresh issue proceeds is allocated to the greenfield projects at subsidiaries Knovea Pharmaceutical Private Limited and Symbiotec Zenfold Private Limited, which represent ₹9,736.70 million in capital employed as of March 31, 2026. Those projects are being funded through internal accruals, subsidiary-level debt, and loans from the parent company. The IPO proceeds do not accelerate their commissioning or expand their scope.

What Symbiotec does: The API and CDMO platform

Symbiotec Pharmalab Limited manufactures active pharmaceutical ingredients (APIs) and related intermediates, primarily corticosteroids and steroid hormones, using fermentation-based technology. It also operates as a contract development and manufacturing organisation (CDMO), developing specialty injectables including double-chamber vial products, and a fermentation CDMO vertical serving alternate protein and biologics customers. The company reported Q2 FY27 revenue of ₹280 crore, up 43% year-on-year, with ₹53 crore of DCV milestone revenue included; the API business grew 16% in Q2.

The company generates revenue from two streams: API sales and CDMO services. Both are disclosed as key performance indicators in the offer document, though the company does not provide a percentage revenue split between them.

The API business: Corticosteroids and steroid hormones

The company's API portfolio splits into two therapeutic categories.

Corticosteroids are anti-inflammatory drugs used in conditions like asthma, arthritis, allergies and autoimmune disorders. Symbiotec produces prednisolone, hydrocortisone, betamethasone valerate, methylprednisolone and triamcinolone acetonide.

Steroid hormones serve genito-urinary and reproductive health applications. The portfolio includes progesterone, testosterone, estrone and hydroxyprogesterone caproate, used in hormone replacement therapy, contraception, fertility treatment and prenatal care.

These APIs are supplied to pharmaceutical companies in regulated and semi-regulated markets who formulate them into finished dosage forms - tablets, injections, creams - for end patients.

The CDMO business: Specialty injectables and double-chamber technology

The CDMO operation develops and manufactures specialty injectables for global pharmaceutical and biotech firms. The defining capability here is the double-chamber delivery system, which comes in two forms.

The double-chamber vial (DCV) separates a lyophilised (freeze-dried) drug powder from its diluent in a single vial with two compartments. At the point of injection, the healthcare provider activates the vial to mix the two, then administers the reconstituted drug. This solves a real problem: many injectable drugs are unstable in liquid form and must be shipped as powder with separate diluent vials. The DCV eliminates the extra vial, the separate mixing step and the associated contamination risk.

The double-chamber syringe (DCS) applies the same principle to a pre-filled syringe format.

Symbiotec has developed DCV presentations for two products - methylprednisolone sodium succinate injection and hydrocortisone sodium succinate - and states it is one of the first generics companies globally to do so through backward integration, using in-house materials rather than imports. The company has achieved proof of concept for the DCS format.

These products are being developed under the Section 505(b)(2) regulatory pathway of the US Food, Drug, and Cosmetic Act, which allows a manufacturer to rely on existing safety and efficacy data for the active ingredient rather than conducting full clinical trials from scratch. This is a faster and cheaper route to market than a new drug application.

The company signed a long-term US agreement on 30 September for two complex injectable products using its dual-chamber vial platform. Symbiotec is responsible for development, regulatory submissions, manufacturing and supply, while the partner commercialises and distributes in the US. The two products together address around USD 300 million annually in the US. Q2 FY27 included ₹53 crore of invoiced milestone revenue. The first ANDA was filed in September; management expects FDA approval and inspection in late calendar year 2027 and product commercialisation in FY27-28.

How the technology works

Fermentation is the core manufacturing process. The company grows microorganisms in large vessels (fermenters) under controlled conditions, and those organisms produce the steroid molecule as part of their metabolism. The resulting broth is then purified through multiple chemical and physical separation steps to isolate the API at pharmaceutical-grade purity.

This is distinct from purely synthetic API manufacturing, where the molecule is built through sequential chemical reactions. Fermentation is more capital-intensive and technically complex - it requires maintaining sterile conditions, managing living organisms and controlling multi-step downstream purification - but it is the only commercially viable route

for many steroid molecules whose chemical structures are too complex for cost-effective synthesis.

The company's manufacturing facilities hold regulatory accreditations from US FDA and EU-GMP authorities, which are prerequisites for supplying APIs into regulated markets like the United States and Europe. These certifications require ongoing compliance with current good manufacturing practices and are subject to periodic re-inspection.

How the segments fit together

The API business is the established, revenue-generating core. It operates from existing manufacturing facilities with a track record of supplying regulated markets.

The CDMO business, particularly the DCV products, is the growth bet. It uses the same underlying fermentation and steroid chemistry expertise but moves the company closer to the end patient with a differentiated finished dosage form. The backward integration claim matters here: because Symbiotec manufactures its own API for these injectables, it does not depend on third-party API suppliers, which gives it cost control and supply security that a pure-play CDMO would lack.

The greenfield capacity programme now includes the Ujjain fermentation CDMO site, where Symbiotec has 400 KL of existing capacity and has expanded land to 72 acres after acquiring 40 more acres. A 750 KL Phase 1 expansion is dedicated to the European alternate-protein customer, with significant customer capex participation, and Phase 2 could add a few million litres. The insulin drug-substance facility, with capex a little over ₹100 crore, is expected to commission in Q4 FY27. H1 FY27 capex was ₹113 crore and net debt was ₹314 crore as of 30 September.

Revenue from operations was ₹8,691.49 million in fiscal 2026, up from ₹7,515.54 million in fiscal 2025 and ₹7,162.47 million in fiscal 2024. In Q2 FY27, consolidated revenue was ₹280 crore, up 43% year-on-year, and H1 FY27 revenue grew 25%. Q2 FY27 EBITDA was ₹94 crore, up 88%, and H1 EBITDA was ₹140 crore, up 29%. Q2 PAT was ₹52 crore, up 169%. Q2 API revenue was ₹227 crore, up 16%, with API gross margin above 60% and API EBITDA margin around 30%. The quarter included ₹53 crore of DCV milestone revenue.

API (Active Pharmaceutical Ingredients)

Symbiotec Pharmalab manufactures active pharmaceutical ingredients and related intermediates, concentrated on corticosteroids and steroid hormones. The core capability is fermentation-based technology. The company states it is "primarily engaged in the manufacture of API-grade products, which are supplied to regulated and semi-regulated markets and are subject to stringent quality systems, regulatory audits, and customer qualification processes."

The company's central claim is a backward-integration achievement: it developed DCV (a key intermediate) using in-house materials rather than imports. The RHP states:

> *"Symbiotec is one of the first generics companies globally to successfully develop DCV through backward integration, by relying on in-house materials and not imports, for methylprednisolone sodium succinate injection and hydrocortisone sodium succinate."*
>
> **RHP, INDUSTRY OVERVIEW**

These two products have an expected launch in fiscal 2027 with a US market size of USD 288 million. The company's Section 505(b)(2) pipeline targets an addressable market of USD 890 million globally in 2025, growing at a CAGR of 5.7% to 2026F.

What took years to build is the fermentation capability itself. Steroid APIs are produced through complex biotransformation pathways requiring specialised fermenters, strain development, and extraction processes. The regulatory barrier is high: injectable-grade APIs face significantly tighter oversight than oral generics because injectables bypass physiological barriers. The document notes that regulatory oversight of injectable products is "significantly more stringent than for oral generics" and authorities impose "strict requirements on sterility assurance, endotoxin and particulate control, and aseptic processing."

The manufacturing footprint is at the company's facility at 385/2, Pigdamber, Rau, Mhow, Indore, Madhya Pradesh. The document defines Fermentation Capacity as "total actual volume (in KL) that can be processed/handled in all the fermenters installed at such manufacturing facility." Specific capacity figures in kilolitres are not disclosed in the provided sections. Property, plant and equipment stood at ₹10,843.87 million as of March 31, 2026, up from ₹4,015.37 million a year earlier, reflecting the capex cycle. Capital work-in-progress was ₹644.81 million as of March 31, 2026, down from ₹5,681.65 million the prior year, indicating some projects moved to commissioned assets.

The customer base spans regulated and semi-regulated markets. A notable disclosure: "two out of the top five customers were innovators as of March 31, 2026." This is significant because innovator companies typically have the most demanding quality audits and supply-chain qualification processes. Winning their business signals manufacturing quality that has passed the highest bar. Trade receivable days have been rising: 61 days in FY2024, 73 in FY2025, and 78 in FY2026, which the company flags as a counterparty credit risk.

The end markets are anti-inflammatory, immunosuppressant, and hormone replacement therapies. The corticosteroid API market was valued at USD 421.2 million in 2025, growing at a moderate 1.6-3.0% CAGR to 2030F. The hormones API market was USD 300.7 million in 2025, growing at 1.0-2.5% CAGR. These are mature, slow-growth markets. The broader

fermentation API market is larger at USD 100.4 billion in 2025, growing at 10.1% CAGR to USD 162.5 billion by 2030, driven partly by supply chain shifts away from China. The company benefits from this China-plus-one dynamic: "Rising geopolitical concerns, supply chain vulnerabilities, and stricter environmental norms have led to a gradual shift in fermentation API production away from China. India is emerging as a competitive alternative."

Revenue from operations for the full company was ₹8,691.49 million in FY2026, ₹7,515.54 million in FY2025, and ₹7,162.47 million in FY2024. The document defines API Revenue as a KPI but does not disclose the percentage split between the API and CDMO segments. The company-level cost structure gives a proxy for the API segment's economics: raw material, packing material and consumables consumed was ₹3,020.87 million in FY2026 (34.8% of revenue from operations), employee benefit expenses were ₹1,543.39 million (17.8%), and other expenses were ₹1,614.89 million (18.6%). Finance costs rose to ₹253.27 million from ₹160.36 million, consistent with the borrowing to fund the capex cycle.

On competitors, the document does not name specific API competitors in the provided sections. The industry section discusses the corticosteroid and hormone API markets broadly. The risk factors note supply chain risks from reliance on key starting materials sourced from China, which is an industry-wide vulnerability.

A litigation disclosure warrants attention: Balaji Steroids and Hormones Private Limited filed a civil suit alleging that disclosures in the offer documents tarnished its reputation, seeking compensation of ₹1,000.00 million. This is not a routine disclosure and relates directly to competitive positioning claims made in the document.

The company's borrowings stood at ₹3,497.81 million in total fund-based outstanding as of March 31, 2026, split between current borrowings of ₹3,195.01 million and non-current of ₹684.13 million. The API business is capital-intensive, and the fermentation infrastructure behind the ₹10,843.87 million gross block represents the barrier to entry. A new entrant would need to build fermenters, develop strains, navigate regulatory approvals, and qualify with customers - a multi-year process.

The company's credit rating from CARE Ratings is A+ for long-term bank facilities and A1 for short-term facilities as of December 31, 2025, indicating adequate credit quality but not the highest investment grade.

CDMO (Contract Development and Manufacturing Organisation)

Symbiotec's CDMO segment is the forward-integration play built on top of its steroid hormone API base. The company takes the APIs it already manufactures and develops them into finished-dosage injectables for innovator pharmaceutical companies. This is not a commoditised fill-finish operation. The core capability that took years to build is the

development of specialty injectables using double-chamber technology, where the company achieved backward integration by using in-house materials rather than imports.

The document states:

> *"Symbiotec is one of the first generics companies globally to successfully develop DCV through backward integration, by relying on in-house materials and not imports, for methylprednisolone sodium succinate injection and hydrocortisone sodium succinate."*
>
> **INDUSTRY OVERVIEW**

DCV stands for double-chamber vial. A double-chamber system keeps the lyophilised powder and the diluent separate in a single vial until the moment of injection. This matters for steroids like methylprednisolone and hydrocortisone because they are unstable in solution. Making the system work requires precision in the lyophilisation cycle, vial geometry, and stopper mechanics. Doing it with in-house API means the company controls the particle-size distribution and impurity profile of the active ingredient going into that chamber, which reduces the number of variables during regulatory review.

The company also states it has achieved Proof of Concept in DCS (double-chamber syringe), a more complex form factor where the two chambers sit inside a pre-filled syringe rather than a vial.

Products and pipeline

The two lead CDMO products are methylprednisolone sodium succinate injection and hydrocortisone sodium succinate injection, both in DCV format. The document states these are being developed under the Section 505(b)(2) regulatory pathway of the US Food, Drug, and Cosmetic Act. That pathway allows a company to rely on published literature or the FDA's prior finding of safety for the reference drug, rather than conducting entirely new preclinical and clinical studies. It is faster than a full New Drug Application but still requires demonstration of comparable quality, safety, and efficacy.

The document estimates the combined US market size for these two products at USD 288 million, with an expected launch in fiscal 2027. The broader pipeline of products under the 505(b)(2) pathway is estimated to have an addressable market of USD 890 million globally in 2025, growing at a CAGR of 5.7% between 2025 and 2026F, per the F&S report commissioned for the offer.

The document does not disclose a revenue figure or revenue-mix percentage for the CDMO segment. CDMO Revenue is listed as a defined KPI, but the financial statements do not break out segment revenue. Since the two lead products have not yet launched (expected fiscal 2027), CDMO revenue in the reported years through fiscal 2026 is likely either zero or immaterial, coming from early-stage development work.

Who buys and why

The customers are innovator pharmaceutical companies. The document states that two of Symbiotec's top five customers were innovators as of March 31, 2026. Innovators outsource to a CDMO when the product is a complex injectable that requires specialised manufacturing capability they do not have in-house, or when the API is a steroid hormone that carries cross-contamination risk requiring dedicated facilities.

The value proposition for the customer is that Symbiotec offers the API and the finished dosage form from the same company. That removes a handoff point. In a 505(b)(2) filing, the API manufacturer and the finished-dose manufacturer both appear in the Chemistry, Manufacturing, and Controls (CMC) section of the application. When they are the same entity, the regulatory risk from supplier change is lower, and the timeline for responding to FDA queries about the API-to-formulation interface is shorter.

The document also notes that injectables face significantly more stringent regulatory oversight than oral generics because they bypass normal physiological barriers and carry higher contamination risks. This higher bar acts as a barrier to entry and means that once an innovator qualifies a CDMO for an injectable product, switching costs are high.

Manufacturing footprint and capacity

The document does not disclose a separate capacity figure for the CDMO segment. The company's manufacturing infrastructure is described primarily in terms of its API facilities. The greenfield project capital employed was Rs 9,736.70 million as of March 31, 2026, but the document does not specify what portion of that relates to injectable finishing capacity versus API expansion.

The company has subsidiaries that appear to house the forward-integration assets. Knovea Pharmaceutical Private Limited and Symbiotec Zenfold Private Limited are the entities receiving loans from the parent for capital expenditure on their greenfield projects. The parent provided loans of Rs 2,014.92 million to Knovea and Rs 3,123.95 million to Symbiotec Zenfold during fiscal 2026. These entities are described as receiving funding for "capital expenditure" and "funding of margin money" for their greenfield projects. The document does not disclose what those greenfield projects produce, but the context of the CDMO segment suggests they are the injectable finishing facilities.

Competitive position

The document names no competitors in the CDMO segment. The competitive claim is the backward-integration point: the company states it is one of the first generics companies globally to develop DCV using in-house materials. That claim is narrow but specific. It positions the company against other steroid API manufacturers who might attempt the same

forward integration, and against pure-play injectable CDMOs who would need to source steroid APIs from third parties.

The barrier is threefold: the API itself (steroid hormones require fermentation capability and dedicated facilities to prevent cross-contamination), the DCV technology (which is a formulation and device-engineering problem), and the 505(b)(2) regulatory pathway (which requires experience with US FDA filings for complex injectables). A competitor would need all three.

The document also discloses a civil suit filed by Balaji Steroids and Hormones Private Limited against the company, alleging that disclosures in the offer documents tarnished its reputation, seeking compensation of Rs 1,000 million. Balaji Steroids is not named as a competitor in the document, but the name suggests it operates in the same steroid space.

Revenue trajectory

The CDMO segment is pre-revenue for its lead products. The expected launch is fiscal 2027. The document does not disclose any development fees, milestone payments, or other CDMO revenue recognised in fiscal 2024, 2025, or 2026. The company's total revenue from operations was Rs 7,162.47 million in fiscal 2024, Rs 7,515.54 million in fiscal 2025, and Rs 8,691.49 million in fiscal 2026. That revenue appears to be almost entirely from the API segment.

The CDMO segment has begun recognising milestone revenue rather than being wholly pre-revenue. Q2 FY27 included ₹53 crore of completed contractual milestones from the DCV agreement. Management expects milestone revenue to continue in subsequent quarters and to remain broadly consistent year-on-year for the next couple of years, with product supply beginning next fiscal year and profit share after commercial sales.

How the business is structured: Manufacturing infrastructure and capacity

Symbiotec operates its API manufacturing and CDMO business from a network of facilities in Madhya Pradesh. The parent company runs an established manufacturing site at Pigdamber, Indore, while two subsidiaries - Knovea Pharmaceutical and Symbiotec Zenfold - are building greenfield projects nearby. The document does not disclose total fermentation capacity in kilolitres for any facility, nor does it provide capacity utilisation rates for the operating plant.

The Pigdamber facility (Symbiotec Pharmalab)

The parent company's manufacturing operations are based at 385/2, Pigdamber, Rau, Mhow, Indore. This is the company's registered and corporate office address, and the site houses the existing fermentation-based API production for corticosteroids and steroid hormones.

The document is thin on operational metrics for this plant. It states that fermentation capacity is a defined KPI - "total actual volume (in KL) that can be processed/handled in all

the fermenters installed" - but does not disclose the figure. Capacity utilisation rates are similarly absent. The company commissioned an independent chartered engineer (V F Panchal of Vishvakarma Consulting Services) to certify maximum capacity, effective capacity, actual production and capacity utilisation for the parent and subsidiary facilities, but those numbers are not reproduced in the offer document.

What the financials do show is the scale of existing fixed assets. On a standalone basis, the parent held property, plant and equipment and capital work-in-progress that, when combined with the subsidiaries on consolidation, totalled ₹10,843.87 million in gross PPE and ₹644.81 million in CWIP as of March 31, 2026. The standalone borrowings were ₹3,889.48 million, backed by a charge on the parent's current assets and movable fixed assets, plus an equitable mortgage on its land and buildings.

The document confirms the facility holds EU-GMP certification and is subject to US FDA regulatory standards, but it does not list specific accreditations by site. It notes the company supplies API-grade products to regulated markets and is "subject to stringent quality systems, regulatory audits, and customer qualification processes."

The greenfield subsidiaries: Knovea and Symbiotec Zenfold

The two subsidiaries represent the company's capacity expansion story, but neither is operational yet. The document uses the term "greenfield projects" repeatedly and discloses that Greenfield Project Capital Employed was ₹9,736.70 million as of March 31, 2026. This figure captures the cumulative investment across both subsidiaries.

Symbiotec Zenfold is further along. It has secured a term loan of ₹800 million (sanctioned) for its project, of which ₹211.79 million was outstanding as of March 31, 2026. It also has a working capital facility of ₹180 million and a bank guarantee limit of ₹50 million. CARE Ratings assigned its long-term bank facilities an A+ rating (stable) as of December 2025, and its long-term/short-term facilities an A-/A2+ rating. This subsidiary is developing manufacturing infrastructure that will house, among other things, the company's specialty injectables capabilities, including the double-chamber vial (DCV) and double-chamber syringe (DCS) production lines.

Knovea Pharmaceutical appears less advanced on the debt side. Its long-term bank facility rating of A+ was withdrawn as of December 2025, and its remaining rated facilities are smaller: a ₹22 million short-term facility (A1) and a ₹250 million long-term/short-term facility (A-/A2+). The document does not clarify whether the rating withdrawal signals project completion, a change in financing structure, or something else.

Both subsidiaries are entirely dependent on the parent for funding. The related-party transaction disclosures show that Symbiotec Pharmalab provided loans of ₹2,014.92 million to Knovea and ₹3,123.95 million to Symbiotec Zenfold during FY2026 alone. These loans

fund both operating expenses and capital expenditure (specifically "funding of margin money for their greenfield projects"). The parent also charges interest on these loans: ₹221.10 million to Knovea and ₹315.77 million to Symbiotec Zenfold in FY2026.

The parent also earns corporate guarantee commission income from both subsidiaries - ₹6.22 million from Knovea and ₹6.77 million from Symbiotec Zenfold - reflecting the credit enhancement the parent provides to their bank facilities.

Commissioning status

Commissioning is now datable for three programmes. The US alternate-protein facility is in the last stages and commercial batches are expected in Q1 FY28. The insulin drug-substance facility is almost ready, with validation batches expected in Q4 FY27 and sales from mid-FY28 after regulatory approvals. For the European alternate-protein customer, Phase 0 uses the existing 100 KL Ujjain capacity from end-FY27, while Phase 1 is a 750 KL build targeted for major toll-fee revenue in FY28-29.

Knovea reported a positive EBIT of ₹22.90 million in FY2026 (up from losses of ₹137.21 million in FY2025 and ₹87.26 million in FY2024), suggesting it may be approaching operational readiness. Symbiotec Zenfold reported an EBIT loss of ₹180.95 million in FY2026, widening from ₹16.29 million in FY2025, consistent with a project still in the capital deployment phase.

The document provides no specific timeline for commissioning either facility. It does not state when commercial production will begin, what products will be manufactured at which site, or what capacity each facility will add.

Land uncertainty at Knovea

Knovea faces a land-use dispute that could affect its greenfield plans. The subsidiary purchased land in Mhow, Indore in July 2020 for a research and development centre and manufacturing facility. In March 2021, the Draft Pithampur Master Plan 2035 reclassified this land from industrial to residential use. Knovea filed a writ petition in the Madhya Pradesh High Court in March 2023, and the court stayed the reclassification in April 2023, extending the stay in August 2023. The matter remains pending.

This does not necessarily halt the project - the stay is in place - but it introduces uncertainty over the land's long-term designation.

What the document does not tell you

The offer document does not disclose total fermentation capacity in KL for any facility, capacity utilisation rates, the number of fermenters, the scale of individual production lines, or the product-wise capacity allocation. It does not provide a commissioning schedule for the greenfield projects. It does not state which regulatory accreditations (US FDA, EU-GMP,

WHO-GMP, others) apply to which specific site, or when the last regulatory inspections occurred and with what outcome.

For an API manufacturer where capacity and regulatory standing are central to the investment case, these are material gaps. The independent chartered engineer's certificate exists but its contents are not reproduced. Investors will need to rely on site visits, management Q&A, or post-listing disclosures to fill these gaps.

Who buys and where it sells: Customer and geographic mix

Symbiotec sells API-grade products to pharmaceutical companies in regulated and semi-regulated markets. The company does not sell finished dosage forms to patients or pharmacies. Its customers are drug manufacturers who use Symbiotec's APIs as inputs for their own finished formulations.

The customer base splits into two categories: innovator companies that hold original drug patents and generic companies that produce off-patent versions. The document states that as of March 31, 2026, two of the company's top five customers were innovators. The remaining three among the top five are generic drug manufacturers. The document does not name any specific customers.

The company does not disclose the exact revenue split between innovator and generic customers. It also does not disclose what percentage of revenue comes from its top five or top ten customers, though the concentration of two innovators in the top five indicates the business is not entirely dependent on any single customer type.

Why customers buy from Symbiotec

The buying decision in API supply is driven by regulatory qualification, manufacturing reliability, and price. Before a pharmaceutical company can use Symbiotec's API in a drug sold in a regulated market, the API must be referenced in the customer's own regulatory filing with agencies like the US FDA or EMA. This creates a qualification cycle that can take years.

Symbiotec supports this process through Drug Master Files (DMFs). A DMF is a confidential submission to a regulator that contains the detailed chemistry, manufacturing, and controls information for an API. When a customer files for approval of its finished drug, it references Symbiotec's DMF. The document does not disclose the total number of DMFs Symbiotec has filed or the jurisdictions where they are active, but the company's US FDA and EU-GMP certified facilities indicate DMFs exist in those regulated markets.

Once a customer qualifies Symbiotec's API in its regulatory filing, switching to another supplier requires the customer to amend its filing with the regulator. This creates switching costs. A new supplier must go through the same qualification process, which takes time and

carries regulatory risk if the new API behaves differently in the finished formulation. For injectable-grade APIs, the bar is higher because regulators impose stricter sterility and contamination controls.

The company states its products are subject to "stringent quality systems, regulatory audits, and customer qualification processes." This means customers typically audit Symbiotec's facilities before qualifying the company as a supplier, and they re-audit periodically.

Geographic revenue mix

The document does not provide a percentage split of revenue by geography. It states the company supplies to "regulated and semi-regulated markets" without quantifying the mix. Regulated markets typically include the United States, Europe, Japan, and other jurisdictions with stringent drug regulators. Semi-regulated markets include countries with less rigorous regulatory oversight, often in Asia, Africa, Latin America, and the Middle East.

The company's manufacturing facilities hold US FDA and EU-GMP certifications, which are prerequisites for selling into the US and European markets. The presence of these certifications, combined with the company's DMF filings and its 505(b)(2) pipeline targeting the US market, indicates that regulated markets are a meaningful part of the business. However, the absence of a disclosed revenue split means an investor cannot assess the balance between higher-margin regulated markets and potentially lower-margin semi-regulated markets.

Customer relationships and contract structure

The document does not disclose the typical contract structure with customers, whether revenue comes from long-term supply agreements or spot purchases, or the average duration of customer relationships. Trade receivable days increased from 61 in FY2024 to 73 in FY2025 to 78 in FY2026, which the company attributes to extending credit to customers. This lengthening cycle could reflect a shift in customer mix, changes in payment terms, or broader industry trends, but the document does not explain the cause.

The company states there have been no instances of delays or non-receipt of payment during the last three fiscal years. Bad debts were nil in FY2025 and FY2026, and 0.07% of trade receivables in FY2024.

What the document does not disclose

Several pieces of information that would help an investor assess the customer and geographic mix are absent. The company does not disclose revenue concentration by customer (what percentage the top customer or top five represent), the split between regulated and semi-regulated markets, the number of active customers, the average revenue per customer, customer retention rates, the number of DMFs filed by jurisdiction, or the

length of typical supply contracts. The document also does not name any specific customers, which limits the ability to assess the quality of the customer base independently.

The competitive landscape and moats

Symbiotec operates in an industry with a dual structure: the mature, slow-growing corticosteroid and hormone API business on one side, and the faster-growing, technically demanding specialty injectables segment on the other. Its competitive position differs materially across these two arenas.

The corticosteroid and hormone API market: a narrow, entrenched field

The global corticosteroid API market was valued at USD 421.2 million in 2025, growing at a 1.6% to 3.0% CAGR through 2030, according to the F&S Report commissioned for the offer. The hormones API market is even smaller at USD 300.7 million, growing at 1.0% to 2.5%. These are not growth markets. They are niche, slow-moving pools where incumbency matters.

The document does not name specific API competitors in corticosteroids or hormones. That silence itself is informative. In a market this small and technically specific, the competitive set is likely a handful of global manufacturers, many of them Chinese, plus a few Indian peers. The F&S Report notes that "rising geopolitical concerns, supply chain vulnerabilities, and stricter environmental norms have led to a gradual shift in fermentation API production away from China," with India emerging as an alternative. This suggests Symbiotec competes primarily against Chinese fermentation API producers on price and reliability, and against other Indian manufacturers on quality, regulatory approvals, and customer relationships.

What the document does disclose is the regulatory moat. Symbiotec supplies "regulated and semi-regulated markets" and its products are "subject to stringent quality systems, regulatory audits, and customer qualification processes." The company states it holds regulatory accreditations including US FDA and EU-GMP certifications at its manufacturing facilities. These are not optional. A customer in a regulated market cannot buy API from a facility that lacks the relevant approval. The qualification cycle for a new supplier is long and expensive, creating switching costs once a manufacturer is approved and integrated into a customer's supply chain.

The company's fermentation-based manufacturing technology adds a technical barrier. Fermentation is a biological process that is harder to control, scale, and reproduce consistently than chemical synthesis. The know-how resides in proprietary strains, process parameters, and the accumulated experience of the technical team. The document's disclosure of a 2017 criminal case against former employees who allegedly stole "confidential data such as codes, formulae and license documents" and shared them with a

competitor (Balaji Steroids and Hormones Private Limited) confirms that this know-how is valuable enough to steal.

The specialty injectables and double-chamber technology: a different competitive set

Symbiotec's double-chamber vial (DCV) and double-chamber syringe (DCS) products sit in a different competitive landscape. The document names specific competitors here: Gufic Pharmaceuticals, Vetter Pharma, and Pfizer in double-chamber vials, and B Braun and Baxter (frozen bags) in double-chamber bags.

The company makes a specific claim about its position:

> *"Symbiotec is one of the first generics companies globally to successfully develop DCV through backward integration, by relying on in-house materials and not imports, for methylprednisolone sodium succinate injection and hydrocortisone sodium succinate."*
>
> **INDUSTRY OVERVIEW, COMPETITIVE LANDSCAPE**

This backward integration is the core competitive claim. A typical generic injectables company would buy API from a manufacturer and the delivery device from a separate specialist, then combine them. Symbiotec makes both the API and the DCV presentation in-house. The document argues this eliminates dependence on imported components and should give it a cost and supply-chain advantage.

The competitive set here is bifurcated. On one side are large innovator companies like Pfizer, which sell branded versions of these products and compete on brand loyalty, physician familiarity, and established distribution. On the other side are other generic companies, including Gufic Pharmaceuticals in India and Vetter Pharma globally, which compete on price and the ability to get products approved and launched.

The regulatory barrier for injectables is higher than for oral generics. The document states:

> *"Regulatory oversight of injectable products is significantly more stringent than for oral generics because injectables bypass normal physiological barriers and carry higher risks of contamination."*
>
> **INDUSTRY OVERVIEW**

The US FDA and European Medicines Agency impose strict requirements on sterility assurance, endotoxin and particulate control, and aseptic processing. Many injectable generics require bioequivalence clinical studies, which adds cost and time compared to standard oral solid generics. This regulatory hurdle is a barrier to entry that protects incumbents once they are approved.

The 505(b)(2) regulatory pathway that Symbiotec is using for its DCV products allows it to rely on existing safety and efficacy data for the reference drug, reducing development time

and cost compared to a full New Drug Application. But it still requires demonstration of comparability and manufacturing quality. The company's expected fiscal 2027 launch for two DCV products, with a combined US market size of USD 288 million, suggests these products are in advanced stages of regulatory review.

Barriers to entry: capital, regulation, and time

The barriers to entry in Symbiotec's business are threefold.

First, capital intensity. The company has deployed ₹9,736.70 million in greenfield project capital as of March 31, 2026, through its subsidiaries Knovea and Symbiotec Zenfold. That is more than the company's entire revenue from operations in fiscal 2026 (₹8,691.49 million). A new entrant would need to invest similar amounts in fermentation capacity, clean rooms, and aseptic filling lines before producing a single saleable unit.

Second, regulatory complexity. Each manufacturing facility must be approved by the relevant regulatory authority for each product it makes. The customer qualification process for APIs is separate from and additional to the regulatory approval. A new supplier must file a Drug Master File (DMF) with the regulator, pass a facility audit, and then go through the customer's own qualification process, which can take years. The document notes that two of Symbiotec's top five customers were innovators as of March 31, 2026, indicating relationships with demanding, quality-sensitive buyers.

Third, technical know-how. Fermentation is not a generic manufacturing process. Each steroid molecule requires a specific biological pathway, and the yield, purity, and consistency of the fermentation process determine the economics. The company's ability to backward-integrate from API to finished DCV presentation requires expertise across fermentation chemistry, formulation, device engineering, and sterile manufacturing. The document's disclosure that the company has achieved "Proof of Concept in DCS" (double-chamber syringe) but has not yet commercialized it illustrates the development timeline for new capabilities.

Where Symbiotec wins and where it faces pressure

In the corticosteroid API business, Symbiotec's advantage is its regulatory approvals, existing customer relationships, and fermentation capacity. The slow growth of the end market means the competitive dynamic is about reliability, quality, and cost. The China-plus-one sourcing trend creates a tailwind, but the document does not quantify how much of Symbiotec's revenue comes from customers shifting away from Chinese suppliers.

In the DCV business, the company's differentiation is the backward integration claim. If it can manufacture the API and the delivery device in-house while competitors must buy one or both externally, it should have a cost advantage. However, the document does not disclose

what percentage of the USD 288 million US market for its two lead products it expects to capture, nor what pricing assumptions underlie that market size figure.

The competitive intensity is highest in the DCV segment. The document names five competitors, including large, well-capitalized companies like Pfizer and B Braun. Gufic Pharmaceuticals is a direct Indian peer with existing DCV products. The company's success will depend on whether its backward-integration advantage translates into faster regulatory approvals, lower manufacturing costs, or both.

The document does not disclose Symbiotec's market share in any of its product categories or geographies. Without that data, the company's competitive position can only be described in qualitative terms: it is an established manufacturer in a niche API market with high barriers to entry, and an aspiring competitor in the faster-growing but more contested specialty injectables space.

The API and specialty injectables industry

The global API market reached approximately USD 305.5 billion in 2025, according to the F&S Report commissioned for this offer. It is expected to grow at a 6.8% CAGR, reaching USD 424.6 billion by 2030. Small-molecule APIs remain dominant, representing about 64.3% of market value in 2025, though biological APIs have grown from 26.5% in 2020 to 35.7% in 2025.

North America accounts for 53.4% of the market by value and is projected to reach 55.9% by 2030. APAC's share declined from 22.8% in 2020 to an estimated 17.8% in 2025, with further erosion to 15.8% expected by 2030. The F&S Report attributes this to pricing pressure from generic API competition in China and India, fluctuating raw material costs, and logistics bottlenecks. APAC's volume CAGR does improve from 3.1% historically to a projected 4.3%, but this is still below the global average.

India exported USD 4.9 billion in APIs in 2025, up from USD 4.2 billion in 2020, a modest 3.1% CAGR that partly reflects increased domestic consumption by Indian formulation companies. The F&S Report projects exports reaching USD 6.4 billion by 2030 at a 5.5% CAGR, with regulated-market exports growing faster at 6.8%.

The fermentation API sub-segment

Fermentation APIs are produced by cultivating microorganisms under controlled conditions to biosynthesize the active compound. The technology is inherently complex because it involves live organisms sensitive to minor fluctuations in pH, temperature, oxygen levels, and contamination. This creates high entry barriers: significant R&D investment to stabilize and scale microbial strains, substantial capital expenditure for specialized bioreactors and downstream purification systems, and extended development timelines that can span several years from lab to commercial production.

The global fermentation API market reached USD 100.4 billion in 2025 and is expected to expand to USD 162.5 billion by 2030, growing at a 10.1% CAGR, per the F&S Report. This is a deceleration from the 13.7% CAGR recorded during 2020-2025. The market splits into small molecules (USD 18.1 billion in 2025, growing at 5.5%) and large molecules/biologics (USD 82.3 billion, growing at 11.0%).

The classical fermentation API market, which includes products from Symbiotec's portfolio, was valued at USD 491.9 million in 2025 and is expected to grow at a CAGR of 1.5% to 4.0% between 2025 and 2030. This is a slow-growth, mature segment.

Several structural drivers support the broader fermentation market. Technological advances in synthetic biology, CRISPR-based strain engineering, and AI-enabled bioprocess optimization are improving yields and reducing batch variability. Fermentation offers cost advantages over multi-step chemical synthesis for complex molecules by reducing synthetic steps and enabling the use of renewable feedstocks. The F&S Report also points to sustainability benefits: lower environmental impact, reduced solvent usage, and alignment with greener manufacturing goals.

The most consequential supply-side dynamic is the shift of fermentation API production from China to India. The F&S Report states that rising geopolitical concerns, supply chain vulnerabilities, and stricter environmental norms in China are driving this relocation. India is emerging as a competitive alternative, supported by regulatory reforms, financial incentives under the PLI scheme, and investments by domestic players. Customer demand for fermentation-based APIs is rising as global pharmaceutical companies adopt a China+1 sourcing strategy.

Global fermentation capacity is constrained. The F&S Report estimates total biopharmaceutical manufacturing capacity at approximately 16 million liters, distributed across North America (37%, or 5.9 million liters), Western Europe (33%, or 5.3 million liters), and Asia-Pacific (25%, or 4 million liters). Within Asia, India has 941,000 liters and China 870,000 liters. Less than 20% of fermentation facilities have large bioreactors above 20,000 liters, yet over half of companies seek batch sizes at or beyond these volumes. This capacity shortfall constrains manufacturers and increases costs.

India's position in fermentation APIs weakened through the early 2000s as large-scale production of antibiotics, vitamins, and amino acids shifted to China. The F&S Report notes that many Indian fermentation units shut down or downsized during this period. Recent government initiatives, including the PLI scheme with incentives from ₹20 crore to ₹400 crore, bulk drug parks, and a December 2025 announcement of a ₹60,000 crore API-push, aim to rebuild domestic capacity. India's cost advantages stem from lower manpower costs and developing industrial clusters with shared utilities.

Corticosteroid and steroid hormone APIs

These are the specific markets where Symbiotec operates and holds volume leadership. The corticosteroid API market was valued at USD 421.2 million in 2025, per the F&S Report, and is estimated to grow at a CAGR of 1.6% to 3.0% between 2025 and 2030. The steroid hormones API market was valued at USD 300.7 million in 2025, growing at 1.0% to 2.5%. Both are slow-growth, mature segments.

The demand base is steady rather than explosive. Rising prevalence of inflammatory and autoimmune diseases supports corticosteroid consumption. The F&S Report cites studies suggesting up to 10% of individuals in industrialized countries are impacted by at least one autoimmune condition. For steroid hormones, demand is driven by reproductive health, metabolic disorders, and hormone replacement therapies, with growing acceptance of bioidentical hormones and transdermal delivery systems.

Manufacturing these APIs combines fermentation and chemical synthesis. Fermentation generates complex steroid intermediates from plant sterols with high selectivity. Chemical synthesis then finalizes the corticosteroid or hormone structure. This integrated approach is technically demanding and creates barriers to entry. The F&S Report states that more than 3,000 API manufacturers exist worldwide, but only approximately 20% meet cGMP requirements. The number shrinks further for fermentation API companies. India and China together account for over 60% of global API supply, but Indian companies' presence in fermentation APIs is notably leaner, especially in immunosuppressants and statins.

The specialty injectables and double-chamber technology market

The global specialty injectables market grew from USD 43.2 billion in 2020 to USD 63.7 billion in 2025, an 8.1% CAGR, and is projected to reach USD 103.0 billion by 2030 at a 10.1% CAGR, according to the F&S Report. Injectables are the fastest-growing drug delivery segment, outpacing oral solids growth by roughly 2x. They represented 45.5% of the pharmaceutical market during 2020-2025, reaching USD 737.1 billion in 2025 and projected to grow at 9.2% CAGR to USD 1,143.2 billion by 2030.

Injectables benefit from the pharmaceutical industry's shift toward biologics. Nearly all biologics, including antibodies, cell and gene therapies, and protein-based drugs, are injectables. The F&S Report notes that injectables represented 63% of drug candidates in development by 2025, up from 55% in 2019. They also enjoy stronger pricing power than oral solids: price erosion for injectables averages around 70% after loss of exclusivity, versus up to 95% for oral drugs.

However, injectables are disproportionately affected by supply shortages. In the US, they accounted for 58% of all reported drug shortages in 2025, up from 39% in 2019. The market's reliance on a narrow supplier base for APIs, excipients, and specialized

components like vials and prefilled syringes creates vulnerability. The F&S Report states there are fewer manufacturers per injectable molecule (15) compared to oral drugs (22).

Regulatory oversight is significantly more stringent than for oral generics. The F&S Report explains that injectables bypass normal physiological barriers and carry higher risks of contamination. Authorities impose strict requirements on sterility assurance, endotoxin and particulate control, and aseptic processing. Many injectable generics require bioequivalence clinical studies, adding complexity and cost compared to oral solid generics.

Within injectables, double-chamber technology is a specialized sub-segment. These are drug delivery containers with two separate chambers within a single device, keeping the API in lyophilized form in one chamber and diluent in another, separated by a stopper. At the point of use, the barrier is broken, allowing mixing within the device. This preserves stability for molecules unstable in liquid form and streamlines administration.

The F&S Report values the double-chamber vial market at USD 1,811 million in 2025, growing at a 9.5% CAGR to 2030. Double-chamber bags are USD 1,296 million, growing at 8.2%. Double-chamber syringes are a smaller USD 183 million market, growing at 7.5%. DCVs account for nearly 55% of the combined market.

The competitive landscape is concentrated. Innovators hold 65-70% of the DCV market as of December 2025. The F&S Report identifies Pfizer, Vetter Pharma, Gufic Pharmaceuticals, B Braun, and Baxter as key players across the different double-chamber formats. Symbiotec is cited as one of the first generics companies globally to successfully develop DCV through backward integration, using in-house materials rather than imports, for methylprednisolone sodium succinate injection and hydrocortisone sodium succinate. The two products are likely to have a combined market size of USD 288 million in the US market, per the F&S Report, with an expected launch in fiscal 2027.

Entry barriers are substantial: complex manufacturing requiring precision engineering and aseptic processing, high capital investment, stringent regulatory requirements including additional stability data for both components and the reconstituted product, intellectual property constraints on device designs, limited availability of specialized component suppliers, and the need for cross-disciplinary expertise spanning pharmaceutical formulation and device engineering.

Double-chamber injectables command a 20-50% price premium over conventional injectables, per the F&S Report, attributable to enhanced drug stability, dosing accuracy, reduced contamination risk, and lower wastage. The F&S Report states that adoption remains limited among generics and biosimilars due to technical and cost barriers, which helps innovators sustain margins.

GLP-1 and other growth opportunities

The GLP-1 market is one of the fastest-growing pharmaceutical segments. Global sales increased from USD 13.5 billion in 2020 to USD 67.3 billion in 2025, a 36.4% CAGR, and are expected to maintain 11.5-13.5% CAGR through 2030, per the F&S Report. Four GLP-1 drugs ranked among the top-selling global therapies in 2025: semaglutide (USD 35.3 billion), tirzepatide (USD 33.4 billion), dulaglutide (USD 4.2 billion), and liraglutide (USD 1.1 billion). Imminent patent expiries for leading GLP-1 agents are expected to open the market to generics starting in 2026 and 2027.

The insulin market is more mature, with global volume estimated at 665-670 billion IU in 2025 and projected moderate growth of 1.0-3.0% through 2030. Biosimilar penetration has reached 50-60% in several EU countries, though US adoption has been slower. The market is dominated by Novo Nordisk, Eli Lilly, and Sanofi.

Conjugated estrogens represent a niche opportunity. The global market was valued at USD 380 million in 2024, reflecting a 20.6% CAGR decline from 2019 to 2024, per the F&S Report. Premarin's revenue has declined since its early-2000s peak due to safety concerns about hormone therapy and increased use of alternatives. The US accounted for over 85% of sales in 2025. Despite the expiry of market exclusivity, Premarin has only one generic substitute due to the complexity of its raw material, which is derived from pregnant mare urine and requires cold-chain transport below -20 degrees Celsius. The F&S Report identifies Symbiotec as among the first companies to introduce a generic API for conjugated estrogen.

The CDMO opportunity

The global CDMO market is projected to grow at an 8.2% CAGR from USD 139.2 billion in 2025 to USD 206.0 billion by 2030. The Indian CDMO market was valued at USD 7.1 billion in 2025, having grown at 13.3% CAGR from USD 3.8 billion in 2020, and is projected to reach USD 13.4 billion by 2030 at a 13.5% CAGR. The fermentation CDMO market specifically is estimated to reach USD 35.2 billion by 2030, driven primarily by large molecules growing at 16.7% CAGR.

India's structural advantages for CDMO services include 30-50% lower setup and commissioning costs compared to Western facilities, low operating costs for utilities and labor, and a large skilled workforce. The F&S Report notes that a 300,000-square-foot biologics plant with 300 employees costs approximately USD 14-16 million per year to operate in India, compared to USD 38-56 million in the US. Companies can establish a medium-scale biomanufacturing plant in India in 1-2 years, versus 2-5 years in the US.

Global pharmaceutical companies are increasingly outsourcing fermentation API production to specialized CDMOs with proven capabilities in microbial fermentation, downstream

purification, and regulatory compliance. This trend is accelerating capacity utilization and spurring investments in advanced manufacturing by contract manufacturers.

Supply-side dynamics and barriers to entry

The fermentation API market has high entry barriers that keep the competitive landscape lean. Establishing a commercial-scale facility demands multimillion-dollar investments in large-capacity bioreactors, downstream processing units, cleanroom environments, and waste management systems. The F&S Report emphasizes that fermentation involves living organisms, introducing biological variability that requires deep technical know-how in microbial strain engineering, process control, and purification. Continuous monitoring and precise control of temperature, pH, oxygenation, and nutrient feeding are critical. Regulatory compliance with US FDA, EU EMA, and local pollution control standards adds further cost and complexity. Scaling up from lab to commercial production can take several years due to iterative strain optimization, process validation, and regulatory filings.

The chemical complexity of API product offerings and stringent regulatory requirements typically result in low customer churn, per the F&S Report. In corticosteroid and hormonal APIs, products require multi-step synthesis, complex fermentation processes, and significant regulatory filings such as DMFs and CEPs. Customers face high switching costs given the need for product-specific validation, bioequivalence studies, and regulatory approvals before changing suppliers. Given the criticality of these APIs in endocrinology, respiratory care, and oncology, customers prioritize uninterrupted supply and long compliance track records.

The F&S Report identifies India's competitive advantages as including cost-efficient manufacturing, a proven regulatory track record (Indian companies accounted for 48% of all US DMF submissions in Q1 2025 and operate more than 220 US FDA-approved API facilities), a strong R&D ecosystem, and growing biologics capabilities. However, the report also notes risks: supply chain disruptions from reliance on Chinese key starting materials, a shortage of skilled professionals in sterile drug manufacturing, and the operational complexity of maintaining consistent quality across fermentation batches.

What drives future growth

Symbiotec’s growth story is not a single bet. It is a set of four drivers, each at a different stage of maturity and each carrying a different burden of proof. One is built and nearing commercialisation. One is contracted and awaiting launch. One is stated intent with a proof of concept. And one is a structural tailwind the company can capture if it executes.

The greenfield capacity under Knovea and Symbiotec Zenfold is the heaviest driver in capital terms - ₹9,736.70 million of capital employed as of March 31, 2026, with no revenue contribution yet. The double-chamber vial products under the 505(b)(2) pathway are the nearest to revenue, with an expected fiscal 2027 launch and a combined US market size the

company puts at USD 288 million. The double-chamber syringe capability is earlier-stage, with only a proof of concept achieved. The China-to-India sourcing shift is the backdrop against which all three of these play out, and its pace will determine how much of the new capacity gets absorbed and at what margin.

These drivers are connected. The greenfield facilities supply the fermentation capacity and the sterile injectable lines that make the double-chamber products possible. The 505(b)(2) pipeline gives those facilities a high-value output beyond commoditised APIs. The China-plus-one trend determines whether customers commit to long-term contracts for that capacity. And the GLP-1 and fermentation-derived molecule expansion is the next horizon, one the document mentions but does not yet quantify.

The sequence matters. Fiscal 2027 is when the company must convert its largest capital deployment into commercial output, launch its first differentiated products in the US, and demonstrate that the China-to-India shift is real in its order book. The individual drivers that follow unpack each of these.

Greenfield capacity expansion through subsidiaries Knovea and Symbiotec Zenfold

Symbiotec is building new manufacturing capacity through two wholly-owned subsidiaries: Knovea Pharmaceutical Private Limited and Symbiotec Zenfold Private Limited. These are greenfield projects, meaning facilities built from scratch rather than expansions of existing sites.

The mechanism for revenue conversion is straightforward. Once commissioned, these facilities add production lines that manufacture API and injectable products. The parent company already has customer relationships and regulatory approvals across regulated markets including the US and EU. New capacity increases the volume of product the group can sell through those existing channels. The subsidiaries are not entering new, unproven markets; they extend the group's manufacturing footprint.

The capital deployed into these projects is substantial and tangible. As of March 31, 2026, the consolidated balance sheet shows property, plant and equipment of ₹10,843.87 million, up from ₹4,015.37 million a year earlier. Capital work-in-progress stood at ₹644.81 million as of March 31, 2026, down sharply from ₹5,681.65 million at March 31, 2025. That sharp decline in CWIP alongside the jump in gross fixed assets indicates that a large portion of construction was completed and capitalised during fiscal 2026. The company states the Greenfield Project Capital Employed was ₹9,736.70 million as of March 31, 2026.

Funding for these projects flows from the parent. The related-party transaction disclosures show that Symbiotec Pharmalab Limited provided loans of ₹2,014.92 million to Knovea and ₹3,123.95 million to Symbiotec Zenfold during fiscal 2026 alone. Cumulative loans outstanding, net of repayments, are larger still. The document explicitly states these loans

support "operating expenses and capital expenditure for their greenfield projects." The parent also charged interest on these loans: ₹221.10 million from Knovea and ₹315.77 million from Symbiotec Zenfold in fiscal 2026.

What is built versus what is stated as intent requires careful separation. The capitalisation of assets and the decline in CWIP confirm that physical construction has occurred and equipment has been installed. The parent has extended real funding, not just commitments. Both subsidiaries have credit ratings from CARE Ratings, with Knovea holding a long-term rating of A- with a stable outlook and Symbiotec Zenfold holding A+ with a stable outlook as of December 2025, confirming they are operational entities with financial standing.

What the document does not disclose are commissioning dates, commercial production start dates, capacity figures in volume terms, utilisation rates for these new facilities, contracted customer orders tied specifically to the greenfield output, or regulatory approvals received for products to be manufactured at these sites. The company states the projects are greenfield and that capital has been employed. It does not state that the facilities are producing at commercial scale or generating revenue. The presence of inter-company sales from the parent to Knovea of ₹78.34 million in fiscal 2026 and to Symbiotec Zenfold of ₹17.20 million suggests some activity, but these amounts are small relative to the capital deployed and may represent trial batches or raw material transfers rather than full commercial production.

The Fresh Issue proceeds are not directed toward these greenfield projects. The IPO's stated object is repayment of parent-level borrowings. The greenfield expansion is being funded through parent loans and internal accruals, and the capital has already been deployed. The question for a prospective investor is whether the assets now on the ground will convert into revenue-producing capacity at the scale implied by the ₹9,736.70 million invested.

The US DCV launch is now tied to a signed agreement and filed ANDA rather than a standalone aspiration. On 30 September, Symbiotec signed a long-term agreement with a global partner for two DCV products for the US. Symbiotec filed the first ANDA in September and plans the second in Q4 FY27. Management expects FDA approval and inspection in late calendar year 2027, with commercialisation in FY27-28 and product supply beginning next fiscal year.

A double-chamber vial is a drug-delivery device that stores a lyophilized (freeze-dried) drug powder and its diluent in separate compartments of a single container. The user activates the vial to mix the two just before injection. This design solves a real problem: many injectable drugs are unstable in liquid form and must be shipped as powder, but the separate-vial-and-syringe approach adds steps, raises contamination risk, and complicates emergency use. A DCV simplifies the workflow to one device, one mixing action, one injection.

Symbiotec is developing two DCV products for the US market under the Section 505(b)(2) regulatory pathway of the U.S. Food, Drug, and Cosmetic Act. The 505(b)(2) route allows a company to rely on published literature or prior findings of safety and efficacy for the active ingredient rather than conducting full-scale clinical trials from scratch, which reduces development cost and time while still requiring the applicant to demonstrate the specific product's quality, safety, and performance.

The company states that these two products have a combined US market size of USD 288 million. The broader pipeline of products under the 505(b)(2) pathway is estimated by the company to have a global addressable market of USD 890 million in 2025.

The mechanism that turns this into revenue is straightforward. Symbiotec files an application with the US FDA, obtains approval, and then sells the finished DCV product to US distributors, hospital networks, or wholesalers. The DCV format commands higher unit pricing than a conventional vial because it combines the drug and delivery system into a single sterile, ready-to-activate unit. Revenue comes from product sales, not from licensing or milestone payments.

Where this stands today is important. The offer document describes the DCV products as "likely to have a market size" and references an "expected launch in fiscal 2027." These are statements of intent. The document does not disclose any US FDA filing that has been submitted, any approval received, any commercial supply agreement signed, or any customer identified for these products. No separate manufacturing line, capacity figure, or capex allocation tied specifically to DCV production is detailed in the objects of the offer or the business section. The fresh issue proceeds are directed entirely toward debt repayment and general corporate purposes, not toward DCV-related capital expenditure.

This is no longer a wholly pre-revenue pipeline initiative. The first DCV ANDA was filed in September, received accelerated review status and was acknowledged without a refuse-to-receive. Q2 FY27 recognised ₹53 crore of milestone revenue, and management expects annual milestone recurrence for the next couple of years. Product supply begins next fiscal year, with FY27-28 commercialisation guided and FDA approval plus inspection expected in late calendar year 2027.

Development of Double Chamber Syringe (DCS) capability

A Double Chamber Syringe (DCS) is a drug-device combination product where the active pharmaceutical ingredient and its diluent are stored separately in a single syringe and mixed immediately before injection. The DCS format solves a specific problem for injectable drugs that are unstable in liquid form over time. Instead of a clinician manually reconstituting a lyophilized powder with a separate vial of diluent before injection, a DCS allows the two

chambers to be separated by a stopper. The clinician pushes the plunger, the diluent flows into the powder chamber, and the drug is mixed in the syringe itself, ready for administration.

For Symbiotec, a DCS capability represents a move up the value chain. The company is an API manufacturer. A DCS product would mean it is not selling bulk active ingredient but a finished, sterile, drug-device combination product ready for patient use. This shifts revenue from a per-kilogram API price to a per-unit finished product price, capturing a larger share of the total drug value.

The mechanism for revenue generation is straightforward: the company would file for regulatory approvals in target markets, secure contracts with distributors or hospital networks, and sell finished DCS units. The addressable market is injectable drugs that require reconstitution, a category that includes certain hormones, a therapeutic area where Symbiotec already has API expertise. The company's existing steroid and hormone API portfolio provides a potential pipeline of molecules to convert into DCS format.

The offer document provides minimal disclosure on DCS. The company states it has achieved Proof of Concept. That is the full extent of the disclosed progress. Proof of Concept means the company has demonstrated in a laboratory or pilot setting that the two-chamber mechanism works with a specific drug formulation. It does not mean the product is ready for commercial production or regulatory submission.

There is no disclosure in the DRHP of DCS-specific capacity under construction, no capital expenditure allocated to DCS manufacturing lines, no commissioning dates, no contracted orders, no customer agreements, and no regulatory filings made or approvals received for any DCS product. The Objects of the Offer allocate the entire Fresh Issue proceeds of up to ₹1,500 million to debt repayment and general corporate purposes. No portion is earmarked for DCS development. The subsidiary capex discussed in the document relates to greenfield API and intermediate capacity at Knovea and Symbiotec Zenfold, not to DCS manufacturing.

The DCS initiative is a stated intent. It is not built, contracted, or approved. The gap between a Proof of Concept and a commercial DCS product is substantial. It requires dedicated sterile fill-finish manufacturing lines, device assembly capability, stability studies, bioequivalence studies, and regulatory submissions in each target market. None of these steps are disclosed as having commenced.

Financial track record

Symbiotec Pharmalab’s restated consolidated financials cover fiscal 2024, 2025 and 2026. Revenue has compounded at roughly 10% over the three years, but the earnings profile changed shape: gross margins expanded sharply, while return ratios compressed as the balance sheet absorbed heavy capex for greenfield subsidiaries that were not yet commercial. Q2 FY27 changed the reported trajectory: revenue grew 43% year-on-year to

₹280 crore, EBITDA grew 88% to ₹94 crore, and PAT grew 169% to ₹52 crore, helped by ₹53 crore of DCV milestone revenue. H1 FY27 revenue grew 25% and H1 EBITDA grew 29%.

The headline numbers are below.

PARTICULARS (₹ MILLION, EXCEPT PERCENTAGES)	FISCAL 2024	FISCAL 2025	FISCAL 2026
Revenue from operations	7,162.47	7,515.54	8,691.49
Gross margin (%)	55.18%	60.43%	63.70%
EBITDA	1,770.41	2,061.12	2,319.73
EBITDA margin (%)	24.48%	27.26%	26.59%
PAT	1,000.55	967.85	1,099.03
PAT margin (%)	13.83%	12.80%	12.60%
EPS (basic, ₹)	18.00	17.39	19.10
Return on Net Worth (%)	13.90%	11.79%	9.48%
Return on Equity (%)	14.98%	12.66%	11.19%
Return on Capital Employed (%)	14.03%	11.80%	11.56%

The most striking line is gross margin, which moved from 55.2% in fiscal 2024 to 63.7% in fiscal 2026. The document does not break out pricing versus input-cost drivers, but the raw material and packing material line fell from ₹3,126 million in fiscal 2024 to ₹2,855 million in fiscal 2025 on higher revenue, and then rose modestly to ₹3,021 million in fiscal 2026 while revenue jumped ₹1,176 million. That implies a favourable shift in product mix or realisations, or a raw-material tailwind that the company captured without passing through to customers. The finished-goods inventory build was modest across all three years (₹84 million, ₹119 million, ₹134 million), so the gross margin expansion is not an artefact of inventory accounting.

EBITDA grew 31% from fiscal 2024 to fiscal 2026, from ₹1,770 million to ₹2,320 million. The margin improved from 24.5% to 26.6%, though it dipped 67 basis points in fiscal 2026 from the fiscal 2025 peak of 27.3%. The dip came because other operating expenses and depreciation grew faster than the gross profit expansion in the most recent year.

PAT, however, barely moved. It was ₹1,001 million in fiscal 2024, fell to ₹968 million in fiscal 2025, and recovered to ₹1,099 million in fiscal 2026. The PAT margin eroded steadily: 13.8% to 12.8% to 12.6%. Two items took a growing bite. Finance costs nearly quadrupled from ₹72 million in fiscal 2024 to ₹253 million in fiscal 2026, as the company borrowed to fund its greenfield projects. Depreciation rose from ₹388 million to ₹533 million over the same period as those assets started coming onto the books. The tax expense line was also volatile:

₹309 million in fiscal 2024, ₹502 million in fiscal 2025, and ₹435 million in fiscal 2026, though the document does not break out the effective tax rate movement.

The return ratios tell the same story of a balance sheet that grew faster than earnings. Return on Net Worth fell from 13.9% to 9.5% over the three years. Return on Equity dropped from 15.0% to 11.2%. Return on Capital Employed moved from 14.0% to 11.6%. The denominator in all three expanded materially: total equity went from ₹7,148 million at March 2024 to ₹11,496 million at March 2026, driven by equity issuance and retained earnings, while total borrowings plus lease liabilities rose from ₹2,506 million to ₹3,910 million.

The company provides an adjusted ROCE that excludes the capital employed and EBIT of the two greenfield subsidiaries, Knovea Pharmaceutical and Symbiotec Zenfold. On that basis, adjusted ROCE was 24.6% in fiscal 2024, 27.7% in fiscal 2025 and 30.4% in fiscal 2026. The core steroid business, stripped of the cash-consuming new ventures, generates strong returns on the capital actually deployed in production. The adjustment is material: greenfield capital employed was ₹4,032 million, ₹6,758 million and ₹9,737 million respectively over the three years. These subsidiaries are loss-making at the EBIT level (Knovea moved from a loss of ₹87 million in fiscal 2024 to a profit of ₹23 million in fiscal 2026; Symbiotec Zenfold's losses widened from ₹8 million to ₹181 million), so excluding them flatters the core return profile. The investor is being asked to fund a business where nearly two-thirds of the consolidated capital employed as of March 2026 sits in projects that have not yet commercialised.

Quality of earnings: the cash conversion gap

The single most important number in the financial section is the reconciliation of operating cash flow to EBITDA. Net cash from operating activities was ₹1,875 million in fiscal 2024, ₹473 million in fiscal 2025, and ₹1,746 million in fiscal 2026. The cash-to-EBITDA conversion ratio was 1.06x in fiscal 2024, 0.23x in fiscal 2025, and 0.75x in fiscal 2026.

Fiscal 2025 is the year that demands scrutiny. EBITDA was ₹2,061 million. Operating cash flow was ₹473 million. That means ₹1,588 million of EBITDA did not convert to cash. The document does not provide a full cash flow statement in the extracted sections, but the operating working capital reconciliation gives the shape of the gap. Operating working capital was ₹2,057 million at March 2024, ₹2,868 million at March 2025, and ₹2,750 million at March 2026. The ₹811 million build in fiscal 2025 absorbed nearly 40% of that year's EBITDA. The build came from net operating current assets rising from ₹5,007 million to ₹4,665 million while net operating current liabilities fell from ₹2,951 million to ₹1,797 million - essentially, the company was paying down trade credit or reducing other operating liabilities even as it held more working capital.

Fiscal 2026 saw some normalisation: operating working capital eased slightly to ₹2,750 million, and the cash conversion ratio improved to 0.75x. Still, a quarter of EBITDA did not reach cash, and the cumulative three-year picture shows operating cash flow of ₹4,094 million against cumulative EBITDA of ₹6,151 million - a 67% conversion rate.

The asset turnover ratio on the productive fixed assets (excluding greenfield projects) was stable: 1.42x in fiscal 2024, 1.39x in fiscal 2025, and 1.54x in fiscal 2026. The existing manufacturing base is generating revenue efficiently. The drag is entirely from the capital sunk into the two subsidiaries.

Debt and leverage

Total borrowings on a consolidated basis moved from ₹2,472 million at March 2024 to ₹5,409 million at March 2025, then down to ₹3,879 million at March 2026. The fiscal 2025 spike was the peak of the greenfield funding cycle. The company reduced debt by ₹1,530 million in fiscal 2026 while still carrying ₹3,879 million. The debt composition shifted: current borrowings were ₹520 million, ₹2,879 million and ₹3,195 million over the three years, meaning the company moved from longer-term funding in fiscal 2024 to a heavier short-term working-capital borrowing load by fiscal 2026. Cash and equivalents were ₹75 million, ₹264 million and ₹100 million respectively - thin relative to the ₹3,195 million in current borrowings at the latest year-end.

Net debt was ₹2,430 million, ₹5,180 million and ₹3,809 million across the three years. Net debt to EBITDA was 1.37x, 2.51x and 1.64x. The fiscal 2025 peak of 2.51x is the highest leverage point in the reported period. The reduction to 1.64x in fiscal 2026 was driven by the debt paydown and the EBITDA growth. The total debt-to-total-assets ratio was 0.19x, 0.34x and 0.22x.

Secured fund-based working capital limits of ₹2,880 million were sanctioned as of March 2026, of which ₹2,875 million was drawn. Term loans of ₹1,800 million were sanctioned with ₹1,004 million drawn. The company also had inter-corporate unsecured loans to subsidiaries that are eliminated on consolidation: the standalone borrowings of the parent were ₹3,889 million, while subsidiaries carried ₹10,322 million in gross borrowings, of which ₹9,878 million were unsecured loans from the parent. The consolidated borrowings of ₹4,334 million are the relevant figure for an investor in the listed entity.

Exceptional items

The extracted sections of the DRHP do not disclose any exceptional items in the restated consolidated summary statements for the three reported years. The reconciliation from profit for the year to EBITDA shows no add-backs other than tax, finance costs and depreciation. The restatement adjustments, if any, are not detailed in the sections provided, and no statutory-to-restated reconciliation is included in the extracted material. The absence of

disclosed exceptional items means the reported PAT and EBITDA are the operating numbers, with no one-off distortions to adjust for.

The core judgment on earnings quality

The existing steroid API business generates high gross margins that have expanded consistently, and the adjusted ROCE of 30% on the mature assets suggests genuine competitive strength. But the consolidated financials are the story of a profitable core funding two cash-consuming subsidiaries that have not yet contributed revenue at scale. The cash conversion was strong in fiscal 2024, broke down in fiscal 2025, and recovered only partially in fiscal 2026. The return ratios are declining not because the business is deteriorating but because the denominator is expanding with capital that has not yet earned a return. The question an investor must answer is whether the greenfield assets will eventually earn returns comparable to the core, and when. The financials alone cannot answer that - they can only show that, as of March 2026, the answer is not yet.

Red flags

What the insiders paid

The offer is a mix of a fresh issue of up to ₹1,500 million by the company and an offer for sale of up to ₹16,070 million by selling shareholders. The total offer size is ₹17,570 million, of which 91.5% is secondary shares being sold by existing holders. The company receives nothing from the OFS portion.

The price band

The document filed is a Red Herring Prospectus. The price band is not disclosed in the sections provided. The offer price will be determined through a book-building process. Without the band, the cost of acquisition figures below cannot be set against the offer price — but the absolute numbers and the selling patterns are independently informative.

Who is selling and what they paid

The document does not disclose the weighted average cost of acquisition per share for the promoters or for each selling shareholder in the sections provided. The "Capital Structure" section referenced on page 106 was not included in the material supplied. The sections provided do not contain a table of selling shareholders, their cost of acquisition, or the number of shares each is offering.

What the document does disclose:

- The promoters collectively hold 18,073,104 shares, representing 28.80% of the pre-offer equity on a fully diluted basis.
- Anil Satwani holds 2,810,896 shares (4.48%).

- Kashish Satwani holds 2,750,896 shares (4.38%).
- Sushil Satwani holds 1,233,938 shares (1.97%).
- Satwani Holdings LLP holds the balance of the promoter group's 28.80% stake.

The document does not state how many shares each promoter or selling shareholder is tendering into the OFS, nor the percentage of their holding being sold.

Share issuance in the last year

The company undertook a rights issue in Fiscal 2026. The cash flow statement records proceeds of ₹1,931.86 million from a rights issue of shares. The document does not disclose the price per share at which this rights issue was conducted.

Additionally, the company received ₹250.07 million from the exercise of employee stock options in Fiscal 2026. The ESOP expense charged to the P&L was ₹97.46 million in Fiscal 2026, up from ₹42.93 million in Fiscal 2025.

How much the promoters still own after the offer

The document states the post-offer shareholding will be "[●]" — to be updated upon finalisation of the basis of allotment. The promoters' post-offer stake is not disclosed in the sections provided.

Pledges

The document discloses one encumbrance on promoter holdings. A deed of hypothecation dated December 10, 2025 was executed in favour of Beacon Trusteeship Limited, creating a charge over the profit-sharing ratio entitlement of Anil Satwani (57.27%) and Kashish Satwani (42.73%) in Satwani Holdings LLP. This is not a pledge of shares of Symbiotec Pharmalab directly — it is a charge over the economic interest in the corporate promoter entity. The document does not state the amount of the underlying obligation or the trigger events for enforcement.

No other pledges on the equity shares of the company held by promoters are disclosed in the sections provided.

Lock-in expiry

The document does not include the lock-in schedule in the sections provided. Under SEBI ICDR Regulations, the minimum promoter contribution (20% of post-offer capital) is locked in for 18 months from listing, and the balance promoter holding is locked in for 6 months. The specific expiry dates are not stated in the material supplied.

What the document does not disclose

- The weighted average cost of acquisition per share for the promoters.

- The cost of acquisition for any selling shareholder.
- The number of shares each selling shareholder is tendering.
- The percentage of their holding each is selling.
- The rights issue price.
- The post-offer promoter shareholding.
- The lock-in expiry dates.

These are all standard items required in the "Capital Structure" section of a DRHP, which was referenced but not provided in the material reviewed. A complete analysis requires that section.

Related-party transactions

The related-party schedule for Fiscals 2024 through 2026 is disclosed in Note 35 of the Restated Consolidated Summary Statements. The document provides a summary in the Management Discussion section, but the full schedule with counterparty names and amounts is in the financial notes. The discussion below draws on both.

Promoter remuneration

Anil Satwani, Chairman and Managing Director, received total remuneration of ₹80.91 million in Fiscal 2026. His employment agreement, effective July 1, 2026, sets his fixed salary and allowances at ₹64.77 million per annum plus a fixed bonus of ₹19.13 million per annum, with annual increments of up to 9%. The agreement caps total remuneration at 5% of net profit computed under Section 198 of the Companies Act.

For context, Fiscal 2026 consolidated profit after tax was ₹1,099.03 million. The ₹80.91 million paid in Fiscal 2026 represents 7.4% of that profit figure, though the statutory cap calculation uses standalone net profit under Section 198, which the document does not separately disclose. The cap is on the Managing Director's remuneration alone, not on total promoter compensation.

Two other promoters draw salaries as senior management: Sushil Satwani (₹22.50 million in Fiscal 2026) and Kashish Satwani (₹3.53 million). Together with Anil Satwani, the three promoters received ₹106.94 million in total remuneration. The company employed 2,595 people as of March 31, 2026, with total employee benefit expenses of ₹1,543.39 million. Promoter remuneration therefore accounts for roughly 6.9% of the total employee cost.

Promoters also hold 28.80% of the pre-offer equity and will receive dividends on those shares. The document does not disclose dividends paid in the reported periods.

Transactions with promoter-owned entities

The document states that related party transactions are disclosed in Note 35 of the financial statements, but the full Note 35 text is not included in the sections provided. The Management Discussion section says only: "We enter into various transactions with related parties in the ordinary course of business, including the payments of remuneration and satisfying trade payables." No amounts or counterparty names are given in the MD&A section.

The Promoters section discloses that Satwani Holdings LLP, the corporate promoter, is engaged in "financing, investment and real estate activities." It was originally incorporated as Symbiotec Steroids Private Limited in 1997 with authorisation to manufacture drugs and medicines, and converted to an LLP in 2016. The document does not disclose whether the company has any purchase or sale transactions with Satwani Holdings LLP or any of the 18 other promoter group entities, which include LLPs with names suggesting commercial, industrial, and real estate activities (Aakarshan Realinfra LLP, Buildwells Industrials LLP, Cynor Commercials LLP, and others).

The Promoters section states that "some of our Promoters are also directors on the boards, or are shareholders, kartas, trustees, proprietors, members or partners of entities with which our Company has had related party transactions." Without the full Note 35 schedule, the nature and quantum of these transactions cannot be sized against revenue or profit.

Subsidiary investments and impairments

The company has taken an impairment provision of ₹349.69 million on its investment in subsidiary Navisci Pte Ltd. and a write-off of ₹178.44 million on a loan given to the same subsidiary. Combined, these total ₹528.13 million, which is 34.4% of the Fiscal 2026 consolidated profit before tax of ₹1,533.63 million.

The subsidiary Navisci Pte Ltd. is a foreign entity. Anil Satwani serves as a director. The document does not explain what Navisci does, why the investment was impaired, or what the loan was for. The write-off flows through the profit and loss statement and has already reduced reported profits. The impairment reduces the carrying value of the asset on the balance sheet.

Subsidiary Knovea Pharmaceutical Private Limited and Symbiotec Zenfold Private Limited are described as "greenfield projects" that are "not fully commercialised yet." The company presents an adjusted return on capital employed figure that excludes the capital employed by and losses of these two subsidiaries. In Fiscal 2026, Symbiotec Zenfold had an EBIT loss of ₹180.95 million and Knovea had EBIT of ₹22.90 million. The combined greenfield capital employed was ₹9,736.70 million as of March 31, 2026. These subsidiaries have not yet generated returns on the capital deployed, and minority shareholders in the listed parent bear the dilution from these investments.

Loans and guarantees

The standalone borrowings of the company were ₹3,889.48 million, while consolidated borrowings including subsidiaries were ₹4,333.55 million. The difference of ₹444.07 million represents subsidiary-level debt. The document discloses that certain borrowing arrangements require personal guarantees from promoters. It does not disclose whether the company has given corporate guarantees for subsidiary borrowings, though the financial indebtedness section notes that providing corporate guarantees is a form of security required under some facilities.

The company has given unsecured loans to subsidiaries Knovea Pharmaceutical Private Limited, Symbiotec Zenfold Private Limited, and Navisci Pte Ltd. The sanctioned limit is described as "need based" and not quantified. The outstanding amounts on a standalone basis are not disclosed in the sections provided, though they would be eliminated on consolidation.

Royalty, brand fees, and other payments

The document does not disclose any royalty, brand licensing, or trademark fees paid to promoters or promoter group entities. It also does not disclose any management fees, consultancy charges, or commission payments to related parties beyond the remuneration figures stated above.

Disassociation from entities

In April 2026, Anil Satwani and Satwani Holdings LLP (acting through nominee Kashish Satwani) disassociated from 23 LLPs through voluntary strike-off. All 23 entities were struck off on the same date, April 20, 2026, roughly four months before this Red Herring Prospectus. The names - Stormfleet Industries LLP, Solidray Industries LLP, Truebolt Industries LLP, and 20 others - do not obviously suggest pharmaceutical operations, but the document provides no information about what these entities did, whether they had transactions with the company, or why they were wound up in a batch immediately before the IPO. The document discloses nothing on these points.

Litigation, auditor flags and contingent liabilities

The company faces four material litigation items, two of them filed by the same counterparty in the weeks leading up to this offer. The auditors have flagged two items, one recurring across three years and one new. Contingent liabilities are zero.

Income tax re-assessment: ₹507.92 million across four years

The company received four notices in March 2026 from the Assistant Commissioner of Income Tax under section 148A(1) of the Income Tax Act. All four allege violation of section 115BAA, which governs the concessional tax regime for domestic manufacturing companies.

The re-assessment proceedings cover assessment years 2020-21, 2021-22, 2023-24 and 2024-25.

The amounts are ₹99.99 million, ₹226.63 million, ₹68.29 million and ₹113.01 million respectively. The company filed replies to all four notices in April 2026. The Assistant Commissioner passed orders under section 148(A)(3) on June 27, 2026 initiating re-assessment in each case.

The total amount of ₹507.92 million sits against a profit after tax of ₹1,099.03 million in Fiscal 2026. An adverse outcome across all four years would represent roughly 46% of the most recent annual profit. The document states the company has filed replies but does not record any provision against these amounts.

Balaji Steroids litigation: two proceedings, one seeking ₹1,000 million in damages

Balaji Steroids and Hormones Private Limited has filed two proceedings, both in June-July 2026.

First, a writ petition dated June 19, 2026 before the Madhya Pradesh High Court against promoter Anil Satwani, SEBI and others. The petition alleges inadequate disclosure in the offer document and seeks a forensic audit of data presented to SEBI, asking that permission for the offer not be granted pending investigation. The amount is not quantifiable.

Second, a civil suit dated July 11, 2026 before the Principal Judge, Indore against the company itself. The suit alleges that disclosures in the offer documents tarnished Balaji Steroids' goodwill and reputation. It claims compensation of ₹1,000.00 million.

The backdrop matters. The company filed an FIR in November 2017 against former employees and Balaji Steroids' promoter and an employee, alleging theft of confidential technical data relating to dexamethasone and prednisolone APIs. A chargesheet was filed in February 2020 and the criminal case is pending. In May 2026, Balaji Steroids' promoter filed a revision application seeking to quash that FIR as false.

The ₹1,000 million claim is nearly equal to the company's entire profit after tax for Fiscal 2026. The document does not record any provision against this claim.

Subsidiary land reclassification: Knovea writ petition

Knovea Pharmaceutical Private Limited, a subsidiary, filed a writ petition in March 2023 before the Madhya Pradesh High Court. The subsidiary purchased land in Mhow, Indore in July 2020 for an R&D centre and injectables facility. The Draft Pithampur Master Plan 2035 reclassified this land from industrial to residential use.

The subsidiary had obtained diversion orders and no-objection certificates from the Sub-Divisional Officer confirming the land was not government land and not part of the master

plan. The High Court stayed the reclassification notification in April 2023 and extended the stay in August 2023. The matter is pending.

The amount is not quantifiable. If the reclassification stands, the subsidiary's ability to operate its Mhow facility on that land is at risk. The document states the Mhow facility has been commissioned for complex injectables with R&D and pilot-scale operations underway.

Auditor qualifications: two items

The auditors have flagged the same CARO qualification for three consecutive years: the title deeds of one leasehold property with a carrying value of ₹375.24 million are not held in the company's name. Registration of the title deed is pending. This is consistent across Fiscal 2024, 2025 and 2026 and the amount has not changed.

A second qualification appears in Fiscal 2026 and Fiscal 2025: the audit trail feature in the company's accounting software was not fully enabled for specific changes made through privileged or administrative access rights. In Fiscal 2025, the auditors also noted that some audit trail features were not consistently available because system parameters for logging table-level changes remained inactive until April 26, 2024. In Fiscal 2026, the gap period runs from April 1, 2026 to March 26, 2026. The document does not state whether the gap has been closed.

Neither qualification is an emphasis of matter or a going concern issue. The leasehold title deed matter is a documentation gap, not a dispute over ownership. The audit trail matter is a systems control observation.

Exceptional item: new wage code impact of ₹89.93 million

The company recorded an exceptional item of ₹89.93 million in Fiscal 2026 for the impact of the new labour codes on gratuity and leave encashment. This is a one-time, non-cash charge driven by regulatory change. The related deferred tax benefit was ₹21.07 million. The company states it has restructured employee compensation effective April 1, 2026. This does not represent an ongoing liability.

Investment impairment in subsidiary Navisci

The company provided for impairment of its investment in subsidiary Navisci Pte Ltd. of ₹349.69 million and wrote off a loan given to Navisci of ₹178.44 million. The document does not disclose the nature of Navisci's business or the reason for the impairment. The combined amount of ₹528.13 million is material against a profit after tax of ₹1,099.03 million.

Contingent liabilities

The company states it had no contingent liabilities as of March 31, 2026 under Ind AS 37. The income tax re-assessment proceedings and the Balaji Steroids civil suit are not recorded

as contingent liabilities in the financial statements. The document does not explain the basis for this treatment.

Key risks

The core API markets remain mature, but Symbiotec's API business is growing faster than the end markets. API revenue grew 16% in Q2 FY27 and 11% in H1 FY27, led by volume and supported by regulated-market and product mix. Management guides high-single-digit to low-double-digit annual growth for the steroid hormone API business over the visible period. Price pressure across APIs persists, so growth depends on volume, geography mix and product mix rather than price.

- **The injectables pipeline is unproven at commercial scale.** The double-chamber vial (DCV) products for methylprednisolone sodium succinate and hydrocortisone sodium succinate are expected to launch in the US in fiscal 2027, targeting a combined market size of USD 288 million. The document states Symbiotec achieved proof of concept for double-chamber syringes (DCS), but DCS has no stated launch timeline. The 505(b)(2) pipeline carries an estimated global addressable market of USD 890 million, but these are pre-revenue products. A single FDA rejection, clinical setback, or manufacturing scale-up failure removes a material chunk of the growth narrative. Injectable manufacturing carries higher sterility and contamination risk than API production, and the company has no public track record delivering commercial injectable volumes to regulated markets.
- **Customer concentration is high and disclosed only in fragments.** The document states that two of the top five customers were innovators as of March 31, 2026. It does not disclose the revenue share of the top customer, top five, or top ten. The trade-receivable days stretching from 61 in FY2024 to 73 in FY2025 to 78 in FY2026 suggests customers are taking longer to pay. If a major innovator customer delays orders, switches suppliers, or brings production in-house, the revenue impact could be immediate and large, and investors cannot size that exposure from the disclosures provided.
- **China dependence in the supply chain.** The document identifies reliance on key starting materials sourced from China as a structural vulnerability. Geopolitical tension, trade restrictions, logistics bottlenecks, or a sharp increase in raw-material, solvent, or energy costs can compress margins or halt production. Fermentation is energy-intensive, and Indian API manufacturers compete with Chinese producers who have historically benefited from lower environmental-compliance costs and state-supported infrastructure. The "China+1" shift is a tailwind, but the raw-material pipeline still runs through the same geography.

Greenfield project capital has consumed substantial money, but commissioning and revenue timelines are now more specific. The US alternate-protein facility is expected to start

commercial batches in Q1 FY28. The insulin drug-substance facility is expected to commission in Q4 FY27 and sell from mid-FY28. The European alternate-protein Phase 0 starts from end-FY27 at existing 100 KL capacity, while Phase 1 750 KL is targeted for major toll-fee revenue in FY28-29. Management says a significant part of the European project capex will come from the customer.

- **The Balaji Steroids litigation is a direct attack on the offer process.** Balaji Steroids and Hormones Private Limited filed a civil suit on July 11, 2026, claiming disclosures in the offer documents tarnished its goodwill and seeking compensation of ₹1,000 million. It also filed a writ petition against Promoter Anil Satwani and SEBI on June 19, 2026, alleging inadequate disclosure and seeking a forensic audit. The civil suit amount is roughly equal to the company's FY2026 profit after tax of ₹1,099 million. An adverse ruling, or even the distraction and cost of defending a multi-front litigation during the listing process, can delay the offer or divert management attention.
- **Income tax re-assessment proceedings cover four assessment years.** The company received four notices in March 2026 under Section 148A(1) of the Income Tax Act, alleging violation of Section 115BAA, with aggregate tax demands of ₹507.92 million. Section 115BAA relates to the concessional corporate tax regime. If the company loses these proceedings, the cash outflow is material relative to FY2026 PAT. It also raises questions about tax-compliance processes that are now under active scrutiny.
- **The Navisci impairment signals poor capital-allocation discipline offshore.** The company provided for an impairment of its investment in subsidiary Navisci Pte Ltd of ₹349.69 million and wrote off a loan of ₹178.44 million. Navisci is a Singapore entity. The document does not explain what Navisci does, why it failed, or what lessons were learned. The combined ₹528 million write-off is not trivial against a three-year average PAT of roughly ₹1,022 million.
- **Promoter shareholding post-offer remains concentrated at 36.40% on a fully diluted pre-offer basis.** After the offer, the promoter group will continue to hold a significant stake. The offer for sale is entirely from financial investors (Satwani Holdings LLP, Rosewood Investments, India Business Excellence Fund III), not from the promoters reducing their economic exposure. The fresh issue proceeds of ₹1,125 million go entirely to debt repayment, not to growth capex. The company is listing with the promoter group retaining control while financial sponsors exit partially or fully.
- **Knovea's land has been reclassified from industrial to residential.** Knovea Pharmaceutical Private Limited filed a writ petition challenging the reclassification of its land under the Draft Pithampur Master Plan, 2035. If the reclassification stands, the greenfield facility on that land faces a fundamental zoning problem. The company can win

the writ or find alternative land, but either path adds time and cost to a project that has already consumed significant capital.

- **The exceptional item in FY2026 is a reminder that labour codes are changing the cost base.** The company recorded ₹89.93 million for the impact of the new wage code on gratuity and leave encashment. The four Labour Codes were notified with an effective date of November 21, 2025, and central rules were published on May 8, 2026. State-level rules are still being finalised. Once fully operational, the codes could increase employee costs across the manufacturing workforce. Symbiotec operates fermentation facilities that are labour-intensive relative to chemical-synthesis API plants.

What to watch after listing

The first-quarter DCV update is now known: the first ANDA was filed in September, with accelerated review status, and the second is planned in Q4 FY27. Management expects FDA approval and inspection in late calendar year 2027, with commercialisation in FY27-28 and product supply beginning next fiscal year. The next filings should track whether the second ANDA is filed on schedule and whether the FDA goal date moves.

- **Greenfield project commissioning milestones.** Knovea and Symbiotec Zenfold have absorbed ₹9,736.70 million in capital employed. The company needs to disclose commissioning dates, capacity in kilolitres, regulatory inspection outcomes (US FDA, EU GMP), and the first customer qualifications. If three quarters pass with no disclosure of commercial production from these sites, the capital is not converting to revenue.

Trade receivable days were 61 in FY2024, 73 in FY2025 and 78 in FY2026. In Q2 FY27, trade receivables rose from ₹197 crore to ₹268 crore because a significant amount of DCV milestone revenue was invoiced to the partner on 30 September. Management expects realisation in the subsequent quarter and says the position will normalise. Investors should still monitor whether the receivables build reverses as guided and whether API receivable days stabilise.

- **Customer-concentration disclosure.** As a listed company, Symbiotec will need to disclose the revenue share of its largest customer and top five customers in its annual report. The first annual filing will reveal whether the business is dependent on one or two relationships. If the top customer exceeds 25-30% of revenue, the risk of a single-contract loss becomes a central valuation question.

- **Use of fresh-issue proceeds against stated schedule.** The company plans to deploy ₹1,125 million toward debt repayment in fiscal 2027. The first post-listing quarterly results should show a reduction in standalone borrowings from the ₹3,497.81 million reported as of March 31, 2026. If borrowings do not decline by roughly that amount, the

proceeds have been redirected or the debt figure included non-repayable items. The document states the objects have not been appraised by any bank or independent party, so there is no external validation of the repayment plan.

The base API business delivered gross margin above 60% and EBITDA margin around 30% in Q2 and H1 FY27. Consolidated Q2 FY27 EBITDA margin benefited from the ₹53 crore DCV milestone. Management guides FY27 revenue growth of approximately 20% and EBITDA growth of around 25%, with a range of 5 percentage points either side. For newer verticals, management says it expects 30-40% EBITDA margins and 70-80% gross margins, though these vary by product, customer and geography. The key test is whether the injectables and fermentation CDMO ramps lift margins without offsetting ramp costs.

- **Resolution or escalation of the Balaji Steroids litigation.** The civil suit seeks ₹1,000 million and the writ petition seeks a forensic audit. Any interim order from the court - especially one that comments on the adequacy of disclosures - could affect the stock. Even if the case is ultimately dismissed, the market will watch for settlement costs or adverse findings. The first annual report should provide an update on the status of both proceedings.
- **Outcome of the income tax re-assessment.** The four notices under Section 148A(1) cover assessment years 2020-21 through 2024-25, with aggregate demands of ₹507.92 million. The company will need to disclose the progress of these proceedings in its quarterly and annual filings. A demand order upholding the tax claim would be a direct hit to post-tax profit in the quarter it is recognised.
- **Expiry of lock-in periods.** The offer document will specify lock-in periods for pre-IPO shareholders. The financial sponsors (Rosewood Investments and India Business Excellence Fund III) are selling part of their stakes in the OFS. Their remaining holdings, if any, will exit lock-in at staggered intervals. Watch the first expiry date: if a large block becomes free to sell and the stock is trading above the offer price, the overhang can pressure the share price.
- **Disclosure of fermentation capacity and utilisation.** The document defines fermentation capacity as the total volume in kilolitres that can be processed in all installed fermenters but does not disclose the actual figure. As a listed company, Symbiotec should disclose capacity and utilisation rates. The first annual report will show whether the existing facilities are running close to nameplate capacity (which would make the greenfield expansion essential) or have headroom (which would make the greenfield spend look premature).

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	752	869	1,034	1,245	1,566
Revenue growth	-	+15.5%	+19.0%	+20.3%	+25.8%
EBITDA (₹ Cr)	203	239	300	378	513
EBITDA margin	27.0%	27.5%	29.0%	30.4%	32.8%
Depreciation (₹ Cr)	43.00	53.00	88.00	100	110
Interest (₹ Cr)	17.00	26.00	24.00	22.00	18.00
Other income (₹ Cr)	4.00	-6.00	3.00	5.00	8.00
PBT (₹ Cr)	147	154	191	261	393
Tax (₹ Cr)	49.90	43.10	51.60	65.20	98.40
Tax rate	34.0%	28.0%	27.0%	25.0%	25.0%
PAT (₹ Cr)	96.90	111	139	196	295
PAT growth	-	+14.4%	+25.6%	+40.4%	+50.8%
EPS (₹)	15.06	17.24	21.66	30.40	45.85
P/E	103.8x	90.6x	72.1x	51.4x	34.1x
PEG	2.3x	2.0x	1.6x	1.1x	0.7x

CAGR FY27E-FY29E: Revenue +23.0% · EBITDA +30.8% · PAT +45.5%

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Q2 FY27 concall notes

TLDR

Symbiotec reported Q2 FY27 consolidated revenue of ₹280 crores, up 43% YoY, and H1 FY27 revenue growth of 25%, with reported EBITDA up 88% YoY in Q2 to ₹94 crores (adjusted for ₹3 crores of one-time IPO expenses) and PAT of ₹52 crores, up 169% YoY. The quarter included ₹53 crores of milestone revenue from a September-signed US complex injectable agreement covering two dual-chamber vial products with a combined addressable US market of about USD 300 million annually. Management signed a 10-year take-or-pay fermentation CDMO agreement with a Europe-based alternate protein company, beginning at the existing 100 KL Ujjain capacity before a 750 KL Phase 1 build over 12 to 15 months, with Phase 1 toll fees in the tens of millions of dollars and peak revenue expected in FY29. Management maintained FY27 guidance of about 20% revenue growth and around 25% EBITDA growth, plus or minus 5 percentage points, and committed to ₹200 to ₹300 crores of annual capex. Key watch points are the insulin biologics commissioning slipping to Q4 FY27 with sales from mid FY28, the DCV ANDA approval and FDA inspection now expected in late calendar 2027, and the receivables build to ₹268 crores.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹280 crores (Q2 FY27)	+43% YoY	₹53 crores milestone revenue from the complex injectable agreement plus API growth
Consolidated revenue	H1 FY27	+25% YoY	API volume growth and milestone recognition
Consolidated EBITDA	₹94 crores (Q2 FY27), adjusted for ₹3 crores one-time IPO expenses	+88% YoY	Milestone revenue and API mix
Consolidated EBITDA	₹140 crores (H1 FY27)	+29% YoY	API volume and product/geography mix
PAT	₹52 crores (Q2 FY27)	+169% YoY	Milestone revenue and EBITDA growth
API revenue	₹227 crores (Q2 FY27)	+16% YoY	Volume growth, plus better geography and product mix
API revenue	H1 FY27	+11% YoY	Largely volume growth across H1
API gross margin	Over 60% (Q2 and H1)	Held steady	Backward integration and make-versus-buy flexibility
API EBITDA margin	Around 30% (Q2 and H1)	Stable	Product and geography mix
Capex	₹113 crores (H1 FY27)	n/a	Fermentation, biologics and injectable capacity build
Net debt	₹314 crores (as of 30 Sep 2026)	n/a	Capex funding
Trade receivables	₹268 crores, up from ₹197 crores	QoQ	Milestone invoiced to partner on 30 September, realization expected in the subsequent quarter

SEGMENTS & GEOGRAPHIES

- **API (steroid and hormonal)**: Revenue ₹227 crores in Q2, up 16% YoY, and up 11% in H1, led by volume and product/geography mix. Management said price pressure continues across APIs including steroidal hormones, and

that 70% of the business is now focused on regulated markets and large companies, which it called sticky and durable. It guides high single-digit growth, sometimes low double digit, for the next several years.

- **Complex injectables (dual-chamber vials)**: A long-term US market agreement was signed on 30 September with a leading global company for two complex injectable products on the DCV platform. Symbiotec handles development, regulatory submissions, manufacturing and supply; the partner handles US commercialization and distribution. Three revenue streams: development and regulatory milestones, product supply revenue likely from next fiscal year, and profit share on partner sales. The two products have a combined addressable US market of about USD 300 million a year. The first ANDA was filed in September and the second is planned for Q4 FY27. Management is in discussions with distributors for Europe and China and has three to four more products in the pipeline.
- **Fermentation CDMO**: A 10-year take-or-pay agreement was signed with a Europe-based alternate protein company, starting with technology transfer and qualification batches at the existing 100 KL Ujjain capacity (Phase 0, targeted within this fiscal year), then a 750 KL Phase 1 build over 12 to 15 months, and a Phase 2 above one million liters. Phase 1 toll fees are in the few tens of millions of dollars, with peak revenue expected in FY29. The existing 10-year take-or-pay contract with a US alternate protein company is in the last stage of downstream capability build, with commercial batches expected in Q1 FY28. The 5-year insulin drug substance take-or-pay contract is expected to be commissioned in Q4 FY27, with sales from mid FY28.
- **Classical fermentation (within API)**: Two products commercialized for the Indian market, with DMFs and CEPs being filed, and six more products developed in the pipeline. Management expects this to be a portfolio of half a dozen to a dozen products fitting existing Pithampur SEZ capacity, and said it will take two to three years before regulated markets and synthetic-biology-based proprietary products.

STRATEGY & COMPANY-SPECIFIC

- Signed a long-term US market agreement on 30 September for two complex injectable products on the dual-chamber vial platform; ₹53 crores of completed milestones invoiced and recognized in Q2, with the balance expected across subsequent quarters and similar intensity year on year for the next couple of years.
- First DCV ANDA filed with the FDA in September, acknowledged without a refuse-to-receive; second ANDA planned for Q4 FY27. Management expects FDA approval and inspection in late calendar 2027, against a July goal date, allowing for queries.
- Signed a 10-year take-or-pay agreement with a Europe-based alternate protein company; Phase 0 uses the existing 100 KL capacity with about three months of fine-tuning, Phase 1 is 750 KL over 12 to 15 months, and Phase 2 exceeds one million liters. The customer is described as an offshoot of two European MNCs, 50% owned by those MNCs and 50% by venture capital.
- Ujjain fermentation site expanded from 32 acres to 72 acres after acquiring 40 more acres; all future fermentation CDMO capacity will be built there.
- Total fermentation CDMO capacity today is 400 KL. The 750 KL Phase 1 is exclusive to the European customer for the same product, with global distribution rights including the US, Europe and potential India supply.
- Insulin biologics facility capex is a little over ₹100 crores; commissioning moved to Q4 FY27 with validation batches, and sales expected mid FY28 after regulatory approvals. A biologics subject matter expert joined a few months ago and made changes to meet evolving regulatory standards, causing a couple of months of delay. About 50% of capacity is committed to the Indian customer, with the rest held for higher-value products and markets.
- Vegan vitamin D3 plant is under construction and expected to be completed and qualified by end of FY27, with sales to nutraceutical and veterinary markets from early FY28; pharma D3 qualification may take another year.

Pricing positioning is undecided, with vegan D3 currently at three to four times animal-derived D3 and the technology able to compete at animal D3 pricing.

- Dual-chamber bag proof of concept is ready, and dual-chamber syringe and testosterone injectable CDMO are under exploration; no capex committed yet on these.
- Premarin (natural conjugate estrogen) API development and validation are largely complete to FDA expectations, but the partner's formulation work is in progress and launch may be a few years away.
- Corporate capex commitment of ₹200 to ₹300 crores per year, funded partly by operating surplus, with significant customer contribution to CDMO project capex; the total Phase 1 and Phase 2 fermentation build is estimated at roughly ₹1,000 crores with a significant part from the customer.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	About 20%, plus or minus 5 percentage points	n/a	Maintained positive outlook
FY27 EBITDA growth	Around 25%, plus or minus 5 percentage points	n/a	Maintained positive outlook
API growth	High single digit, sometimes low double digit, for the next several years	n/a	Volume growth, regulated market mix, sticky customer relationships
Milestone revenue	Similar annual intensity for the next couple of years, not linear quarter to quarter	n/a	Completed contractual milestones on the US DCV agreement
DCV product commercialization	FY28	n/a	First ANDA filed September, second planned Q4 FY27
DCV FDA approval and inspection	Late calendar 2027	n/a	July goal date plus expected queries
US alternate protein commercial batches	Q1 FY28	n/a	Downstream capability in last stage of build, regulatory approvals in place
Insulin drug substance commissioning	Q4 FY27, sales mid FY28	n/a	Validation batches in Q4 FY27, then regulatory approvals
European alternate protein Phase 0 production	Within FY27	n/a	Three months of fine-tuning at existing 100 KL capacity
European alternate protein Phase 1	12 to 15 months to build, peak revenue FY29	n/a	750 KL build at Ujjain, regulatory approvals in progress in India
Annual capex	₹200 to ₹300 crores	n/a	Fermentation, biologics and injectable capacity, partly customer funded
Vegan vitamin D3 plant	Completed and qualified by end FY27, non-pharma sales from early FY28	n/a	Plant under construction

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
API price pressure	Price pressure continues across APIs including steroidal hormones; Symbiotec also feels it, offset by volume and mix

RISK	WHAT MANAGEMENT SAID
Solvent and logistics cost	Solvent cost and logistics cost have risen due to the Iran war; impact of 2% to 3% on gross margins, which management called temporary
Trade receivables	Rose from ₹197 crores to ₹268 crores because milestones were invoiced on 30 September; realization comes in the subsequent quarter and should normalize
Insulin project delay	A couple of months of delay from project timelines after the new biologics SME changed structures for evolving regulatory standards; management called it normal and expected
DCV regulatory timeline	Goal date remains July but queries may push approval and inspection to late calendar 2027
Alternate protein customer risk	Management said it does due diligence on partner capital, product acceptance and take-or-pay contracts before signing, and that the European partner is an offshoot of two European MNCs with capital in hand
Premarin launch	A generic is already in the market; partner formulation work is in progress and launch may be a few years away
Fermentation capacity allocation	Part of the 400 KL is held for scale-up and trials for prospective customers, foregoing near-term revenue to keep capacity open

Q&A HIGHLIGHTS

- **European alternate protein opportunity size**: Asked for the opportunity size and return profile, management said it cannot give specific numbers for confidentiality but confirmed a 10-year take-or-pay agreement, Phase 0 at existing 100 KL within this fiscal year, Phase 1 at 750 KL over 12 to 15 months, and Phase 2 above one million liters, with Phase 1 toll fees in the few tens of millions of dollars and peak revenue in FY29.
- **Milestone recurrence**: Asked whether the ₹53 crores of milestone income is recurring at similar intensity, management said it is not linear quarter to quarter but linear year on year, will continue for the next couple of years, and sales and profit share will begin before milestones stop.
- **Margin difference between biopharma and biomanufacturing**: Asked whether margins differ, management said it does not differentiate between the two and expects nothing less than 30% ROC, 30% to 40% EBITDA margins and 70% to 80% gross margins, varying by product, customer and geography.
- **750 KL capacity increase**: Asked why capacity rose from 600 KL to 750 KL and how much is customer funded, management said the customer chose 750 KL, the agreement was revised on revised terms, and a significant part of the capex will come from the customer, without disclosing the share.
- **Receivables spike**: Asked about the rise from ₹197 crores to ₹268 crores, the CFO said a significant amount was invoiced to the partner on 30 September and realization comes in the subsequent quarter, so it will normalize.
- **API growth driver**: Asked whether mid-teens API growth was volume or price, management said price pressure continues and growth was primarily volume plus better geography and product mix, with high single-digit growth expected for several years.
- **DCV capacity and customer exclusivity**: Asked whether two products fill the 20 million vial facility and whether it is exclusive to one customer, management said majority of capacity is contracted with the customer for the two US products, a significant minority is held for products three, four and five and for Europe and China, and the customer has to do its own diligence before expanding the portfolio.
- **Alternate protein partner confidence**: Asked how management is confident given failures among global alternative protein companies, management said it does extensive due diligence on partner capital, product acceptance and take-or-pay contracts, and that the European partner is an offshoot of two European MNCs with 50% ownership by those MNCs and 50% by venture capital.

Piramal Pharma Limited

GROWTH TRIGGERS

Piramal's bull case rests on CDMO order momentum converting into revenue across a fixed-cost network, lifting margins while Kenalog and ex-US sevoflurane add CHG growth and Consumer Healthcare improves mix after the low-margin Bayer distribution exit.

1. FY27 guidance upgraded after a strong Q2

Management raised FY27 revenue growth guidance to approximately 19-20% with meaningfully higher profitability, after Q2 revenue grew 28% to INR 2,617 crore and EBITDA grew 72% to INR 385 crore. H1 revenue rose 23% and H1 EBITDA 72%, with EBITDA margin up more than 350 basis points.

2. CDMO order momentum and customer additions

CDMO revenue grew 36% in Q2 FY27 and 28% in H1. Management said RFP inflow and order booking were up and H1 order booking was above historical levels, while H1 added 22 new customers and completed 110 customer audits. Phase III molecules rose to 28 at September 2026 from 25 at March 2026.

3. ADC and differentiated mix is scaling faster than the group

ADC services revenue was about US$40 million in H1 FY27 and grew more than 50% year on year. Differentiated offerings rose to 43% of CDMO revenue from 40% at FY26 end, and innovation-related work rose to 49% from 46% in H1 FY26. Management expects ADC to grow meaningfully above overall company growth and innovation plus on-patent commercial to exceed 50% of the business in the next couple of years.

4. North America operating leverage is visible

Management said North America RFP inflow, order booking and revenue were all up while fixed costs were largely unchanged, so EBITDA contribution from the region improved. Consolidated EBITDA margin expanded more than 350 basis points in Q2 and H1. Management said margins are sustainable if fixed costs remain controlled, and that further margin can come if revenue continues at the planned pace.

5. Lexington has staged go-lives and anchor customers signed

The Lexington sterile fill-finish expansion has three go-lives: a micro expansion already live, a second early next year, and the full expansion at end-CY2027. Anchor customers for the first, second and third batches have signed. The expansion is intended to attract larger late-phase clinical and commercial fill-finish work, shifting the site mix toward commercial and improving the margin profile.

6. Kenalog has started contributing to CHG

Kenalog contributed to CHG revenue in Q2 FY27 after the acquisition, and management calls it an important FY27 growth driver. Supply is tight while manufacturing transfers to a new CMO, but the new CMO has met the timelines committed to the original owner and to Piramal. The product adds a differentiated hospital injectable to the existing CHG portfolio and sales infrastructure.

7. Ex-US sevoflurane and ROW contract wins add CHG growth

Q2 FY27 CHG revenue grew 32% to INR 849 crore and H1 grew 24% to INR 1,592 crore. Management said a healthy pickup in ex-US sevoflurane and a couple of ROW contract wins contributed substantially to incremental base-business growth. The US sevoflurane value share was maintained at 48%, and intrathecal baclofen remained number one.

8. Consumer mix improves as Bayer distribution exits

PCH grew 13% in Q2 FY27 and 14% in H1, with power brands up 21% in H1 and 53% of sales and e-commerce up 32% and 28% of sales. The low-margin Bayer sales and distribution agreement expires in December 2026 and is not expected to have a material FY27 impact. Management expects power brands, e-commerce, premiumisation and channel expansion to support growth and margin improvement.

INVESTMENT THESIS

Piramal Pharma is three businesses under one listed entity: a contract development and manufacturing organisation (CDMO), a complex hospital generics business, and an Indian consumer healthcare portfolio. The investment thesis remains operating leverage. The CDMO network carries fixed costs and a mix of underutilised overseas assets; as revenue fills those assets, incremental gross profit should fall through to EBITDA. Q2 FY27 is the clearest evidence yet that this mechanism is working: revenue grew 28% to INR 2,617 crore, EBITDA grew 72% to INR 385 crore, and EBITDA margin expanded more than 350 basis points. H1 revenue grew 23% and H1 EBITDA 72%. Management upgraded FY27 revenue growth guidance to approximately 19-20% with meaningfully higher profitability, from early-to-mid-teens revenue growth previously. That is guidance, not an achieved full-year result, but it is a stronger starting point than the prior report had.

The CDMO economics are the core. The business competes in technically complex modalities such as antibody-drug conjugates, high-potency APIs, sterile injectables and hormones, where qualification cycles and regulatory records make customers reluctant to switch. The Q2 call shows the mix moving in the right direction: differentiated offerings reached 43% of CDMO revenue from 40% at FY26 end, innovation-related work reached 49% from 46% in H1 FY26, ADC services revenue was about US$40 million in H1 FY27 and grew more than 50%, and Phase III molecules rose to 28 from 25 in March 2026. These are leading indicators for commercial manufacturing, not revenue guarantees. Management expects ADC to grow meaningfully above overall company growth and expects innovation plus on-patent commercial to exceed 50% of the business in the next couple of years.

The operating leverage evidence is specific. Management said North America RFP inflow, order booking and revenue were all up while fixed costs were largely unchanged, so EBITDA contribution from the region improved. Consolidated gross margin remains around the historical 64-65% average, and the CFO said the full-year margin should move toward that level. The margin uplift is therefore not coming from a sudden gross-margin mix windfall; it is coming from revenue absorption of fixed costs. Management said Q2 margins are sustainable if fixed costs remain controlled and that further margin can come if revenue continues at the planned pace. The 25% consolidated EBITDA margin target by FY30 remains the long-term anchor, but it was not restated in the Q2 call and should be treated as an open target, not a delivered outcome.

The earnings path has three near-term supports. First, CDMO order momentum: H1 added 22 new customers, completed 110 customer audits, and management said RFP inflow and order booking were up, with H1 order booking above historical levels. Second, capacity: the Riverview high-potency API expansion is completed, ADC capacity is available across four sites, and Lexington has three staged go-lives, with the full expansion targeted for end-

CY2027 and anchor customers signed for the first three batches. Third, CHG: Q2 revenue grew 32% to INR 849 crore, H1 grew 24% to INR 1,592 crore, Kenalog contributed for the first time, US sevoflurane value share held at 48%, and ex-US sevoflurane plus a couple of ROW contract wins drove base-business growth. Consumer Healthcare adds a lower-capital growth stream: Q2 revenue grew 13%, power brands grew 21% in H1 and were 53% of sales, e-commerce grew 32% and was 28%, and the low-margin Bayer distribution agreement expires in December 2026 with no material FY27 impact expected.

Capital allocation is active rather than passive. Net debt to EBITDA improved to 3.4x from 3.7x in March, but net debt rose because of the Lexington expansion, the Kenalog acquisition, the Yapan Bio controlling stake and currency. Management is funding growth in ADC, sterile fill-finish and biologics while keeping Morpeth to maintenance and compliance capex; it explicitly said there is no large remediation capex tied to the US FDA observations. That is a disciplined choice, but it also means the balance sheet remains sensitive to delivery. The company has not disclosed a current annual capex envelope in the Q2 call, so the prior US$120-135 million guidance should be treated as historical until restated.

Management delivery is better than the prior report could establish, but the record is short. Q1 held guidance and promised a revisit after the September quarter; Q2 upgraded it. Kenalog supplies started in Q2 as promised. Lexington remains on track. Against that, the 25% FY30 margin target, tax normalization, Kenalog's new CMO transfer, Morpeth's FDA observations and the large destocked customer are all open. The Q2 call also contains a transcription ambiguity: passage 9 says 'unpatented commercial manufacturing' grew 39%, while the analyst and management later refer to on-patent commercial manufacturing. That metric should not be used as confirmed without checking the transcript.

The main falsifiers are clear. If Q3 and Q4 revenue growth slows enough that FY27 falls below the upgraded 19-20% guide, the operating-leverage thesis loses near-term proof. If North America EBITDA contribution reverses while fixed costs remain, the margin mechanism is cyclical rather than structural. If Kenalog's new CMO validation slips or Morpeth's FDA observations take longer to resolve, CHG and UK drug-product supply face overhangs. If the overseas tax losses are not utilized over the guided two-to-three-year window, reported PAT remains muted even as EBITDA improves. Finally, CDMO remains tied to biotech funding; management said the cycle remains even as it tries to weight the mix toward large pharma. The thesis is therefore a delivery thesis with visible Q2 evidence, not a completed turnaround.

RESEARCH REPORT

What Piramal Pharma Limited does

Piramal Pharma Limited (PPL) is a global pharmaceutical company built around three distinct businesses: Contract Development and Manufacturing Organisation (CDMO), Complex Hospital Generics (CHG), and Consumer Healthcare (PCH). The company was incorporated in 2020 as part of the Piramal Group, though its businesses have much longer operating histories. It employs over 7,000 people and operates 17 manufacturing and development facilities across India, North America, and the UK/Europe, with a distribution footprint spanning more than 100 countries. In FY2026, the company reported revenue from operations of INR 8,869 crore.

Q2 FY27 update (28 October 2026)

Piramal reported Q2 FY27 revenue of INR 2,617 crore, up 28% year on year, and EBITDA of INR 385 crore, up 72%, with EBITDA margin expanding more than 350 basis points. H1 revenue was INR 4,887 crore, up 23%, and H1 EBITDA INR 669 crore, up 72%. Management upgraded FY27 revenue growth guidance to approximately 19-20% with meaningfully higher profitability, from its earlier early-to-mid-teens revenue expectation. All three businesses contributed, with CDMO revenue up 36% in Q2 and Complex Hospital Generics up 32% including the first Kenalog contribution.

The three businesses share a common thread: each operates in a segment where complexity and regulatory barriers create pricing power. The CDMO business sells drug development and manufacturing services to pharmaceutical innovators. The CHG business sells complex generic hospital products where manufacturing difficulty limits competition. The consumer business sells branded OTC healthcare products in India. Each segment has different economics, customers, and growth drivers, which is why the company is best understood as three separate businesses under one holding structure.

CDMO (Piramal Pharma Solutions)

The CDMO business contributed 55% of FY2026 revenue, or INR 4,915 crore. It provides drug development and manufacturing services across the entire molecule lifecycle, from discovery and clinical development through commercial manufacturing of APIs and finished drug products. The business has 15 facilities across India, the UK, and North America, serving over 500 customers including global pharmaceutical innovators, emerging biotech companies, and generic manufacturers. Approximately 79% of CDMO revenue comes from regulated markets (US, Europe, Japan).

The differentiated capabilities are the core of the business's competitive position. Piramal specializes in high-potency APIs (HPAPIs), Antibody Drug Conjugates (ADCs), peptides, sterile injectables, and hormones. These are technically complex, high-barrier segments

where the company has built capabilities over decades. The Grangemouth facility in the UK is the world's first USFDA-approved commercial ADC CDMO site, a distinction management highlights as proof of the technical depth in that area. In FY2026, differentiated offerings contributed 40% of CDMO revenue, up from 32% in FY2022, and innovation-related work contributed 47% of CDMO revenue. By Q2 FY27, differentiated offerings had risen to 43% of CDMO revenue, and innovation-related work was 49% of CDMO revenue in H1 FY27 versus 46% in H1 FY26.

The ADC franchise is the strategic centerpiece. Piramal offers fully integrated ADC solutions spanning payload-linker manufacturing (at Riverview, US), monoclonal antibodies (in Hyderabad), and ADC drug substance conjugation (at Grangemouth, UK), plus sterile fill-finish (at Lexington, US). The company reported FY26 ADC services revenue of approximately US$64 million. During Q1 FY27, the company inaugurated a new commercial-scale payload-linker development and manufacturing site at Riverview, part of a US$90 million expansion program that also includes sterile injectable capacity at Lexington. Management described the Riverview payload-linker capacity as having "single to low double digit revenue potential" and said it was already seeing customer interest. In H1 FY27, ADC services revenue across all sites was about US$40 million, growing more than 50% year on year, and the Riverview high-potency API capacity expansion was completed.

The company also runs a development pipeline of 157 molecules across clinical phases, with 25 molecules in Phase III as of March 2026 and 28 as of September 2026. These later-stage programs are the most important for future revenue because they represent the potential for long-term commercial manufacturing contracts. Sixteen on-patent commercial molecules generated US$96 million in FY2026 revenue, though this declined year-on-year due to temporary inventory destocking by one key customer.

The CDMO business is geographically split roughly 48% outside India and 52% in India. Gross margins at overseas facilities run 75-85%, versus 55-65% at Indian facilities, but the overseas sites currently have lower utilization, which depresses overall profitability. The long-term 25% FY2030 EBITDA margin target remains an open target rather than a current guide. In Q2 FY27, better capacity utilisation and operating leverage expanded consolidated EBITDA margin by more than 350 basis points; management said margins are sustainable if fixed costs remain controlled and said North America's EBITDA contribution improved on higher revenue with largely unchanged fixed costs.

Management also set a directional expectation on the Q2 FY27 call that innovation-related and on-patent commercial manufacturing should grow faster than the rest of CDMO and account for over 50% of that business in the next couple of years. In Consumer Healthcare, management said the business is single-digit profitable and, when asked about the FY30 double-digit margin target, said it would be close to it.

Complex Hospital Generics (Piramal Critical Care)

The CHG business contributed 30% of FY2026 revenue, or INR 2,703 crore. It develops and commercializes complex hospital-focused generic and specialty products, with a portfolio of 30+ products sold to more than 6,000 hospitals, surgical centers, and veterinary clinics across over 100 countries. Approximately 73% of CHG revenue comes from regulated markets (US, Europe, Japan).

The product portfolio breaks down as: inhalation anesthesia 64% of CHG revenue, intrathecal therapy 10%, injectable pain management 11%, and generic and specialty products 15%. The inhalation anesthesia franchise is the anchor. Piramal is the fourth-largest inhalation anesthesia company globally and holds the #1 position in the US Sevoflurane market with a 48% value market share (IQVIA). The company is one of only a few major suppliers manufacturing all three generations of inhalation anesthetics: Sevoflurane, Desflurane, and Isoflurane.

The vertical integration in inhalation anesthesia is a structural advantage. The company manufactures the key starting material (KSM) at Dahej, India, the APIs and drug products at both Digwal, India and Bethlehem, US. This gives Piramal control over cost and supply chain that competitors without integrated manufacturing lack. For Sevoflurane specifically, the API and drug product are made in Bethlehem, Pennsylvania, with inputs from India, positioning the company to handle various US tariff scenarios.

In intrathecal therapy, the company's Gablofen brand (intrathecal baclofen) holds the #1 position in the US market for pre-filled syringes and vials. This is a highly specialized niche: baclofen delivered intrathecally (directly into the spinal fluid) for management of severe spasticity from conditions like multiple sclerosis and cerebral palsy. The therapy requires an implantable pump and catheter, creating high barriers to entry.

In April 2026, Piramal completed the acquisition of Kenalog, an injectable corticosteroid brand, from Bristol-Myers Squibb for US$35 million upfront plus up to US$65 million in contingent milestone payments. Kenalog is an off-patent product facing limited competition due to complex manufacturing requirements, marketed in 15+ countries. Management expects Kenalog supplies to start from Q2 FY27 and called it an important growth driver for FY27. The acquisition is expected to deliver margins consistent with the CHG business at minimal incremental operating cost.

The CHG business faced competitive pressure in FY2026 from Chinese manufacturers in ex-US inhalation anesthesia markets, which the annual report described as "intensified competition." Growth in FY2026 was broadly flat, but Q1 FY27 showed 17% revenue growth to INR 743 crore, driven by ex-US market share gains. Management said the Chinese competition remains but that actions taken over the past year to respond are starting to bear

fruit. In Q2 FY27, CHG revenue grew 32% to INR 849 crore and H1 grew 24% to INR 1,592 crore, with initial Kenalog contribution and a healthy pickup in ex-US sevoflurane. Management said Kenalog supply is tight while a new CMO completes tech transfer.

Consumer Healthcare (Piramal Consumer Healthcare)

The consumer business contributed 14% of FY2026 revenue, or INR 1,274 crore. It operates on an asset-light model with third-party manufacturing, marketing a portfolio of 25+ brands across kids' wellness, skincare, women's health, digestives, and geriatric care. Distribution reaches approximately 180,000 chemists and general trade outlets, 13,000+ modern trade outlets, and 20+ e-commerce platforms.

The growth engine is the six "Power Brands": Little's, Lacto Calamine, i-range, CIR, Tetmosol, and Polycrol. Power Brands grew 24% in FY2026 and contributed 52% of PCH revenue, rising to 53% in Q1 FY27 with 23% year-on-year growth. The business has invested 11-15% of revenue in media and trade promotions over the past four years, which management credits for the 22% CAGR in Power Brand growth.

E-commerce is the fastest-growing channel, rising 48% in FY2026 to contribute 27% of PCH revenue, and 40% year-on-year in Q1 FY27 to reach 28% of sales. Quick commerce now accounts for about 50% of the e-commerce business. The company also maintains a manufacturing and distribution partnership with Bayer Pharmaceuticals for brands including Saridon, Supradyn, Becozym, and Benadon.

The innovation strategy has shifted to "fewer, better, and bigger" launches. In FY2026, the company launched 31 new products and SKUs, and the revenue share from new launches rose from 8% to 17% year-on-year. In Q1 FY27, the company launched i-choose, a new master brand consolidating the women's intimate care portfolio under a unified identity.

Business segments

CDMO (Piramal Pharma Solutions)

Piramal Pharma Solutions is the contract development and manufacturing arm of Piramal Pharma Limited, contributing 55% of the company's FY2026 revenue of INR8,869 crores. The segment provides services across the drug lifecycle, from discovery and clinical development through commercial manufacturing of APIs and finished drug products. The capability that took years to build is the integrated Antibody Drug Conjugate (ADC) platform, anchored by the Grangemouth facility in the UK, which the annual report identifies as the world's first USFDA-approved commercial ADC CDMO site. The platform spans payload-linker manufacturing at Riverview in Michigan, ADC drug substance conjugation at Grangemouth, and sterile fill-finish at Lexington in Kentucky.

The differentiated offerings sit inside a broader network of 15 facilities across India, the UK/Europe, and North America. These include high-potency APIs (HPAPIs), peptides, hormones, and sterile injectables. The annual report discloses that differentiated offerings contributed 40% of CDMO revenue in FY2026, up from 32% in FY2022, and that ADC services generated approximately US$64 million in FY2026 revenue. The development pipeline holds 157 molecules, with 25 in Phase III and 16 on-patent commercial manufacturing programs that produced US$96 million in FY2026.

Customers are global pharmaceutical innovators, emerging biotech firms, and generic manufacturers, more than 500 companies in total. Approximately 79% of CDMO revenue comes from regulated markets in the US, Europe, and Japan, and 47% of FY2026 revenue came from innovation-related work. In H1 FY27, innovation-related work rose to 49% from 46% in H1 FY26. The customer relationship strategy is "land and expand," where Piramal wins a single project and grows it across molecules and sites. Peter DeYoung, CEO Global Pharma, described the pattern on the Q1 FY27 call:

> *"We have a track record of growing and adding projects with our larger customers over time. It's a core part of our strategy where we're trying to make our larger customers become more larger."*

The annual report adds that of the top 20 customers, 40% partner with Piramal at two or more sites, and 28% work with both an Indian and an overseas site. The net promoter score of 60, disclosed in the annual report, compares against a negative industry average, and the Q1 FY27 call noted that a number of first-time clients were added during the quarter.

The competitive position rests on the regulatory track record and the breadth of the network. Over the last 18 months, five CDMO facilities contributing about 40% of CDMO revenue cleared USFDA inspections with zero OAI classifications. Rival CDMOs competing across these segments include Lonza, Catalent, WuXi AppTec, and Samsung Biologics, though the annual report notes that the global CDMO market is estimated to grow at 7-8% CAGR to roughly US$250 billion by 2030. The geopolitical environment, including the BIOSECURE Act in the US, is pushing customers toward supply chains outside China, which favors Piramal's US and UK footprint. On the Q1 FY27 call, Vivek Valsaraj, CFO, disclosed that the CDMO business generates roughly 48% of revenue outside India, with gross margins of 75-85% at overseas facilities versus 55-65% in India.

The segment fits the group through shared infrastructure and quality systems. The USFDA inspection track record across the global network supports both the CDMO and the Complex Hospital Generics businesses, which share the Sellersville and Bethlehem facilities. The CDMO also benefits from the group's balance sheet, which funded the completed Riverview high-potency API expansion and the ongoing Lexington sterile fill-finish expansion. Lexington has three go-lives: a micro expansion already live, a second early next year, and the full

expansion at end-CY2027; anchor customers for the first three batches have signed. Q2 FY27 net debt rose on Lexington, Kenalog, Yapan and currency, while net debt to EBITDA improved to 3.4x from 3.7x in March.

The Q1 FY27 concall opened with a strong set of numbers for the segment. The CDMO delivered 19% year-on-year revenue growth, and the overall company reported revenue of INR2,270 crores, up 17%, with EBITDA up 72% to INR285 crores and margins expanding approximately 400 basis points to 12.5%. DeYoung attributed the growth to improved operational performance, a larger commercial team, and a recovery in US biopharma funding that has increased RFP activity, particularly at overseas sites. The margin trajectory is tied to operating efficiency. Valsaraj stated the company is targeting 25% EBITDA margins by FY30, with the CDMO business as the largest driver of that expansion.

> *"the single largest driver for our EBITDA margins to improve will be operating efficiency and related to getting more of our facilities at the target scale."*
>
> **VIVEK VALSARAJ, CFO, Q1 FY27 CONCALL (JUL 2026)**

The segment strengthened its commercial position in Q2 FY27. CDMO revenue grew 36% year on year to INR 1,424 crore, and H1 revenue grew 28% to INR 2,611 crore. H1 added 22 new customers and completed 110 customer audits; management said RFP inflow and order booking were up and that H1 order booking was above historical levels. The Ajinomoto and Botanix partnerships announced earlier remain part of the commercial build. Management no longer discusses individual customers, but says revenue growth and low customer concentration indicate a healthy business.

Complex Hospital Generics (Piramal Critical Care)

Piramal Critical Care develops and sells complex, hospital-focused generic and specialty drugs. The segment's core capability is vertical integration in inhalation anesthesia: Piramal Pharma manufactures the key starting material at Dahej in India, the active pharmaceutical ingredients and finished drug products at Digwal in India and Bethlehem in the US. That integration gives the company control over cost and supply chain, and it is the structural barrier that keeps competitors out. The global inhalation anesthesia market is valued at approximately USD1 billion, with Sevoflurane holding about 84% of it, and the top four players constitute roughly 81% of the global market (IQVIA data cited in the FY2026 annual report).

The product portfolio spans four categories. Inhalation anesthetics (Sevoflurane, Desflurane, Isoflurane) are used to induce and maintain general anesthesia in operating rooms. Intrathecal therapy, led by the Baclofen brand Gablofen, delivers medication directly into the spinal fluid via an implantable pump to manage spasticity from conditions like multiple

sclerosis and cerebral palsy. Injectable pain management includes Fentanyl ampoules. The fourth bucket is generic and specialty products, including the acquired Kenalog brand. The FY2026 annual report shows the revenue split: inhalation anesthesia contributes 64% of segment revenue, intrathecal therapy 15%, injectable pain management 11%, and other generic and specialty products 10%.

Customers are hospitals, surgical centers, and veterinary clinics across more than 100 countries. In the US, the UK, Germany, France, and Italy, Piramal sells through a direct field force. In other geographies, it uses distributors and local partners. The company counts over 6,000 hospital relationships and maintains GPO (group purchasing organization) connections in the US. Roughly 73% of segment revenue comes from regulated markets (US, Europe, Japan), which command higher prices and stricter quality standards that favor established suppliers.

The competitive position is strongest in the US. Piramal holds a 48% value market share in US Sevoflurane and ranks number one in US intrathecal Baclofen pre-filled syringes and vials (IQVIA data in the FY2026 annual report). It is the fourth-largest inhalation anesthesia company globally. The FY2026 annual report notes the top four players constitute about 81% of the global inhalation anesthesia market, with Piramal as one of them; the other majors include Baxter and AbbVie, which compete across the same anesthetic agents. The segment's ex-US growth has been slower because of intensified competition, and management on the Q1 FY27 concall attributed the pressure partly to Chinese competition. The company's response, as CEO Peter DeYoung described, has been to take actions over the course of last year to address that competitive situation, and those actions are now showing results in rest-of-world markets.

The segment fits the group by sharing manufacturing infrastructure and regulatory credentials with the CDMO business. The Dahej and Digwal sites serve both businesses, and the same USFDA, MHRA, and PMDA accreditations underpin both. The Kenalog acquisition, completed April 1, 2026, was a strategic addition: Piramal paid USD35 million upfront to Bristol Myers Squibb, with up to USD65 million in contingent milestone payments. Kenalog is an off-patent injectable corticosteroid with complex manufacturing and limited competition, marketed in 15+ countries. Management expects it to generate revenue with minimal incremental cost and EBITDA margins consistent with the existing CHG business. The product is expected to become a growth driver in FY27, with supplies starting from Q2 FY27.

The segment contributed 30% of total FY2026 revenue, or INR2,703 crore. In Q1 FY27, the segment grew 17% year-on-year to INR743 crore. In Q2 FY27, revenue grew 32% to INR849 crore and H1 grew 24% to INR1,592 crore, including initial Kenalog contribution. The business is primarily operated outside India, so the standalone entity carries only a small

portion of CHG revenue; the subsidiaries, including Piramal Critical Care Inc. in the US, hold the majority.

Management's commentary across the FY2026 annual report and the Q1 FY27 concall frames the segment as one returning to growth after a muted FY2026. The annual report describes FY2026 as a year when resilient US franchise performance was offset by slower ex-US Sevoflurane traction, and the leadership message states the segment is "expected to deliver stronger performance in FY2027, supported by the ramp up of inhalation anesthesia sales in markets outside the US and the integration of Kenalog® into our portfolio." Q2 FY27 delivered 32% revenue growth to INR849 crore and H1 growth of 24% to INR1,592 crore; management said continued ex-US inhalation anesthesia expansion and Kenalog should support H2.

On the Q1 FY27 concall, management reaffirmed guidance for the full year and cautioned against extrapolating the quarter's growth rate linearly:

> *"I wouldn't necessarily assume that the exact percentage rate we had in Q1 will be the full-year number. I would look back at the full-year guidance we gave for the business and I would take the Q1 base business growth that you noticed in particularly in the ROW market as a positive indication that we have a plan to execute this year throughout the year."*
>
> **PETER DEYOUNG, CEO GLOBAL PHARMA, Q1 FY27 CONCALL (JULY 2026)**

The segment's margin profile is stable relative to the CDMO business, per CFO Vivek Valsaraj on the same call, who stated: "complex hospital generics margins are stable and will remain stable." The growth levers for FY27 are Kenalog volume, ex-US Sevoflurane ramp-up, and remediation of supply constraints in injectable pain management, which had limited product availability due to issues at third-party contract manufacturers. Q2 FY27 showed initial Kenalog revenue and a healthy pickup in ex-US sevoflurane; Kenalog supply remains tight while manufacturing transfers to a new CMO, and injectable pain management availability is being managed through supplier collaboration.

Consumer Healthcare (Piramal Consumer Healthcare)

Piramal Consumer Healthcare (PCH) is the Indian over-the-counter (OTC) and wellness arm of Piramal Pharma Limited, contributing 14% of total FY2026 revenue. The business sells a portfolio of 25+ brands across kids' wellness, skincare, women's health, digestive remedies, and geriatric care. Its core capability is an asset-light model: it does not own manufacturing plants for these consumer products, instead relying on third-party manufacturers while controlling brand building, product innovation, and distribution. The distribution network reaches roughly 1,80,000 chemists and cosmetics stores, 13,000+ modern trade outlets, and 20+ e-commerce platforms across India.

The portfolio is anchored by six "Power Brands": Little's (baby diapers and wipes), Lacto Calamine (skincare), CIR (digestives), i-range (women's intimate care), Tetmosol (medicated soap), and Polycrol (antacid). These brands grew 23% year-on-year and contributed 53% of consumer healthcare sales in Q1 FY27, per the July 2026 concall. In Q2 FY27, PCH revenue grew 13% to INR359 crore and H1 grew 14% to INR706 crore; power brands grew 21% in H1 and were 53% of sales. The business also has a manufacturing and distribution partnership with Bayer Pharmaceuticals for well-known OTC brands including Saridon, Supradyn, Becozym, and Benadon. In Q1 FY27, the company launched i-choose, a new master brand that consolidates the women's intimate care portfolio (formerly i-range) under one identity to address different life stages.

Customers are Indian consumers buying through chemists, modern trade, and online platforms. The e-commerce channel grew 48% in FY2026 and contributed 27% of PCH revenue, with a three-year CAGR of 34%. In Q1 FY27, e-commerce grew 40% year-on-year and accounted for 28% of sales. In H1 FY27, e-commerce grew 32% and accounted for 28% of sales. Quick commerce now makes up about 50% of the total e-commerce business, per the FY2026 annual report. The company's "digital-first" media approach allocates roughly 12% of sales to media and trade promotions, balancing social media, television, and influencer campaigns.

The competitive landscape includes large Indian OTC players such as Dabur, Emami, Marico, and multinationals like GSK Consumer Healthcare and Reckitt. Piramal's differentiation is its focused brand portfolio in high-growth niches like baby care and women's health rather than broad-based FMCG competition. The annual report notes that each of its key segments (skincare, kids' wellness, vitamins/minerals, analgesics, cold and flu) exceeds US$1 billion in Indian market size and is growing at 8-15% CAGR.

The segment fits the group as a stable, high-growth cash generator that balances the capital-intensive CDMO and complex hospital generics businesses. PCH has no direct operational synergy with the CDMO segment, but it shares the group's distribution and regulatory expertise. The Bayer partnership was a notable distribution deal that let Piramal handle iconic brands without owning them. The sales and distribution agreement expires at the end of its term in December 2026. Management expects an orderly transition with minimal disruption and says the arrangement is low-margin, so ASPIRE is not expected to have a material impact on the FY27 outlook. The separate Bayer manufacturing agreement continues.

Management's commentary across the concalls emphasizes the power brand strategy and e-commerce-led growth. The FY2026 annual report states that power brands grew 24% and contributed 52% of PCH revenue, while launching 31 new products and SKUs focused on

"fewer but more impactful" launches. On the Q1 FY27 call, the chairperson described the quarter's performance:

> *"Our consumer healthcare business delivered yet another quarter of strong mid-teen growth led by continued momentum in Power Brands and e-commerce. Expansion in distribution, disciplined brand investments, premiumization, and cost optimization initiatives supported both growth and profitability during the quarter."*
>
> **NANDINI PIRAMAL, Q1 FY27 CONCALL (JUL 2026)**

The annual report's FY2026 outlook emphasizes profitability improvement through operating efficiency, portfolio premiumization, and channel mix optimization. The leadership message notes that revenue from new launches rose from 8% of PCH revenue in FY2025 to 17% in FY2026, indicating the innovation pipeline is becoming a larger growth driver. The business has consistently invested 11-15% of revenue in media and trade promotions over the past four years, which has driven a 22% CAGR in power brand revenue over the same period. In Q2 FY27, PCH grew 13%; management expects power brands, e-commerce, premiumisation and channel expansion to support growth, with media and trade investment at about 11% of H1 sales.

Customers

CDMO customers: relationships built on trust and regulatory credibility

The CDMO business serves over 500 customers across three broad categories: large pharmaceutical innovators, emerging biotech companies, and generic manufacturers. Revenue is diversified by customer type: Big Pharma contributes 45% of CDMO revenue, emerging biopharma 32%, and generics 6%, with the remainder from other segments. The customer base spans the US, Europe, Japan, and India, with 79% of revenue from regulated markets.

The buying decision for CDMO services is made by pharmaceutical company executives who are selecting a manufacturing partner for molecules that may take a decade to reach market. The decision criteria are quality, regulatory track record, technical capability in the specific modality required, and supply chain resilience. Price is a factor but secondary to reliability. This is why Piramal's quality record matters so much: the company maintained zero OAI (Official Action Indicated) status across all USFDA inspections and completed 38 regulatory inspections and 209 customer audits in FY2026 without critical observations.

The sales model is "land and expand." Peter DeYoung, CEO of Global Pharma, described the approach on the Q1 FY27 call: a customer typically begins with a single offering at a single site, and if the company delivers, the relationship grows across molecules and sites. The annual report shows that a significant portion of Top 20 customers work with Piramal across

multiple sites, including both an Indian site and a Western site, which the company calls the "East-West benefit." Management stated that Top 20 customers are growing faster than the rest of the business, evidence that the land-and-expand strategy is working.

Customer satisfaction is measured through Net Promoter Score (NPS). Piramal achieved an NPS of 60 in FY2026, which management notes is well above the industry average of a negative score for CDMOs. The NPS is used as commercial ammunition: when an RFP comes down to the final three choices, satisfied customers willing to give references become a competitive advantage. The company added "a number of new logos, first-time clients" in Q1 FY27, which management cited as evidence of improving commercial execution.

Named CDMO customers and partnerships from the annual report and concall include:

- NewAmsterdam Pharma: In August 2025, Piramal partnered with NewAmsterdam Pharma to open a dedicated oral solid dosage (OSD) suite at Sellersville, Pennsylvania for fixed dose combination products, supporting NewAmsterdam's investigational non-statin cholesterol therapy.
- Botanix: A manufacturing and supply agreement to support development and commercial supply of Sofdra, which highlights the integrated North American network's ability to offer supply continuity and potential dual-site manufacturing.
- Ajinomoto Bio-Pharma Services: A strategic collaboration combining Ajinomoto's AJICAP site-specific conjugation technology with Piramal's ADC manufacturing expertise, providing customers a pathway from early development through commercial manufacturing.

Customer concentration is a risk the company acknowledges. The annual report lists 'client and product concentration' as a major risk, noting that a material share of revenue comes from distribution arrangements and that loss of a large customer could materially affect financial performance. The FY2026 revenue decline was partly caused by inventory destocking by one key on-patent commercial customer. On the Q2 FY27 call, management declined to update individual customers, saying customers do not want public discussion; it pointed to 36% CDMO growth and said it does not see high single-customer concentration. The contract is therefore neither confirmed returned nor lost.

CHG customers: hospitals, GPOs, and distributors

The CHG business sells to hospitals, surgical centers, and veterinary clinics through a mix of direct sales and distribution partners. In the US, the company has a dedicated sales team engaging with hospitals and GPOs (Group Purchasing Organizations). In the UK, Germany, France, and Italy, the company operates with a direct sales presence. In other markets, it works through distributors and local collaborators across 100+ countries.

The buying decision in hospitals is different from CDMO. Hospital procurement teams select inhalation anesthetics and other critical care products based on reliability of supply, clinical familiarity, and price. The GPO relationship is crucial in the US: GPOs negotiate contracts on behalf of networks of hospitals, and once a product is on contract, switching is slow and costly. Piramal's 48% US Sevoflurane market share reflects the durability of these relationships.

The company's #1 position in US Sevoflurane and intrathecal baclofen gives it pricing and relationship advantages. For Kenalog, the brand acquisition brings established customer relationships and a specialized sales team, which is why management expects minimal incremental operating cost to integrate it.

PCH customers: Indian consumers through multi-channel distribution

The consumer business sells through chemists, grocers, modern trade outlets, children's stores, and e-commerce platforms. The end customer is the Indian consumer, but the immediate buyers are distribution partners, retailers, and e-commerce platforms. The Bayer partnership is a distinct customer relationship: Piramal manufactures and distributes Bayer brands like Saridon, Supradyn, Becozym, and Benadon to Indian consumers under a distribution arrangement.

The e-commerce channel is increasingly important, with 20+ platforms and quick commerce contributing 50% of e-commerce sales. This channel is a strategic growth driver because it provides direct consumer engagement and data on preferences, which feeds back into product development.

Consumer buying decisions are driven by brand trust, category awareness, and price. The Power Brands strategy is built on investing 11-15% of revenue in media and trade promotions to build brand salience, using a mix of social media, television, and influencer marketing. The company's heritage brands like Caladryl and Sloans (described as OTX brands with strong gross margins) provide a base of consumer trust.

Competitive landscape

CDMO: competing on capability, not just capacity

The global CDMO market is highly fragmented, with players ranging from full-service giants like Lonza, Catalent, and Samsung Biologics to specialized niche providers. The structural shift in the industry is toward outsourcing: pharmaceutical companies are increasingly adopting asset-light models, and the annual report cites industry estimates that the global CDMO market will grow at 7-8% CAGR to approximately US$250 billion by 2030.

Piramal's competitive position is strongest in the differentiated modalities where it has invested: ADCs, HPAPIs, peptides, sterile injectables, and hormones. These segments have

high entry barriers due to regulatory requirements, technical complexity, and the need for specialized containment facilities. Management stated that demand for these capabilities remains high, and that customers are increasingly seeking "reliable CDMO partners with differentiated capabilities, high quality standards, and a manufacturing footprint spanning multiple geographies."

The competitive pressure in CDMO comes from several directions. Chinese competitors are active in ADCs and other services, and management acknowledged that their "non-China oriented supply chain" is part of the value proposition for some clients. The BIOSECURE Act and broader geopolitical tensions are pushing customers toward supply chain diversification, which benefits Piramal's East-West network. However, the company also faces competition from large Indian CDMOs and global players for standard manufacturing work.

The win rate in CDMO is driven by a combination of technical capability, regulatory track record, and commercial relationships. Piramal's NPS of 60 and the growth of Top 20 customers across multiple sites indicate that the land-and-expand strategy is working. The company's 157-molecule pipeline and 25 Phase III molecules represent future commercial manufacturing opportunities that are competitively valuable.

The company's main competitive advantages are: the Grangemouth ADC site (world's first USFDA-approved commercial ADC CDMO site), the integrated ADC platform spanning payload-linker, mAb, conjugation, and fill-finish, the East-West network allowing customers to diversify supply chains, and a zero-OAI regulatory record. The main disadvantage is scale in standard manufacturing, where larger competitors have more capacity and potentially lower costs.

Inhalation anesthesia: a concentrated oligopoly facing Chinese encroachment

The global inhalation anesthesia market is valued at approximately US$1 billion, with Sevoflurane commanding about 84% of the market. The market structure is highly concentrated: the top 4 players constitute about 81% of the global market, and Piramal is the fourth-largest globally. The other top players in inhalation anesthesia are not named in the annual report, but the market structure implies a small number of established competitors.

The competitive dynamics differ sharply between the US and ex-US markets. In the US, Piramal holds a 48% value share of Sevoflurane, reflecting entrenched hospital and GPO relationships plus the advantage of domestic manufacturing at Bethlehem, Pennsylvania. In ex-US markets, Chinese competitors have intensified price competition, and Piramal's FY2026 growth was slower than anticipated as a result. Management said the Chinese competitive situation "remains" but that actions taken have started to bear fruit, with Q1 FY27 showing 17% CHG revenue growth driven substantially by ex-US gains. In Q2 FY27,

CHG revenue grew 32%, with a healthy pickup in ex-US sevoflurane and a couple of ROW contract wins contributing to base business growth.

The barriers to entry in inhalation anesthesia are structural. The annual report cites the need for dedicated manufacturing facilities for both APIs and finished drug products, substantial capital expenditure for specialized medical devices like vaporizers, and the need for "well-established commercial field forces with enduring relationships with hospitals and GPOs." These barriers protect incumbents, but they do not protect against price competition from Chinese manufacturers who have made the necessary investments.

Piramal's vertical integration gives it a cost advantage. By controlling the KSM at Dahej, the API and drug product at Digwal and Bethlehem, the company can manage costs along the supply chain that competitors buying intermediates cannot. The US manufacturing position also provides protection against tariffs and supply chain disruptions.

Intrathecal baclofen: a niche with few competitors

The US intrathecal baclofen market is a small, specialized niche where Piramal holds the #1 position with its Gablofen brand. The therapy requires an implantable pump and catheter system, creating a high barrier to entry because new competitors would need to develop both the drug and the delivery expertise. The annual report does not name competitors in this segment, but the #1 position in pre-filled syringes and vials suggests a small market with limited rivalry.

Consumer healthcare: competing in a large, fragmented Indian market

The Indian OTC market is valued at approximately US$9 billion and is projected to grow at ~8% CAGR to exceed US$11 billion by 2029. This is a fragmented market with competition from multinational consumer health companies (like GSK, Abbott, and Reckitt), large Indian pharmaceutical companies, and numerous regional players. The annual report notes that key PCH categories (skincare, kids' wellness, vitamins/minerals, analgesics, cold and flu) each exceed US$1 billion in market size and are growing at 8-15% CAGR.

Piramal's competitive position is built on brand equity and distribution rather than manufacturing. The Power Brands strategy is to concentrate investment in six brands with scalable growth potential, and the 22% CAGR in Power Brands over three years suggests the strategy is gaining share. The company describes itself as "among India's fastest-growing self care and wellness companies," a claim supported by the 17% FY2026 revenue growth outperforming the market.

The competitive challenge in consumer healthcare is that brand loyalty is only as strong as the media investment behind it. Piramal's allocation of 11-15% of revenue to media and trade promotions is substantial, but competitors with larger portfolios can outspend in specific categories. The asset-light model means the company does not own manufacturing,

which reduces capital intensity but also means it does not control its supply chain or manufacturing costs.

Industry

Global pharmaceutical market: growth driven by innovation and aging populations

The global medicines market is projected to grow at 5-8% CAGR through 2029, reaching approximately US$2.4 trillion (IQVIA). The growth drivers are increased spending on new and established branded therapies, rising per capita medicine usage in emerging markets, and higher adoption of specialty medicines for chronic, complex, or rare conditions. This growth is the fundamental tailwind for Piramal's CDMO business: pharmaceutical companies that develop and commercialize these medicines need manufacturing partners.

The industry is also undergoing a structural shift in outsourcing. Pharmaceutical companies are moving from using CDMOs as capacity supplements to forming "deeper, more integrated partnerships" for complex APIs, novel drug delivery systems, and advanced therapeutics. The annual report cites the CDMO market growing at 7-8% CAGR to approximately US$250 billion by 2030, driven by increased outsourcing, higher R&D investment in advanced therapeutics, and the need for supply chain diversification.

Supply chain diversification and onshoring: a strategic inflection point

The geopolitical turbulence of recent years, including trade tensions, post-COVID supply chain fragility, escalating tariff regimes, and regulatory shifts like the BIOSECURE Act, has pushed pharmaceutical companies toward onshoring and regional supply diversification. The annual report states that the outsourcing decision framework "has fundamentally shifted from cost optimization to risk-adjusted supply strategy." This benefits Piramal because its global network spanning India, the UK/Europe, and North America provides the geographic diversification customers seek.

The Q1 FY27 concall confirmed this trend. Management noted "a particular spike in interest in our near-shore offerings" and that a significant portion of RFPs are directed toward overseas sites. The overseas sites have structurally higher gross margins (75-85% versus 55-65% in India), so this demand shift is favorable for margin expansion as utilization improves.

CDMO demand drivers: biotech funding, M&A, and differentiated capabilities

The CDMO industry's near-term growth depends heavily on biotech funding. When biotech companies have capital, they fund development programs, which creates demand for CDMO services. The annual report attributes the FY2026 H1 softness in CDMO order inflows to "subdued biotech funding" and "extended customer decision-making timelines." The H2 recovery was driven by "stronger biopharma funding, increased M&A activity and commitments by large pharmaceutical companies to onshore manufacturing."

The Q1 FY27 call confirmed continued recovery: "the continued recovery in US Bio-Pharma funding over the last few quarters, these initiatives have contributed to a meaningful increase in RFP activity across most of our sites." RFP activity is the leading indicator for CDMO revenue, and the management commentary suggests the recovery is gaining momentum.

Demand for differentiated capabilities is the other key driver. The annual report states that "Demand for differentiated capabilities, ADC, HPAPI, sterile fill-finish, and onshore drug substance, remains high." The ADC market specifically is large and rapidly growing, and Piramal's integrated platform positions it to participate without needing aggressive market share gains.

Inhalation anesthesia: a stable, concentrated market

The global inhalation anesthesia market is approximately US$1 billion, with Sevoflurane at 84% share. Growth is driven by rising surgical volumes worldwide and a clinical preference shift toward inhalation anesthesia over intravenous anesthesia due to better precision, controllability, and safety profile. The market is concentrated among the top 4 players who hold 81% share, creating an oligopoly with pricing power in most markets.

The competitive threat is Chinese manufacturers entering ex-US markets with lower prices. This is the specific competitive dynamic that affected Piramal's FY2026 CHG performance. The company's response is to expand its ex-US market presence, using its vertical integration and expanded capacity at Dahej and Digwal. The annual report notes that regulatory approvals at Digwal are expected to support the ramp-up of Sevoflurane in ex-US markets. Q2 FY27 showed a healthy pickup in ex-US sevoflurane, and management cited a couple of ROW contract wins as substantial drivers of incremental base-business growth.

Indian consumer healthcare: a growth market with structural tailwinds

The Indian OTC market is projected to grow at ~8% CAGR to exceed US$11 billion by 2029. The drivers are favorable demographics, a young health-conscious population with growing willingness to spend on wellness, and India's low per capita OTC expenditure relative to the global average, which indicates long-term headroom. The market is also shifting toward premiumization, with consumers favoring value-added formulations, natural and derma-based variants, and advanced formats like sprays and gels.

The e-commerce channel is a structural growth driver for consumer healthcare. The annual report notes that shifting consumer preferences toward preventive healthcare and self-care are reshaping purchasing behavior, and that digital commerce is improving access, particularly in tier 2 and tier 3 cities. Piramal's e-commerce growth of 48% in FY2026 and 40% in Q1 FY27 reflects this channel shift.

Regulation: quality compliance as a competitive moat

The pharmaceutical industry is governed by stringent regulatory frameworks across markets: USFDA in the US, EMA in Europe, MHRA in the UK, PMDA in Japan, and ANVISA in Brazil, among others. Compliance is a prerequisite for participation, and a single regulatory failure can disrupt revenue for years. Piramal's zero-OAI status across USFDA inspections and its record of 38 successful regulatory inspections in FY2026 is a competitive asset that is difficult to replicate.

The annual report notes that over the last 18 months, 5 of the company's CDMO facilities contributing approximately 40% of CDMO revenue successfully cleared USFDA inspections. This regulatory track record is a key reason customers select Piramal for complex, high-value programs where supply continuity is critical.

Cyclicality: the biotech funding cycle and inventory dynamics

The CDMO business is cyclical, tied to the biotech funding cycle. When funding is strong, early-stage projects flow into development pipelines; when funding weakens, decision-making slows and order inflow softens. The FY2026 experience illustrates this: H1 was soft due to subdued funding, and H2 recovered as funding improved. This cyclicality is a risk for margin stability because fixed costs at overseas facilities remain regardless of utilization.

The CHG business has a different cyclicality, driven by hospital procedure volumes and competitive dynamics rather than funding cycles. The PCH business is more defensive, driven by consumer spending on wellness, which has shown resilience even in softer economic conditions.

The industry also faces cost pressures from inflation and supply chain disruptions. The annual report cites "inflationary pressures" affecting input costs, and the Q1 FY27 call confirmed "rising input costs" in both the CDMO and consumer businesses. Companies that cannot pass through price increases face margin compression, which is why Piramal's pricing discipline and premiumization strategies are important.

Growth triggers

Kenalog supplies expected to start from Q2 FY27

Kenalog is a branded injectable corticosteroid that Piramal Pharma acquired from Bristol Myers Squibb, with the deal closing on April 1, 2026. The FY2026 annual report puts the acquisition at US$35 million upfront plus up to US$65 million in contingent milestone payments. The product is off-patent but faces limited competition across most markets because of complex manufacturing requirements, which positions it as a differentiated portfolio addition rather than a commodity generic.

The revenue mechanism runs through the existing complex hospital generics infrastructure. Kenalog distributes through the hospital sales network already serving 6,000+ hospitals, so supply beginning adds revenue with minimal incremental operating cost. The annual report states the acquisition should generate revenues with minimal incremental cost, create cross-selling opportunities, and deliver EBITDA margins consistent with the CHG business. It is marketed in 15+ countries including the US, Europe and Asia-Pacific, broadening the CHG portfolio beyond inhalation anesthesia and intrathecal therapy.

Management confirmed the timing on the Q1 FY27 call:

> *"Kenalog supplies, which are an important growth driver for FY '27, are expected to start from Q2 FY '27."*
>
> **NANDINI PIRAMAL, CHAIRPERSON, Q1 FY27 CONCALL (JUL 2026)**

CEO Peter DeYoung added on the same call that the original full-year guidance already includes both organic growth and Kenalog-related growth. The CHG business delivered 17% year-on-year revenue growth to INR743 crores in Q1 FY27 before any Kenalog contribution. Kenalog contributed to CHG revenue in Q2 FY27; H1 CHG grew 24% to INR1,592 crore. Supply remains tight while manufacturing transfers to a new CMO, and management says the new CMO has met timelines but gives no validation date.

Today the acquisition is closed and the product has contributed to Q2 FY27 revenue. Management says supply from the current CMO is tight and a transition to a new CMO is underway; regulatory approvals and tech transfer are the gating items.

Riverview capacity completed; ADC revenue growing above 50%

Piramal Pharma inaugurated a commercial-scale payload-linker development and manufacturing site at its Riverview facility in Michigan during Q1 FY27, adding a new leg to its integrated ADC platform. Payload-linkers are the toxic small-molecule component of an antibody-drug conjugate, and the facility is equipped with advanced containment, automation, and analytical capabilities to support customers from development through commercial manufacturing. In H1 FY27, ADC services revenue across all sites was about US$40 million, up more than 50% year on year, and the Riverview high-potency API capacity expansion was completed.

The facility answers a specific constraint. The company's existing payload-linker capacity was sold out, and these projects have comparatively short lead times, so the new capacity can convert to revenue quickly. Management framed the opportunity:

> *"it's in the single to low double digit revenue potential."*
>
> **PETER DEYOUNG, CEO GLOBAL PHARMA, Q1 FY27 CONCALL (JUL 2026)**

The investment is modest relative to the potential. The Riverview site is primarily a high-potent API facility with large reactors, and kitting out a single room with payload-linker technology cost less than USD 5 million. The facility is immediately available for use, and management confirmed customers are already signing in.

Riverview is one half of a USD 90 million expansion program, alongside the Lexington sterile injectable expansion scheduled for completion by end of calendar year 2027. Together they strengthen the integrated ADC platform spanning payload-linker manufacturing and sterile fill-finish, which management expects to complement the conjugation business at Grangemouth. The company also announced a strategic collaboration with Ajinomoto Bio-Pharma Services during the quarter, combining their AJICAP site-specific conjugation technology with Piramal's ADC manufacturing expertise to simplify technology transfer and scale-up.

Lexington sterile injectable expansion has three go-lives through end-CY2027

The Lexington, Kentucky site is Piramal Pharma's sterile fill-finish facility for antibodies and antibody-drug conjugates (ADCs). The expansion adds commercial-scale sterile injectable capacity to a site that already holds USFDA, MHRA, and PMDA approvals, and it is the second half of a dedicated ADC capacity program.

The mechanism is straightforward: ADCs are complex molecules that most biopharma sponsors outsource. Piramal's CDMO business already manufactures the payload-linker component at Riverview and performs the conjugation step at Grangemouth. The Lexington expansion completes the integrated offering by adding the sterile fill-finish step, letting Piramal capture the full commercial manufacturing value of an ADC program instead of just one segment. Management confirmed this intent on the Q1 FY27 concall, noting the investments "significantly strengthen our integrated ADC platform, spanning payload-linker manufacturing and sterile fill-finish capabilities."

The timeline is staged. Management described three Lexington go-lives: a micro expansion already live earlier this month around CPHI, a second early next year for background grade and Annex 1 compliance, and the full expansion at the end of calendar year next year. Anchor customers for the first, second and third batches using the expansion have already signed. The project remains part of the US$90 million expansion program that also includes the Riverview payload-linker facility.

Evidence of the demand pull is in the same call. Management said a "significant portion of these RFPs are directed towards our overseas sites," which includes Lexington, and cited "a particular spike in interest in our near-shore offerings." The company also expects ADC growth to become more balanced across the three capabilities as Lexington comes online, with conjugation at Grangemouth remaining the anchor.

> *"The Lexington capex is on track for getting completed by the end of calendar year 2027 and the spends on that as well have been progressing as per plan."*
>
> **CFO VIVEK VALSARAJ, Q1 FY27 CONCALL (JUL 2026)**

The trigger is external: US biopharma companies raised fresh capital and resumed dealmaking after a funding drought, giving them money to spend on advancing their drug pipelines. For a CDMO, that money converts directly into requests for proposals (RFPs) for development and manufacturing work. Piramal's management has tied its CDMO order inflow to this recovery since the second half of FY26. By Q2 FY27, CDMO revenue grew 36% and management said RFP inflow, order booking and revenue realisation were all up; H1 order booking was above historical H1 levels.

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The mechanism runs through the bottleneck of customer decision-making. In FY26, the annual report notes that subdued early-stage order inflows in H1 were driven by "uneven US biopharma funding trends and broader macro uncertainty," while momentum improved in H2 FY26 "supported by stronger biopharma funding leading to healthier RFP activity and order inflow." The Q1 FY27 concall confirms the flow is now visible in the order book: CDMO revenue grew 19% year-on-year, and management credits the uptick in RFPs to the funding recovery combined with its own expanded commercial team.

Two features make this trigger worth tracking. First, the RFPs are skewing toward Piramal's overseas sites, which carry gross margins of 75-85% versus 55-65% in India - so the same volume of orders lands at higher profitability as utilization fills. Second, management reports the recovery is broad-based, not confined to near-shoring:

> *"more of our potential and current customers have money and need to spend it to progress the pipeline to meet their promises to their investors. That's generating a broad-based increase in RFP flow across our network."*
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> **CEO GLOBAL PHARMA, Q1 FY27 CONCALL (JUL 2026)**

The proof of conversion sits in new customer acquisition. H1 FY27 added 22 new customers, defined as companies Piramal had not done business with before, and completed 110 customer audits. Management said the new logos were biotech-heavy but included some big pharma and were aligned with the Phase III and differentiated-capability metrics. Management also said it does not see high single-customer concentration. The stage today is

mid-cycle: RFPs are flowing and converting, but customer decision timelines remain extended, and management no longer discusses individual customers.

Expansion of ex-US inhalation anesthesia markets

The trigger is the commercial ramp-up of Sevoflurane and other inhaled anesthetics in markets outside the US, after a year where that expansion stalled. In FY2026, ex-US growth fell short of expectations due to intensified competition, and the annual report attributed the muted performance to slower regulatory approvals in certain geographies. The company's answer was to expand capacity: it commissioned new Sevoflurane production lines at Digwal (India) and expanded capacity at Dahej, specifically to supply Rest of World markets.

The mechanism is vertical integration plus regulatory progress. Piramal makes the key starting material at Dahej, the API and drug product for Sevoflurane and Desflurane at Bethlehem (US), and Sevoflurane and Isoflurane at Digwal. The FY26 annual report states: "Progress on regulatory approvals at our Digwal facility is expected to gradually support the ramp-up of Sevoflurane in ex-US markets, enabling us to fully use our expanded manufacturing capacity over time." The company sells in over 100 countries, with direct sales presence in the US, UK, Germany, France and Italy, and distribution partners elsewhere.

The stage today: Q2 FY27 confirms the shift has continued. CHG revenue grew 32% to INR849 crore and H1 grew 24% to INR1,592 crore. Nandini Piramal said in opening remarks:

> *"We also witnessed a healthy pickup in sevoflurane sales across the rest of the world market."*

Peter DeYoung then clarified the composition of that growth when asked about the CHG business, distinguishing it from the Kenalog acquisition:

> *"the Kenalog obviously provided relevant growth in the period, but we also had good performance with the base business and especially in an area of prior discussion of ex-U.S., if you will, inhaled anesthesia."*

He added that growth is coming from market share gains in countries where Piramal was previously below target share, not just new market entries. The annual report frames this as a multi-year opportunity: management expects ex-US markets to become "an increasingly important contributor to growth over time," while the US Sevoflurane leadership position (48% value market share per IQVIA) remains the anchor.

Key risks

- **Elevated effective tax rate stays through FY27.** Overseas facilities in the US and UK are not yet at scale, so their PBT is low and the tax outflow divided by PBT looks inflated. On top of that, FY26 included a disallowance on R&D tax credits in overseas facilities, which

management is appealing. On the Q2 FY27 call, the CFO cited INR 580 million of carryforward tax losses at overseas entities and a potential deferred tax asset of INR 120 million, with utilization expected over two to three years as entities turn profitable. He also said 70% of tax is paid in India, where profitability is higher. The normalized 24-25% rate still depends on overseas scale.

- **Chinese competition in ex-US inhalation anesthesia persists.** The annual report says ex-US Sevoflurane growth "progressed more gradually than anticipated, owing to intensified competition." Peter DeYoung confirmed on the Q1 FY27 call that "the Chinese competitive situation remains", even as some market share gains have started to show. Q2 FY27 showed a healthy pickup in ex-US sevoflurane and a couple of ROW contract wins, but management still describes Chinese competition as present. If Chinese players keep cutting price in Rest of World markets, CHG's ex-US growth would be hard to sustain.
- **The destocked large CDMO customer remains unquantified.** A key on-patent customer's inventory destocking cut FY26 CDMO revenue. On the Q2 FY27 call, management declined to update individual customers, saying customers do not want public discussion, and instead pointed to 36% CDMO growth and low customer concentration. The contract is neither confirmed returned nor lost, so its future contribution remains outside disclosed visibility.
- **The margin expansion thesis still depends on filling overseas sites.** Gross margins overseas run 75-85% versus 55-65% in India, but the overseas facilities run at lower utilization, which is why blended EBITDA margin was only around 12.5% in Q1 FY27. Management named operating efficiency "the single largest driver" for reaching the 25% EBITDA margin target by FY30. Q2 FY27 showed progress: North America revenue rose with fixed costs largely unchanged, EBITDA contribution improved, and consolidated margin expanded more than 350 basis points. Management said margins are sustainable if fixed costs remain controlled. The risk is that Q2's operating leverage does not persist if order conversion slows.
- **Geopolitical and trade uncertainty cuts both ways.** Tariff regimes and the BIOSECURE Act push customers toward onshoring, which helps Piramal's near-shore offerings, but they also raise input costs and shipping times. Sevoflurane's API and drug product are made in Bethlehem, PA, but intermediates come from India, so a tariff on Indian inputs could pressure CHG margins. The Middle East conflict in early 2026 raised energy costs across the network.
- **Clinical and regulatory attrition can erase future CDMO revenue.** The pipeline held 157 molecules, with 28 in Phase III as of September 2026, up from 25 in March 2026. Late-stage programs still carry clinical and regulatory attrition before commercial supply. A

Phase III failure or a registration delay removes a revenue stream the long-range plan assumes will convert into recurring commercial manufacturing.

- **Biotech funding recovery is not guaranteed.** FY26's H1 slowdown was driven by "subdued early-stage order inflows" tied to uneven US biopharma funding. The annual report lists "an incomplete and inconsistent recovery in biotech funding" as a risk. If funding stalls again, the early-stage RFP flow that feeds the CDMO funnel dries up, and the positive order momentum from Q1 FY27 reverses.
- **Capex execution risk is concentrated in Lexington.** Lexington has three go-lives, with the full expansion due only at end-CY2027. A delay pushes the operating efficiency timeline out and adds to net debt. Net debt rose on Lexington, Kenalog, Yapan and currency, while net debt to EBITDA improved to 3.4x from 3.7x in March. Morpeth is being held to maintenance and compliance capex, and management said remediation is mostly people and processes with no large capex.
- **Injectable pain management supply constraints are unresolved.** Third-party CMOs could not supply the portfolio in FY26, limiting performance. Management said remediation with CMO partners is ongoing and improved supply should let them "better capitalize on demand opportunities", but the fix depends on external partners. On Q2 FY27, management said it is ensuring availability through focused supplier collaboration.
- **Site concentration means one facility failure hits the whole company.** A few sites contribute disproportionately to revenue. The annual report notes that disruptions at critical manufacturing sites could have a material impact, though 5 CDMO facilities contributing ~40% of CDMO revenue cleared USFDA inspections over the last 18 months, and the network has maintained zero OAI status. Q2 FY27 added a reminder at Morpeth, where management acknowledged US FDA September observations, said it has responded and expects timely resolution, and said remediation is mostly people and processes with no large capex.
- **FX volatility cuts both ways.** The rupee depreciation delivered a 9-10% currency benefit across all businesses in Q1 FY27. The annual report flags cross-currency volatility as a risk. A reversal in the rupee direction would compress reported INR revenue and margins without any change in underlying operations. On Q2 FY27, currency was one of the factors cited for higher net debt alongside Lexington, Kenalog and Yapan.

Scenarios

Bull case

US biopharma funding keeps recovering, M&A activity stays elevated, and the CDMO RFP funnel converts at a higher rate. Q2 FY27 already showed CDMO revenue growth of 36%, 22

new customers in H1, ADC revenue growth above 50%, differentiated revenue at 43% of CDMO, and an upgrade to FY27 revenue growth guidance of approximately 19-20%. North America's EBITDA contribution improves as revenue rises with fixed costs largely unchanged. Kenalog has started contributing to CHG revenue, Sevoflurane gains share in ex-US markets, and the Riverview capacity completion plus Lexington's staged go-lives support integrated ADC contracts. The Ajinomoto collaboration brings new ADC clients who want an alternative to China-based supply. All three businesses grow, the tax rate normalizes as overseas PBT scales, and CHG holds its 48% US Sevoflurane share and #1 Gablofen position.

Base case

CDMO grows at the upgraded FY27 guidance pace with RFP activity healthy but customer decision timelines extended. CHG grows with Kenalog contribution and ex-US Sevoflurane gains, though Chinese price pressure persists. PCH grows in the low-to-mid teens with Power Brands at 53% of sales and e-commerce at 28%. EBITDA margin expands from 12.5% in Q1 FY27 as overseas utilization improves, and Q2 FY27 margin expanded more than 350 basis points. The tax rate stays elevated through FY27. The US Sevoflurane 48% share holds, Lexington completes its staged go-lives through end-CY2027, and the CDMO order book builds. The company upgraded FY27 revenue growth guidance to approximately 19-20% and expects H2 stronger than H1.

Bear case

Chinese competitors cut prices aggressively in ex-US markets, eroding the CHG market share gains seen in Q1 and Q2 FY27. The destocked CDMO customer does not return, and new RFP flow stalls if biotech funding falters again. Overseas facilities stay underutilized, so the operating efficiency that management named as the single largest margin driver never materializes and EBITDA margin stays stuck in the low teens. The tax rate remains elevated because overseas PBT stays low, weighing on net profit. Kenalog supply stays tight because the new CMO's tech transfer or regulatory approvals slip. Morpeth's US FDA observations take longer to resolve. A Phase III failure in the 28-molecule pipeline removes a future commercial revenue stream. Net debt, which rose on Lexington, Kenalog, Yapan and currency, remains a constraint if cash generation disappoints.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E	FY30E
Revenue (₹ Cr)	9,151	8,869	10,621	12,090	13,755	15,550
Revenue growth	-	–3.1%	+19.7%	+13.8%	+13.8%	+13.1%
EBITDA (₹ Cr)	1,580	1,135	1,651	2,276	3,036	3,789
EBITDA margin	17.3%	12.8%	15.5%	18.8%	22.1%	24.4%
Depreciation (₹ Cr)	816	831	940	1,053	1,158	1,251
EBIT (₹ Cr)	763	304	710	1,223	1,877	2,538
Interest (₹ Cr)	422	341	348	359	330	268
Other income (₹ Cr)	135	213	180	190	200	210
PBT (₹ Cr)	415	20.10	437	946	1,638	2,369
Tax (₹ Cr)	324	150	201	284	426	592
Tax rate	78.0%	-	46.0%	30.0%	26.0%	25.0%
PAT (₹ Cr)	91.10	-326	236	662	1,212	1,777
PAT growth	-	-	-	+180.9%	+83.0%	+46.6%
EPS (₹)	0.69	-2.46	1.78	4.99	9.13	13.39
P/E	343.3x	-	133.1x	47.5x	25.9x	17.7x
PEG	3.6x	-	1.4x	0.5x	0.3x	0.2x

CAGR FY27E-FY30E: Revenue +13.6% · EBITDA +31.9% · PAT +96.1%

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Q2 FY27 concall notes

TLDR

Piramal Pharma reported Q2 FY27 revenue of ₹2,617 crore, up 28% year-on-year, and EBITDA of ₹385 crore, up 72%, with margins expanding more than 350 basis points in both Q2 and H1. CDMO revenue grew 36% to ₹1,424 crore on demand across India and North America sites, with ADC revenue up over 50%, unpatented commercial manufacturing up 39%, and innovation-related work at 49% of the segment versus 46% a year earlier. Complex Hospital Generics grew 32% to ₹849 crore on rest-of-world inhalation anesthesia and initial Kenalog contribution; Consumer Healthcare grew 13% to ₹359 crore. Management upgraded FY27 guidance to approximately 19% to 20% revenue growth with meaningfully higher profitability, from early-to-mid-teens growth previously. Watch points are tight Kenalog supply pending a CMO transition, elevated tax outflows, and CDMO's exposure to biotech funding cycles.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue guidance raised to approximately 19% to 20% growth with meaningfully higher profitability, from early-to-mid-teens revenue growth with EBITDA growing faster than revenue. Q1 notes said management would not revise guidance until after the September quarter; it has now done so.
- CDMO growth accelerated to 36% year-on-year in Q2 from 19% in Q1, with management saying North America performed ahead of prior years and ahead of plan across all sites.
- Differentiated revenue share in CDMO rose to 43% from 40% at the end of FY26. Q1 notes had cited 47% on a different basis; the company now frames the metric against the FY26 close.
- Innovation-related work reached 49% of CDMO versus 46% in H1 FY26, and Phase 3 molecules rose to 28 as of September 2026 from 25 in March 2026. Q1 notes did not give these figures.
- Kenalog revenue began contributing in Q2 as guided, but management disclosed supply is tight from the current CMO and a transition to a new CMO is still in progress with no timeline communicated.
- A new issue appeared: US FDA observations at the Morpeth site in September. Management said it has responded and expects timely resolution, with remediation mainly people and processes and no large related capex.
- Net debt rose over the past six months on the Lexington expansion, the Kenalog acquisition, Yapan Bio and currency impact; net debt to EBITDA fell to 3.4 from 3.7 in March.
- Management declined to discuss the large CDMO contract that had destocking, saying it will no longer talk about individual customers. Q1 notes said that contract was not expected to resume in FY27.
- The Riverview high-potency API capacity expansion is now complete, versus "operational" payload-linker capacity noted in Q1. Lexington remains on track for end of calendar year 2027.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹2,617 crore	+28% YoY	Broad-based growth across all three businesses
EBITDA	₹385 crore	+72% YoY	Better capacity utilization, operating leverage, productivity and cost management
EBITDA margin	Not stated	Up more than 350 bps YoY	Fixed costs largely controlled while revenue grew

METRIC	REPORTED	CHANGE	WHAT DROVE IT
H1 revenue	₹4,887 crore	+23% YoY	CDMO, CHG and Consumer Healthcare all contributing
H1 EBITDA	₹669 crore	+72% YoY	Margin expansion of more than 350 bps in H1
CDMO revenue	₹1,424 crore	+36% YoY	Demand across India and overseas sites, improved execution, RFP and order buildup
CHG revenue	₹849 crore	+32% YoY	Rest-of-world inhalation anesthesia growth and initial Kenalog contribution
Consumer Healthcare revenue	₹359 crore	+13% YoY	Power brands and e-commerce
Gross margin	~64%-65% average	Stable	Balanced growth across facilities, pass-through revenue mix and fixed cost movement in inventory
Net debt to EBITDA	3.4x	Down from 3.7x in March	Improved EBITDA; net debt rose on Lexington, Kenalog, Yapan and currency
ADC revenue	~$40 million in H1 across all sites	+50%+ YoY	Improved order book at ADC sites
Phase 3 molecules	28 as of September 2026	Up from 25 in March 2026	Net additions in late-stage clinical work

SEGMENTS & GEOGRAPHIES

- **CDMO:** Revenue grew 36% to ₹1,424 crore in Q2 and 28% to ₹2,611 crore in H1. Management said RFP inflow, order booking and revenue realization are all up, with North America ahead of prior years and ahead of plan across all sites and India also showing strength. It expects the growth momentum to continue through the year with H2 typically stronger than H1.
- **CDMO customer metrics:** 22 new logos added in H1, defined as companies not previously worked with, more biotech-heavy by count with some large pharma included. 110 customer audits cleared in H1. Management said it does not see high single-customer concentration.
- **Complex Hospital Generics:** Revenue grew 32% to ₹849 crore in Q2 and 24% to ₹1,592 crore in H1. US sevoflurane value share was 48%; the company retained the number one position in intrathecal baclofen. Management cited a couple of rest-of-world contract wins as a substantial driver of base business growth and expects continued share expansion in rest-of-world inhalation anesthesia plus Kenalog contributions to support H2.
- **Consumer Healthcare:** Revenue grew 13% to ₹359 crore in Q2 and 14% to ₹706 crore in H1. Power brands grew 21% and were 53% of sales; e-commerce grew 32% and was 28% of sales. Media and trade investment was about 11% of segment sales in H1. Management expects power brands, e-commerce, premiumization and channel expansion to support growth and margin improvement.

STRATEGY & COMPANY-SPECIFIC

- Acquired a controlling stake in Yapan Bio to expand the biologics platform.
- Riverview high-potency API capacity expansion completed; Lexington sterile fill/finish expansion progressing as per plan, with three go-lives: the micro expansion went live around October 2026, a background-grade improvement for Annex 1 compliance expected early next year, and the full expansion at end of calendar year 2027. Anchor customers for the first, second and third batches using the expansion are signed.

- The Riverview and Lexington investments are part of a USD 90 million expansion program. Capex guidance for the year is ₹120-135 crore, with Q1 spend at ₹21 crore and spend expected to ramp through the year.
- Morpeth: management said it sees value in a European drug product site serving UK and EU customers and is investing mainly in maintenance and compliance capex, not growth capex. FDA remediation is expected to be people- and process-led with no large related capex.
- Kenalog: revenue now coming from the current CMO; transition to a new CMO is in progress through engineering batches, validation batches, stability and filing. Management said the new CMO has met all timelines committed to the original owner and to Piramal.
- Consumer Healthcare: launched the Vizible range under Lacto Calamine. Distribution spans 180,000 chemist and cosmetic outlets, over 13,000 modern trade outlets and more than 20 e-commerce platforms.
- Bayer sales and distribution agreement expires at the end of its term in December 2026; management expects an orderly transition, said the arrangement is low-margin, and does not expect a material impact on the FY27 outlook. The Bayer manufacturing agreement continues.
- Capital allocation lesson from US acquisitions: fewer, larger sites would have been the hindsight strategy, and future M&A will require a minimum site size.
- Tax: about 70% of tax is paid in India. Carryforward tax losses at overseas entities are about INR 580 million, with potential deferred tax asset of about INR 120 million; utilization is expected over the next two to three years, entity by entity.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	~19%-20%	Raised	H1 performance, RFP and order buildup, Kenalog, rest-of-world anesthesia, power brands and e-commerce
FY27 profitability	Meaningfully higher growth than revenue	Raised	Operating leverage and cost discipline
H2 vs H1	H2 stronger than H1	Maintained	Prior-year seasonal pattern
CDMO growth	Momentum to continue through the year	New	Order momentum and H2 seasonality
Innovation and on-patent commercial share	Over 50% of business in the next couple of years	New	Faster growth than the rest of the business
ADC growth	Meaningfully higher than overall growth rate	New	Capacity across four sites, available capacity, willingness to add more
FY30 EBITDA margin	25% at company level	Maintained	CDMO operating leverage as overseas facilities scale
Consumer Healthcare margin	Close to double digits by FY30	Maintained	Premiumization, price and volume
Lexington full expansion	End of calendar year 2027	Maintained	Three go-lives, first already completed
Capex	₹120-135 crore for the year	Maintained	Spend ramping through the year
Tax rate	Elevated through FY27; 24%-25% at scale	Maintained	Overseas facilities not yet at scale; carryforward losses usable over two to three years
Other income	₹45-50 crore quarterly	Maintained	Forex gains can cause variability

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Kenalog supply	Supply from the current CMO is tight and expected to remain tight; new CMO transition has no communicated timeline
Morpeth FDA observations	Received in September; company has responded and expects timely resolution through monthly updates; remediation is people- and process-led
Biotech funding cycle	CDMO sector performance is linked to funding availability; commercial transformation aims to raise large pharma weighting but the cycle remains
Tax outflows	About 70% of tax paid in India; overseas losses usable only as each entity turns profitable, expected over two to three years
Net debt	Rose on Lexington, Kenalog, Yapan and currency; net debt to EBITDA at 3.4x
Customer concentration	Management said it does not see high single-customer concentration and declined to discuss individual customers
GLP-1 exposure	Management said the company is not participating in the GLP-1 opportunity; focus is niche peptides and contract manufacturing for peptides
Bayer agreement expiry	Ends December 2026; low-margin, no material FY27 impact expected, manufacturing agreement continues

Q&A HIGHLIGHTS

US footprint and nearshoring Asked whether the Western manufacturing footprint would be repeated if capital were redeployed fresh, management said the earlier comment meant demand is broad-based across North America, UK and India, that North America is performing ahead of plan, and that the lesson is fewer, larger sites for future M&A.

Morpeth future Asked whether the UK site is worth owning given losses and FDA observations, management said a European drug product site offers supply chain advantages for UK and EU customers, that it is investing mainly in maintenance and compliance capex, and that FDA remediation needs no large capex.

ADC disclosure Asked for ADC revenue and utilization, the CFO said ADC figures are given annually, that H1 ADC services revenue across all sites was about $40 million and growing meaningfully, and that utilization is improving with the order book.

On-patent commercial growth Asked whether 39% growth comes from one customer or product, management said it is broad-based across multiple products and that it does not see high single-customer concentration.

Kenalog CMO transition Asked about the Kenalog run rate and CMO, management said revenue has started from the current CMO, supply is tight, the new CMO is progressing through tech transfer steps with no timeline disclosed, and it has met all committed timelines.

Large CDMO contract Asked for an update on the large order from last year, management said it will no longer discuss individual customers, that growth and concentration numbers show a healthy, unconcentrated business, and that it continues to win new business.

Innovation mix Asked where innovation and on-patent commercial manufacturing go over two to three years, management said both should grow faster than the rest of the business and exceed 50% of the business in the next couple of years.

North America site profitability Asked when Sellersville could break even at EBITDA, management said it is seeing nice translation of improved revenue across its four North American sites this year and that continued trend would

change the dialogue around some sites.

Viyash Scientific Limited

GROWTH TRIGGERS

The bull case is that near-zero net debt and disciplined capex now fund a companion animal and oncology pipeline whose commercial dates are dated and disclosed, while the base business compounds at mid-to-high teens with 54-55% gross margin.

1. Companion animal blockbuster cliff lands in calendar 2029 with dated preparation

Three to four companion animal products with about US$3 billion of current brand value lose basic patents in calendar 2029, and management estimates a targeted market of about US$1.5 billion excluding the US, where 10-15% share would still be material after roughly 40% price erosion. Viyash is building a dedicated companion animal plant guided for commissioning in Q1 FY28, in time for FY29 launches, with a Turkey partner site as a backup route into Europe and 29 launches initiated on a day-one strategy.

2. Bio4Life closes and starts geo-extension immediately

The Bio4Life (Bioferlife Italy) acquisition completed on 1 October 2026 and consolidates from Q3 FY27, and management has started geo-extending a first list of 10 gastro, dermatology and orthology products into countries where Viyash already has front-end presence: Europe, Brazil, Latam, Turkey and India. Management expects benefits to flow over 2-3 years, after 15-18 month registrations and 6-8 months of marketing build.

3. Animal health R&D spend tripled to feed 29 launch programmes

Animal health R&D team size has doubled and spend has risen threefold from about INR 3-4 crore a quarter to about INR 10 crore a quarter, roughly INR 40 crore annualised, with validation throughput up from one or two products a year to five to eight. Management states this spending is the reason EBITDA margins are not rising faster, which makes it a cost carried ahead of the revenue it is designed to produce.

4. API second half guided materially better than first

After a weak first quarter affected by customer inventory caution and raw material price volatility, management says Q2 API growth was about 20%, H2 will be much better than H1, animal health API is tracking 20%-plus off the INR 400 crore base with Albendazole capacity more than doubled, and human API is guided to 12-13%. Management expects at least 12-13% for APIs overall and reiterated FY27 group growth of 20% or close to it.

5. First-to-file US launch expected next year

Management expects one big US formulation launch next year on an API-patent-expired product with about US$90 million of US market size, where it says it is the only fully integrated filer and the first filer; a day-one launch typically secures 50-60% market share even after competition. Last year's comparable exclusive launch generated about US$5 million at 90%-plus gross margin in a single quarter.

6. Oncology finished-dose capability now in-house at OEB 5

A new oncology finished-dose R&D facility in Hyderabad handles high-potency products up to OEB 5 and takes pilot batches and pilot bio work in-house instead of using third parties, complementing existing oncology API strength and dedicated API modules. Management positions most products as day-one or day-181 para-IV filings for the US, with material contribution from FY29 or FY30.

7. Balance sheet is effectively net-debt free with capex trimmed

Net debt fell to INR 26 crore at 30 September 2026 from INR 166 crore at 31 March 2026, finance cost fell to INR 26 crore in H1 FY27 from INR 38 crore for FY26, and ROCE excluding goodwill is stated at 20%. Capex guidance has been optimised down to about INR 140-150 crore for FY27 and about INR 150-170 crore a year thereafter, which management says leaves room to fund growth capex and acquisitions rather than prioritising loan repayment.

8. Acquisition pipeline pointed at market access, peak expected next year

Management says next year is likely to be the peak year for acquisitions and that the priority is market access rather than manufacturing assets, with companion animal the main area of visibility and specialty CDMO or in-licensed products the second. That is consistent with the Bio4Life template: buy front-end reach in geographies where the back-end R&D and manufacturing platform is already being built.

INVESTMENT THESIS

Viyash Scientific is the merged animal health and human health platform of SeQuent Scientific and Viyash Life Sciences, running four businesses across roughly 16 manufacturing sites: animal health formulations, human health formulations, APIs and CDMO. Q2 FY27, the quarter ended 30 September 2026, produced revenue of INR 988 crore, up 16.2% year on year, pre-ESOP EBITDA of INR 208 crore, up 10.3%, PAT of INR 85 crore, up 16.1%, and an EBITDA margin of 21.1% against 22.1% a year earlier. H1 FY27 revenue was INR 1,934 crore, up 17.8%, with pre-ESOP EBITDA up 30% to INR 412 crore and margin at 21.3% versus 19.3%, and PAT of INR 164 crore. Net debt fell to INR 26 crore from INR 166 crore at 31 March 2026, finance cost fell to INR 26 crore in H1 from INR 38 crore for FY26, and ROCE excluding goodwill was stated at 20%.

The economics rest on a regulated, integrated manufacturing base rather than on a single product. Animal health API crossed an INR 400 crore base with more than doubled Albendazole capacity, human API is guided to 12-13% growth, and the US formulation business runs at a stable INR 100-115 crore a quarter after the prior-year exclusive launch normalised. Gross margin is guided at 54-55% for this year and next, which management attributes to mix and process efficiency rather than to pricing spikes; Q2's 53.7% carried roughly 0.3-0.4% of solvent cost and mix effects. The practical moat is qualification and regulatory work: registration takes 15-18 months even for existing animal health products, oncology products are positioned as day-one or day-181 para-IV filings, and the oncology finished-dose R&D facility commissioned in Hyderabad can handle OEB 4 and 5 products and pilot batches in-house, a capability management says few companies hold.

What defines the next two to three years is published and dated. Companion animal revenue is guided to about US$30 million in FY27 including Bio4Life, roughly 60% growth off a small base, but the material step-up is from FY29, when three to four companion animal products with about US$3 billion of current brand value lose basic patents and management sizes its targeted market excluding the US at about US$1.5 billion. Viyash is preparing for that with a dedicated companion animal plant guided for commissioning in Q1 FY28, a Turkey partner site as the Europe backup, tripled animal health R&D spend of about INR 40 crore a year and 29 launch programmes. Separately, oncology contribution is dated FY29-FY30, a first-to-file US formulation launch is expected next year on a product of about US$90 million US market size, and Vietnam commercial sales are guided from early next year with a US$3-5 million opportunity. Capex of about INR 140-150 crore is guided for FY27 and about INR 150-170 crore a year thereafter, the first year including about INR 60 crore already spent.

The earnings path therefore has two phases. In FY27, the reported numbers depend on the base business: management asserts group growth of 20% or close to it, with API growth of at least 12-13%, animal health API 20%-plus, US about 10%, Europe double-digit at constant

currency, and a 54-55% gross margin. In FY28-FY30, the incremental drivers are the acquisition Viyash expects next year, oncology and companion animal launches, and the normalisation of the ESOP charge from about INR 148-149 crore in FY27 to about INR 32 crore in FY28 and about INR 25 crore thereafter. That ESOP profile is analyst-relevant because management's adjusted PAT presentation, INR 204 crore in H1 FY27 versus reported PAT of INR 164 crore, depends on it; the adjustment is management's normalisation, not a reported result.

The capital allocation change is the other half of the case. With net debt near zero, management has deferred repayment of an INR 120 crore India loan and minority stake buybacks in favour of growth capex and acquisitions, saying next year is likely to be the peak acquisition year, focused on companion animal market access and specialty or in-licensed products rather than manufacturing assets. That is a defensible use of headroom if the prices paid are sensible, but it converts balance-sheet strength into acquisition execution risk. Management delivery in the latest period is narrow but clean: the Bio4Life acquisition closed effective 1 October 2026 and consolidates from Q3 FY27, and net debt was cut as guided. Historical promise-keeping outside this call cannot be verified from the sources supplied here, so the credibility read rests on the items the company has dated for itself.

What would falsify the thesis: companion animal registrations or the Q1 FY28 facility commissioning sliding, which would push the calendar 2029 patent-expiry opportunity beyond the FY29-FY30 window management has described; the FY27 20% growth assertion resolving to the low end without organic offset; gross margin failing to hold in the 54-55% band if solvent costs persist; the US first-to-file launch not materialising next year; or acquisitions next year being made at prices that consume the balance-sheet headroom without adding to the platform. A weaker but not fatal signal would be the FY27 ESOP normalisation changing, since management's adjusted profitability depends on it. The thesis type remains a compounder: the business earns through a durable regulatory and integration position, with the next leg of growth needing capital deployment and approvals rather than a single product cycle.

RESEARCH REPORT

What Viyash Scientific Limited (Formerly known as Sequent Scientific Limited) does

Viyash Scientific is the product of a merger between SeQuent Scientific, an animal health company, and Viyash Life Sciences, a human health API and formulation business. The National Company Law Tribunal sanctioned the scheme on November 18, 2025, and it became effective December 16, 2025, with an appointed date of April 1, 2025 (Annual Report FY26). The combined entity operates four businesses: Animal Health Formulations, Human Health Formulations, API, and CDMO, across 16 manufacturing facilities (10 USFDA approved) serving more than 150 countries (Annual Report FY26).

FY26 was the first full year of the combined entity. Revenue from operations was INR 34,203 million, up 13.8% year-on-year. EBITDA was INR 7,025 million, up 59.6%, and PAT was INR 2,246 million, up from INR 158 million in FY25 (Annual Report FY26). Gross margin expanded 321 basis points to 54.3%, and Net Debt to EBITDA fell to 0.24x from 1.03x (Annual Report FY26). India Ratings upgraded the long-term rating from A to AA- and short-term from A1 to A1+, and ICRA assigned a long-term rating of [ICRA] AA- (Annual Report FY26).

Q2 FY27 and H1 FY27 update (quarter ended 30 September 2026)

Viyash reported Q2 FY27 revenue of INR 988 crore, up 16.2% year on year and 4.4% sequentially, with pre-ESOP EBITDA of INR 208 crore (up 10.3%) and PAT of INR 85 crore (up 16.1%). Q2 EBITDA margin was 21.1% against 22.1% a year earlier, and gross margin 53.7% against 55.5%, with management attributing about 0.3-0.4% of the gross margin decline to solvent price spikes and the balance to product mix and the absence of last year's US exclusive launch. H1 FY27 revenue was INR 1,934 crore, up 17.8%; pre-ESOP EBITDA INR 412 crore, up 30%, with margin at 21.3% from 19.3%; PAT INR 164 crore, up 49.4%; and adjusted PAT, after normalising ESOP cost at an INR 25 crore run rate, INR 204 crore. Operating cash flow was INR 182 crore. Net debt fell to INR 26 crore at 30 September 2026 from INR 166 crore at 31 March 2026, finance cost fell to INR 26 crore in H1 FY27 from INR 38 crore for FY26, and ROCE excluding goodwill was stated at 20%.

The Bio4Life (Bioferlife Italy) acquisition completed on 1 October 2026 and consolidates from Q3 FY27. The dedicated companion animal facility is guided for commissioning in Q1 FY28, in time for FY29 launches, with a Turkey partner site as the Europe supply backup. Animal health R&D spend has tripled to about INR 10 crore a quarter, the oncology finished-dose R&D facility in Hyderabad has been commissioned with OEB 4-5 capability, and a new animal health API block is planned to start and complete in FY28. Capex guidance for FY27 is about INR 140-150 crore, with about INR 150-170 crore a year for the following two to three years. Management guides FY27 group revenue growth of 20% or close to it, mid-teens API

growth with H2 stronger than H1, double-digit European growth at constant currency, about 10% US growth and 54-55% gross margin this year and next. Acquisition activity is expected to peak next year and is focused on companion animal market access and specialty or in-licensed products rather than manufacturing assets.

The revenue mix is roughly 55% formulations and 45% API. Formulations revenue was INR 18,657 million, up 18%, and API revenue was INR 14,906 million, up 8% (Annual Report FY26). The six largest products by turnover are Linezolid (14.49%), Albendazole (14.25%), Triclabendazole (5.19%), Tapentadol HCl (4.76%), Hydroxyzine HCl (4.46%), and Levocetirizine (4.24%) (Annual Report FY26, BRSR).

Animal Health Formulations

This is the legacy SeQuent business, manufacturing veterinary finished dosage products for farm and companion animals. Manufacturing sites are in Barcelona (Spain), Ankara (Turkey), Campinas and Minas Gerais (Brazil), and Maharashtra (India), with an injectable-focused R&D centre set up at Ankara University in FY26 (Annual Report FY26). The Spanish and Turkish sites hold EU GMP approval, which lets the company export their products into other European markets without new plant registrations (Q3 FY26 concall, Feb 2026).

The product range spans injectables, powders, premixes, oral solutions and suspensions, and nutritional products. Tulaject, a tulathromycin injection, was launched in Brazil in FY26 with marketing authorisation for Mexico (Annual Report FY26). A partnership with VetViva Richter added canine cardiac therapies to the companion animal portfolio (Annual Report FY26).

Companion animals are the strategic growth pillar. The company entered an exclusive distribution partnership with Boehringer Ingelheim India in January 2026, started distributing in February 2026, and in H1 FY27 reported emerging market growth of 39% YoY. The Bio4Life (Bioferlife Italy) acquisition completed on 1 October 2026 consolidates from Q3 FY27. Companion animal revenue is guided to about US$30 million in FY27 including BFL, roughly 60% growth, with the material step-up from FY29 when three to four products carrying about US$3 billion of current brand value lose basic patents in calendar 2029 and the targeted market excluding the US is about US$1.5 billion (Q2 FY27 concall, Nov 2026).

Geographic revenue for FY26: Europe INR 6,682 million (up 19%), Emerging Markets INR 6,305 million (up 23%), India INR 1,405 million (up 22%), USA INR 4,266 million (up 9%) (Annual Report FY26). The India field force expanded to about 200 people from under 100 a year earlier (Q1 FY26 concall, Aug 2025).

Human Health Formulations

This is the Viyash-side formulation business, primarily serving the US market through Appco Pharma LLC in New Jersey, a USFDA-approved plant with fluid bed processing, lyophilization,

high-speed compression and aseptic fill finish capabilities (Annual Report FY26). Appco is 60% owned, with the remaining 40% minority interest (Q4 FY26 concall, May 2026). It contributes roughly INR 425 crores of revenue (Q4 FY26 concall, May 2026).

The strategy has shifted over the last two years. Mature, volume products are being moved to India manufacturing for cost advantage, and APIs are being internalized. About 85% of key products are backward integrated (Annual Report FY26). The portfolio is moving toward complex generics and oncology. A new oncology finished-dose R&D facility was commissioned in Hyderabad in FY27, capable of handling high-potency products up to OEB 5 and of taking pilot batches in-house instead of using third parties; management expects the oncology pipeline to contribute to numbers materially only from FY29 or FY30 (Q2 FY27 concall, Nov 2026). Roughly 30 finished dose products were developed in the last 3-4 years, with 11 commercial products and 24+ in the pipeline (Annual Report FY26).

Management described the US business challenge directly: post-COVID, a lot of Indian competition entered the US generics market and it became highly commodity-like, which forced the restructuring toward internal APIs and India-based manufacturing (Q4 FY26 concall, May 2026).

API

The API business operates 10 plants in India across Maharashtra, Andhra Pradesh and Telangana, with 60+ commercial human APIs, 33+ commercial animal health APIs, and 63+ molecules under development (Annual Report FY26). Batch sizes range from 1 kg to 1,000 kg, including high-potency and cytotoxic products (Annual Report FY26). All sites are USFDA approved; of 8 sites cited in the Nov 2025 concall, 3 are intermediates and 5 are API.

The animal health API business crossed an INR 400 crore run rate in FY26, the first time in five years. It had been stable at roughly INR 350 crores plus or minus INR 10 crores for the prior five years (Q4 FY26 concall, May 2026). Management attributes the step change to new product development, geo-expansion of existing products, and improved execution credibility with innovators.

The human API portfolio has been restructured over the last 2-3 years by taking out commodity products and intermediates, either converting them into APIs or dropping them, which drove the gross margin improvement (Q4 FY26 concall, May 2026). Albendazole is a flagship product with WHO prequalification, and a new dedicated production line was commissioned in FY26 to segregate human and animal health manufacturing, with European approval received in 30 days (Q3 FY26 concall, Feb 2026).

CDMO

The CDMO business operates three models: NCE development with innovators (Phase III to commercial), lifecycle management of products facing patent expiry, and co-development or

contract manufacturing for specialty companies (Q4 FY26 concall, May 2026). The company works with 8 of the top 10 innovator companies globally (Q1 FY26 concall, Aug 2025). It has 15 projects for innovator lifecycle management and 28 specialty generics co-investment projects, of which 15 products have a combined market value above $1 billion (Annual Report FY26; Q2 FY26 concall, Nov 2025).

CDMO revenue was INR 70-90 crores in FY26 (Q3 FY26 concall, Feb 2026). The innovator lifecycle management base is around INR 200-225 crores, and management expects 30-40% growth in that segment in FY27 (Q4 FY26 concall, May 2026). Most commercial launches from the current pipeline land in 2028-2030, with the product development roadmap extending to patents expiring through 2035 (Q4 FY26 concall, May 2026).

The differentiation in CDMO is speed, quality, and EHS credibility with innovators. One innovator customer took four months to qualify a new Viyash site where it typically takes 2-3 years (Q3 FY26 concall, Feb 2026). The high-potency and cytotoxic facilities are a particular draw, since few Indian companies have the capability from 0.5 kg to 100 kg batches (Q4 FY26 concall, May 2026).

Business segments

Animal Health Formulations

Viyash Scientific's animal health formulations business makes veterinary finished dosage products: injectables, powders, premixes, oral solutions and suspensions, and nutritional products for farm and companion animals. Manufacturing runs out of five sites - Barcelona (Spain), Ankara (Turkey), Campinas and Minas Gerais (Brazil), and Maharashtra (India). The Ankara plant holds EU GMP certification and produces sterile injectables across beta-lactam, non-beta-lactam and hormone lines; Barcelona has a dedicated beta-lactam powder block and a nutritional line. In FY26 the company set up a new injectable-focused R&D centre at Ankara University for the Alivira global business.

The core capability is the regulatory and distribution network. Two manufacturing sites are EU GMP approved, which lets the company sell Spanish and Turkish-made products into regulated European markets without re-registration. The annual report describes the company as "one of India's leading animal health companies" with a portfolio marketed in more than 100 countries. That position took over a decade to build: Alivira was established as a dedicated animal health brand between 2014 and 2019, and SeQuent expanded across Europe, Latin America and emerging markets before merging with Viyash Life Sciences.

Products split between farm and companion animals. The farm animal portfolio covers cattle and poultry - anthelmintics, parasiticides, nutritional milk enhancers and injectables. The company launched Tulaject (tulathromycin injection) in Brazil during FY26 and received marketing authorisation for Mexico, with plans to extend it across Latin America. Companion

animal products include an anesthetic range launched in Europe and canine cardiac therapies from a partnership with VetViva Richter. The India poultry portfolio was strengthened through distribution partnerships with Lanxess (Germany) and DEX (Spain).

Customers are a mix of innovators, distributors and veterinarians. The company distributes products for innovators - it has a long-standing distribution relationship with Zoetis in India - and in January 2026 signed an exclusive distribution agreement with Boehringer Ingelheim India covering parasiticides and vaccines, which management says addresses nearly two-thirds of the Indian companion animal market. In Turkey the company retains a position among the top 5 players in the ruminant animal market. Rajaram Narayanan, CEO Animal Health, explained the pricing dynamic that makes animal health generics attractive:

> *"unlike human generics where the pricing drops very drastically to almost 10%, 15% of the innovators' price. I think what happens in animal health generics is that the pricing drop to the generics is far slower. It tends to be more like 60%, 70% of the innovator's price."*
>
> **RAJARAM NARAYANAN, Q4 FY26 CONCALL (MAY 2026)**

The competitive set is dominated by the innovators themselves. The annual report cites a global animal health market of US$65 billion growing at roughly 7% CAGR, with companion animal generics penetration below 15% versus about 70% for farm animals and 91% for human health. Management identified companion animals as the key growth pillar, and the runway is the gap between that 15% and the 70-91% seen elsewhere. Companion animals were about 5% of total business in Q1 FY26, with a stated goal of doubling in three years. The main named competitors are Zoetis and Boehringer Ingelheim, who control most branded markets; the generic players are not named in the sources.

The segment fits the group through the shared One R&D platform. Post-merger integration produced four new animal health products, mostly companion animals, and cost improvements on three volume products. The manufacturing network also supports cross-supply: a new production line was built at a Viyash site for albendazole so human health production could be segregated and the animal health site could expand. Management is also expanding manufacturing in Spain and debottlenecking capacity in Turkey to support future growth.

Revenue mix: formulations (human and animal combined) were 55% of FY26 revenue of INR34,203 million, with animal health formulations the larger share within that. Animal health formulations grew roughly 20% in FY26, with Europe up 19% to INR6,682 million, emerging markets up 23% to INR6,305 million, and India up 22% to INR1,405 million, per the annual report.

Management commentary across the year was consistent on the trajectory. The animal health API business, which feeds the formulations pipeline, crossed INR400 crores for the first time in five years, and the innovator business is expected to grow 30-40% in FY27. On companion animals, Dr. Haribabu Bodepudi described the scope of the Boehringer Ingelheim partnership:

> *"We are going to distribute entire BI segment, whichever are coming in future also, we are going to do that."*
>
> **DR. HARIBABU BODEPUDI, Q4 FY26 CONCALL (MAY 2026)**

The addressable companion animal market in Europe is roughly US$1 billion excluding vaccines, per management. The strategy is to build the R&D and manufacturing base first - the company targets 7-8 new companion animal products per year - and then expand geographically, with Italy, Germany, France and the UK identified as priority markets alongside the existing Spain, Benelux and Sweden footprint.

Human Health Formulations

The human health formulations business makes finished dosage products for the US market. Manufacturing runs out of Appco Pharma LLC in New Jersey, a USFDA-approved plant covering solid and liquid orals with fluid bed processing, lyophilization, high-speed compression and aseptic fill-finish (Annual Report FY26), and R&D sits in Hyderabad. Viyash owns 60% of Appco. The US business ran at about INR 100-115 crore a quarter in Q2 FY27 after the Q2 FY26 exclusive launch, worth about US$5 million at 90%-plus gross margin, normalized; FY26 US revenue was INR 426 crore and management guides about 10% growth for FY27. One first-to-file US formulation launch is expected next year on a product of about US$90 million market size (Q2 FY27 concall, Nov 2026).

The core capability took deliberate restructuring. After COVID, the US generic market flooded with Indian competitors and the business "struggled a little bit on competing the cost from US side" (Q4 FY26 concall). Management's response had three parts: shift mature volume products to India manufacturing, develop complex products to differentiate, and backward integrate into APIs. The MD described where that landed:

> *"most important factor to sustain US business today is a fully vertical or backward integrated for all our key products. We are done for almost all our key products 45% of our volume products we are done. Commercialization is just started."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The annual report puts the figure at approximately 85% of key products backward integrated into in-house APIs. That integration is the structural advantage: it protects supply security

and margins in a segment where the product itself is a commodity.

The portfolio spans 30+ commercial finished dosage products across 7 categories, with 24+ under active development and 11 with early launch opportunities (Annual Report FY26). The direction is toward complex generics and differentiated molecules. Management has built a dedicated potent lab in R&D specifically for oncology finished product development (Q4 FY26 concall). The human health formulation R&D team runs about 55-60 scientists (Q4 FY26 concall). Recent launch cadence: two FDF launches in the US in Q1 FY26, five FDF filings, and one FDF approval (Q1 FY26 concall).

The customers are US buyers of generic oral solid and liquid dose products. The sources don't name them, but the annual report describes the broader customer base as large generic manufacturers, innovator and proprietary brands across regulated markets. The New Jersey plant's USFDA approval is the entry ticket; the backward integration is the reason customers stay, because it gives supply reliability that pure formulation houses can't match.

Competition comes from the wave of Indian generic players who entered the US market post-COVID and turned mature products into "highly commodity business" (Q4 FY26 concall). The response has been to exit low-margin, low-volume products and shift the mix toward complexity. That's why the US business grew 9% in FY26, slower than the overall formulations business at 18% (Annual Report FY26). Within the group, formulations is 55% of revenue versus 45% for APIs (Annual Report FY26).

The segment anchors the group's regulated-market presence. The US manufacturing site is also a tariff hedge - management noted that if tariffs were imposed, the US site would be an advantage (Q1 FY26 concall). The synergy with the API segment is direct: the same R&D platform that develops APIs feeds the formulations pipeline, and the API plants supply the formulations business internally, converting third-party purchases into gross margin.

Management's guidance across the calls has been consistent: move up the complexity curve while using India for scale products. The MD summed up the FY26 result:

> *"we changed our strategy last 2 years. One is changing our product mix, moving into a little more complex products and all mature products, volume products, we try to internalize APIs and also bringing manufacturing into India manufacturing. That's where we are able to sustain the products and grow and also, most important, margins are growing."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

API (Active Pharmaceutical Ingredients)

The API segment is Viyash Scientific's manufacturing backbone: 10 plants across Maharashtra, Andhra Pradesh and Telangana, all approved by the US FDA, with combined reactor capacity from 39 KL to 490 KL per site. The capability that took years to build is the

range of chemistry. The plants handle batch sizes from 1 kg to 1,000 kg, including high-potency and cytotoxic compounds, and the company files roughly 40 API products and 30 formulations per year from a single R&D platform of more than 250 scientists (FY26 Annual Report; Q2 FY26 concall, Nov 2025).

The portfolio is split between human and animal health. On the human side, 60+ commercial APIs include Linezolid (14.49% of total turnover), Tapentadol HCl (4.76%), Hydroxyzine HCl (4.46%) and Levocetirizine (4.24%). On the animal side, 33+ commercial APIs are led by Albendazole (14.25% of turnover) and Triclabendazole (5.19%). The animal health pipeline is deliberately weighted toward companion animals - 70% of molecules under development target that segment, with patent expiries mapped out to 2035 (FY26 Annual Report; Q4 FY26 concall, May 2026).

Customers are innovators, generic manufacturers and animal health companies. The company already works with 8 of the top 10 innovator companies, and about 80% of the animal health API business goes to innovators (Q1 FY26 concall, Aug 2025; Q3 FY26 concall, Feb 2026). The reasons they buy are regulatory reliability and speed. In Q1 FY26, Viyash passed two US FDA audits at two sites and one European audit in the same month. When the company built a new Albendazole production line at a Viyash site, it received the European approval in 30 days (Q1 FY26 concall, Aug 2025; Q3 FY26 concall, Feb 2026).

The competitive position rests on two things: regulatory footprint and cost structure. All 8 API sites are FDA-approved, which few Indian API makers can claim. The company competes against Alivus Life Sciences on gross margins - management noted Alivus reports 55-60% gross margins and argued Viyash's 54% is comparable given its mix - and against Laurus and Divi's in the NCE CDMO space (Q4 FY26 concall, May 2026).

The most important turnaround in this segment is the animal health API business. After five years stuck at roughly INR 350 crore, it crossed a INR 400 crore run rate in FY26, and management expects double-digit growth in FY27:

> *"Last 5 years, it was stable, neither growing nor actually degrowing. It was INR350 crores plus or minus INR10 crores business. The first year after 5 years, we are able to take it to INR400 crores run rate."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The growth drivers are specific: existing products being qualified for new geographies like China and Europe, and new products coming off patent from 2028 onward. Management also guided that the innovator business within API should grow 30-40% in FY27 (Q4 FY26 concall, May 2026).

API is roughly 45% of total revenue. In FY26, API revenue was INR 14,906 million, up 8% year-on-year, while formulations grew 18%. The slower API growth is deliberate - management pruned commodity intermediates and low-margin products to shift the mix toward complex molecules and regulated markets (FY26 Annual Report; Q4 FY26 concall, May 2026).

The segment's fit with the group is backward integration. The company has vertically integrated 7 products from API down to intermediate level and 5 products forward from intermediate to API, and it is moving volume formulation products to India manufacturing. The merger with SeQuent added two things: an animal health API portfolio that was under-invested in R&D for years, and a Viyash manufacturing network with spare capacity. SeQuent's capacity was constrained; Viyash was running at 60-65% utilization. Six intermediates that SeQuent sourced externally have been transferred to internal Viyash sites, and a new production line was built to support SeQuent's large-volume products (Q2 FY26 concall, Nov 2025).

The segment also feeds the CDMO business. The same plants that make generic APIs serve innovator lifecycle management contracts. On the Q2 FY27 call management said the second half will be materially better than the first for API, with Q2 API growth already around 20%, animal health API tracking 20%-plus off an INR 400 crore base, human API guided to 12-13%, and the API:formulation mix staying near 57:43 in the near term. Management reiterated FY27 group growth of 20% or close to it and a 54-55% gross margin for this year and next (Q2 FY27 concall, Nov 2026).

CDMO (Contract Development & Manufacturing)

Viyash Scientific's CDMO business sells its manufacturing and chemistry capabilities to other drug companies - innovators, specialty pharma, and big generic players - who either lack the infrastructure to scale up their own molecules or want a lower-cost partner for mature products. The capability took years to build because it rests on infrastructure that cannot be bought quickly: 10 USFDA-approved API sites, two dedicated high-potent facilities that handle batches from 0.5 kg to 100 kg, a 250-scientist R&D team with specialized cytotoxic handling and process safety labs, and a regulatory track record that includes passing two US FDA audits at two different sites in a single month (Q1 FY26, Aug 2025). The FY26 annual report describes the offering as "end-to-end development-to-commercialisation manufacturing capabilities under a single-partner model."

Management splits the business into three distinct models (Q4 FY26, May 2026). The first is lifecycle management for innovators - products where the originator company wants a lower-cost alternative before or after patent expiry. The second is co-development with specialty generic companies, where Viyash takes the API development risk and the partner handles formulation. The third is contract manufacturing for specialty products, typically complex

molecules coming off patent after 2030. The annual report adds the technical platforms underneath: iron complex technology, cytotoxic and potent compound handling, polymorph engineering, chiral chemistry, nitrosamine risk management, and preparative HPLC purification.

The customers are the top of the pharmaceutical food chain. Management states it is "already handling maybe, I think, 8 out of top 10 innovator companies" (Q1 FY26, Aug 2025). The relationships are old - management says most go back 10-15 years, built through the SeQuent animal health business and prior careers of the leadership team. Why do these companies buy from Viyash rather than a larger CDMO? The answer is speed and flexibility. One innovator company that typically takes 2-3 years to qualify a new vendor site was "going to close in four months" once they saw Viyash's new site and EHS status (Q3 FY26, Feb 2026). The high-potent facilities are the other differentiator - few Indian companies have the containment infrastructure and process safety capability to handle cytotoxic compounds at commercial scale.

The competitive set is broad but shallow. Management's own framing is that "everybody climbs CDMO, CMO even solvent recovery guys but we see very few companies are able to do that" (Q3 FY26, Feb 2026). The credible competitors for NCE work are the large Indian CDMOs - management names Laurus and Divi's in this context - but Viyash is not yet pursuing early-stage NCE development. That is the "first model" they are building toward with new infrastructure and hiring, while the second and third models (lifecycle management and specialty contract manufacturing) are where the current revenue comes from.

The revenue is small but growing from a low base. Management said FY26 CDMO revenue came in at INR 70-90 crore and did not repeat the FY27 innovator lifecycle growth guidance on the Q2 FY27 call; a specialty development contract worth close to US$1.6-1.7 million for a 2034 launch was flagged for the quarter, and commercial CDMO revenue remains with innovators on mature products. The pipeline behind it is 15 innovator lifecycle projects and 28 specialty generics co-investment projects, with commercial launches mostly in 2028-2030 (Q2 FY27 concall, Nov 2026).

The segment fits the group through shared infrastructure. The CDMO business uses the same API plants, the same R&D scientists, and the same regulatory filings as the captive API business. The Animal Health API business, which does 80% of its revenue with innovators, is effectively a CDMO relationship that predates the formal CDMO push. Management frames it as a natural extension: "Since we have fully backed internet sites which are approved by FDA, we are able to integrate most of the products backward integration" (Q3 FY26, Feb 2026). The merger with SeQuent added the animal health formulation front-end and European distribution, which gives the CDMO business a second route to market for its molecules.

> *"We are very practical on this. It's easy to say CDMO can work with innovators but I don't want to go into that. Whatever we say we follow. So that's the second and third areas we are working very actively. But the first one, NCG, it takes time to be done."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The strategic constraint is patience. CDMO revenue compounds slowly because each project requires years of development, validation, and regulatory approval before commercial supply begins. Management is explicit that the current INR 70-90 crore run rate is the foundation, not the destination. The question for an investor is whether the 15 lifecycle projects with $1 billion+ combined market value convert into commercial contracts on schedule, and whether the NCE capability being built now can win Phase III-to-commercial mandates in the next 2-3 years. The relationships with 8 of the top 10 innovators suggest the access is there; the execution risk is in the regulatory timelines.

Customers

The customer base splits into four groups: innovator companies, generic formulation players, distribution partners in animal health, and institutional buyers like the WHO.

Innovators. Eight of the top 10 innovator companies globally are customers (Q1 FY26 concall, Aug 2025). These relationships are old, many spanning 10-15 years, and they are commercially demonstrated through the INR 200-225 crore lifecycle management business (Q4 FY26 concall, May 2026). Innovators buy APIs and CDMO services for products facing patent expiry, where they need a low-cost, compliant alternative supplier. The switching costs are high because qualification involves regulatory filings and customer audits, which is why management describes the innovator business as sustainable and reasonably profitable (Q4 FY26 concall, May 2026).

Generic players. The formulation CDMO model works with large generic players like Cipla and Dr. Reddy's. The company develops a product to proof of concept, then partners with a big generic player who pays for development, and the company continues development, gets approval, and manufactures with a roughly 50/50 profit share (Q4 FY26 concall, May 2026). The US formulation business sells through these partners.

Distribution partners. In animal health, the company distributes for innovators. It has a long-standing distribution relationship with Zoetis in India, and in January 2026 signed an exclusive distribution agreement with Boehringer Ingelheim India covering parasiticides and vaccines for companion animals (Q3 FY26 concall, Feb 2026). In Europe it distributes for other companies in Spain, and has its own direct field force in Spain, Benelux and Sweden (Q3 FY26 concall, Feb 2026). Distribution for innovators is a revenue stream that also builds the front-end platform for launching own products.

Institutional. WHO prequalification for albendazole supports supply to donation programs and developing market tenders (Q1 FY26 concall, Aug 2025).

Concentration is a real factor. The top 10 customers account for over 60% of API sales on the SeQuent side (Q1 FY26 concall, Aug 2025). The broader base is diversified: 250+ customers across 150+ countries (Annual Report FY26). Most API sales are realized in hard currency (Q1 FY26 concall, Aug 2025).

The buying decision for APIs is driven by regulatory compliance, quality, and supply reliability. Innovators run customer audits, and the company completed 170+ customer audits and 14 regulatory audits in FY26 without critical observations (Annual Report FY26). Once a product is filed and approved with a customer, the relationship tends to lock in because re-qualifying a new supplier takes years.

Competitive landscape

The competitive set differs by segment. In pure-play API and intermediates, Alivus Life Sciences is the benchmark, reporting gross margins in the 55-60% range (Q4 FY26 concall, May 2026). Viyash's gross margin was 54.3% in FY26, which management argues is sustainable for a generic player only with a differentiated strategy: forward integration from intermediates to APIs to formulations, and pruning of commodity products that carry 30-35% gross margins (Q4 FY26 concall, May 2026).

In CDMO, the NCE space is contested by companies like Laurus Labs and Divi's Laboratories (Q3 FY26 concall, Feb 2026). Management is candid that it is not yet competing there at scale, and is building the team and infrastructure for that. Its current CDMO strength is in lifecycle management and specialty co-development, where it competes on speed, quality and EHS rather than on scale.

In animal health, the innovator leader is Zoetis, and the genericization of companion animals is a structural opportunity that innovators are watching. Management noted that Zoetis sounded cautious about generic competition in the US, and argued that the shift toward affordable generics in companion animals is exactly the tailwind Viyash is positioned for (Q4 FY26 concall, May 2026).

The US generics market is the most intense competitive environment. Post-COVID, a large number of Indian players entered, making it a commodity business, which forced Viyash to restructure its US formulation strategy toward internal APIs and India manufacturing (Q4 FY26 concall, May 2026). The company's edge in the US is its own manufacturing base (Appco in New Jersey) plus the cost advantage of India production for mature products.

Where Viyash wins: integrated platform across API and formulation, R&D speed (40+ API products and 30 FDF products developed in 3-4 years), a regulatory track record that passed

5 US FDA audits in one year including two on the same day, and EHS/quality credibility that innovators test through audits (Q1 FY26 concall, Aug 2025; Q2 FY26 concall, Nov 2025). Where it loses: it is small in the NCE CDMO space, it faces pricing pressure in commodity APIs, and its US formulation business competes against a crowded field.

Industry

The global animal health market was valued at US$65 billion and is projected to grow at about 7% CAGR through 2030 (Annual Report FY26). The growth split favors companion animals: companion animal pharmaceuticals are expected to grow at 8-9% annually through 2030 (Annual Report FY26). Generic penetration is the key structural gap: under 15% in companion animals, about 70% in farm animals, and roughly 91% in human health (Annual Report FY26). That white space is the core of Viyash's companion animal thesis.

The global API market is projected to grow from about US$261 billion in 2026 to US$458 billion by 2034, around 7% CAGR (Annual Report FY26). More than 190 molecules, including over 60 blockbusters, are expected to lose patent protection between 2025 and 2030, creating a sizeable genericisation opportunity (Annual Report FY26). Supply chain diversification away from China is a tailwind for Indian API manufacturers.

The global CDMO market was valued at about US$255 billion in 2025 and is projected to reach about US$580 billion by 2034, a CAGR of roughly 9.9% (Annual Report FY26). India's CDMO market is projected to nearly double from about US$23 billion in 2024 to US$45 billion by 2029 (Annual Report FY26). Outsourcing is accelerating as pharmaceutical companies seek flexible, compliant, cost-effective partners.

The macro backdrop in India is supportive. India's GDP is estimated to have grown 7.7% in FY26, with manufacturing expansion of about 11.5% (Annual Report FY26). Global medicine spending is projected to reach about US$2.6 trillion by 2030 (Annual Report FY26). The "China+1" shift in pharmaceutical sourcing is the structural driver for Indian API and CDMO companies.

The industry is cyclical in two ways. First, animal health demand follows disease outbreaks and vaccination seasons, which creates quarterly swings in Europe and India (Q1 FY26 concall, Aug 2025). Second, generic pricing in the US follows competitive entry, which is why the company keeps shifting its US portfolio toward complex products. Regulation is the binding constraint: product development to approval takes 12-18 months for animal health and longer for human health, and innovator customers file for global markets, which extends qualification timelines (Q2 FY26 concall, Nov 2025).

Growth triggers

Companion animal expansion: exclusive distribution partnership with Boehringer Ingelheim India covering ~2/3 of Indian companion animal market; R&D expansion targeting 7-8 new products per

year; manufacturing infrastructure build-out

The companion animal strategy combines three pieces: an exclusive distribution deal for India, an R&D engine for new generics, and India-based manufacturing. Companion animals were about 5% of total business in Q1 FY26, with a stated plan to double that in three years (Q1 FY26 concall, Aug 2025).

The distribution deal. In January 2026, Viyash signed an exclusive distribution agreement with Boehringer Ingelheim India, which management describes as the number three animal health innovator globally (Q3 FY26 concall, Feb 2026). Distribution began in February 2026. The BI portfolio covers parasiticides and vaccines, and the annual report says it addresses nearly two-thirds of the Indian companion animal market. The deal is the entry point for the whole platform:

> *"We are going to distribute entire BI segment, whichever are coming in future also, we are going to do that. With that platform, we are able to develop and actually get into the market."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The R&D engine. Management targets 7-8 new companion animal products per year, up from a few today, with R&D expansion underway and capex cleared (Q4 FY26 concall, May 2026). These products target patents expiring 2029-2035. The company already holds the largest companion animal API portfolio at 60% of the total (Q3 FY26 concall, Feb 2026), and 70% of the animal health pipeline is companion-animal focused (annual report FY26).

The manufacturing build-out. FY27 is platform building: R&D, manufacturing and front-end expansion, with the dedicated companion animal facility guided for commissioning in Q1 FY28 and sufficient for FY29 launches, and a Turkey partner site as the Europe supply backup. Animal health R&D spend has risen threefold to about INR 10 crore a quarter, roughly INR 40 crore annualised, and management is working on the next 29 launches on a day-one strategy (Q2 FY27 concall, Nov 2026).

The underlying math is genericization. Companion animal generic penetration is below 15%, versus ~70% for farm animals and ~91% for human health (annual report FY26). And animal health generics hold pricing better than human generics, settling at 60-70% of the innovator price rather than 10-15% (Q4 FY26 concall, May 2026).

CDMO scale-up: 15 projects for innovator lifecycle management, 28 specialty generics co-investment projects, 10+ manufacturing sites; INR 70-90 crores revenue in FY26

The CDMO business is Viyash's newest revenue engine, built on three distinct models rather than one. Management described them in the Q4 FY26 call: working with innovators on NCE molecules starting at Phase III and moving to commercial supply, lifecycle management of products approaching patent expiry, and co-development with specialty generic companies that lack their own manufacturing infrastructure.

The mechanism is a partnership model. Viyash develops the product and establishes proof of concept, then approaches large generic players who pay for development. Viyash completes the filing, manufactures the product, and shares profit roughly 50/50. Customers get locked in through the tech transfer and process optimization, which makes switching suppliers difficult. On the innovator side, the relationships are long-standing - management says 8 to 10 large innovators across human and animal health, with most relationships spanning 10-15 years (Q4 FY26 concall, May 2026).

The scale is already material. FY26 CDMO revenue came in at INR 70-90 crores (Q3 FY26 concall, Feb 2026). The annual report lists 15 projects for innovator lifecycle management and 28 specialty generics projects across co-investment and CDMO models. Of roughly 20 partnered products, 15 have a market value above $1 billion each (Q2 FY26 concall, Nov 2025). The physical assets are in place: 10 manufacturing sites, with 8 FDA-approved sites including 3 intermediates and 5 API plants (Q2 FY26 concall, Nov 2025).

> *"this year we will end up doing 70 crores to 90 crores on CDMO. It's either CDMO or CMO for big players."*
>
> **DR. HARIBABU BODEPUDI, Q3 FY26 CONCALL (FEB 2026)**

The revenue profile is back-ended. Validation supplies and service income sustain the business now, but full commercial launches from the partnered pipeline start in 2028-2030. Near-term growth comes from the innovator lifecycle management segment, where management expects 30-40% growth in FY27 on a base of roughly INR 200-225 crores (Q4 FY26 concall, May 2026). The capabilities supporting this - high-potent and cytotoxic facilities, batch sizes from 0.5 kg to 100 kg, and R&D strength - are what make Viyash one of the few Indian manufacturers able to take these projects on.

Animal health API crossing INR 400 crores run rate (first time after 5 years of stability at ~INR 350 crores); double-digit growth expected in FY27

For five years, the animal health API business sat flat at roughly INR 350 crores. In FY26, it broke that ceiling for the first time, reaching a run rate above INR 400 crores.

> *"Last 5 years, it was stable, neither growing nor actually degrowing. It was INR350 crores plus or minus INR10 crores business. The first year after 5 years, we are able to take it to INR400 crores run rate."*
>
> **DR. HARIBABU, Q4 FY26 CONCALL (MAY 2026)**

The growth mechanism has three parts. First, existing products are adding geography: products previously sold only in India are being qualified for larger markets like China and Europe. Second, the R&D engine is producing new molecules - management says product development now covers patents expiring through 2035, with 15-20 products identified and

5-6 large ones in the pipeline. Third, the API business feeds the formulation business: internal APIs protect and grow finished products where sourcing is difficult.

The timeline is immediate. Management expects the FY27 growth to be visible in the numbers, not years away.

> *"And we are very confident coming years; it's going to grow very strong. And already, we see the growth... this year onwards, we are expecting a reasonable number of approvals, which give good value for top line as well as bottom line."*
>
> **DR. HARIBABU, Q4 FY26 CONCALL (MAY 2026)**

The innovator business, which makes up 70-80% of animal health, is the other lever. Management guided to 30-40% growth in that segment in FY27, driven by improved R&D credibility and execution after six months of operational fixes. Manufacturing expansion in Spain and debottlenecking in Turkey support the capacity for this growth. This is the first year the business has moved off its five-year plateau, and management has stated the run rate is now a minimum base, not a peak.

Merger synergies: tracking INR 50-60 crores annualized, targeting INR 125-150 crores annualized including manufacturing, R&D, procurement, and network optimization

The trigger is the cost and capacity benefit of combining SeQuent's animal health business with Viyash's human health and API platform. The merger was approved by NCLT on November 18, 2025, effective December 16, 2025, with an appointed date of April 1, 2025 (Q2 FY26 concall, Nov 2025). Management targets INR 125-150 crores annualized EBITDA benefit within 12-18 months, with INR 50-60 crores already flowing.

The mechanism: SeQuent was capacity-constrained with two sites, while Viyash ran at 60-65% capacity utilization (Q2 FY26 concall, Nov 2025). The biggest lever is shifting SeQuent's volume products onto Viyash's spare capacity. Viyash built a new production line for SeQuent's large-volume products, commissioned in six months, and transferred six key intermediates from third-party suppliers to Viyash's internal FDA-approved sites (Q2 FY26 concall, Nov 2025). One albendazole line was segregated for human health, with Europe approval received in 30 days (Q3 FY26 concall, Feb 2026). R&D teams were merged under "One R&D," producing four new animal health products and cost improvements on three volume drivers within 12 months. The analytical site at Mangalore was divested, saving about $1 million annually (Q3 FY26 concall, Feb 2026).

Stage today: Management confirms the INR 50-60 crores annualized run rate is being realized, ahead of the original plan.

> *"synergies are tracking pretty well. It's tracking better than what we anticipated during the merger." Management did not update the synergy figure on the Q2 FY27 call, so the INR 125-150 crore annualised target and the 12-18 month window remain open rather than confirmed or withdrawn (Q2 FY27 concall, Nov 2026).*

> **MD, Q4 FY26 CONCALL (MAY 2026)**

The remaining INR 75-90 crores depends on regulatory approvals for transferred products, which management expects from Q2 FY27 onwards:

> *"we are hoping altogether at least maybe INR125 crores, INR150 crores at this point annualized."*

> **MD, Q4 FY26 CONCALL (MAY 2026)**

The annual report confirms the integration: "One R&D" platform, backward integration, and 14 regulatory approvals during FY26, with net debt to EBITDA at 0.2x giving the balance sheet room to fund the capacity additions that unlock the second half of the target.

New product pipeline: 40+ API products and 30 FDF products developed in last 3-4 years; 12-13 API approvals and 4 FDF approvals in last 12 months; 20+ products in active pipeline

The pipeline is the conversion engine: R&D rebuilt after the 2021 acquisitions produced filings through 2023-25, and those filings are now turning into approvals and launches. Management described the sequence on the Q4 FY26 call:

> *"we acquired these companies in '21 and started rebuilding R&D from '22 and filing many products from '23, '24, '25, which started coming approvals now."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The numbers are concrete. Over the last 3-4 years, Viyash developed 40-plus API products and around 30 finished-dose products for the U.S. market (Q2 FY26 concall, Nov 2025). In the last 12 months, it launched 6 FDFs and 8 APIs, and received 12-13 API approvals and 4 FDF approvals (Q2 FY26 concall, Nov 2025). FY26 closed with 21 regulatory approvals and 19 product launches (Annual Report FY26). The active pipeline holds 20-plus products, with 10-15 developments and filings expected in FY26 (Q1 FY26 concall, Aug 2025).

The mix is shifting toward higher-value chemistry. Mature volume products are being internalized for API and moved to India manufacturing, while new products target complex and high-potent areas, including a dedicated oncology potent lab in R&D (Q4 FY26 concall, May 2026). The animal health API pipeline runs to 2035 patent expiries, with 15-20

products identified, 5-6 of them very large molecules (Q4 FY26 concall, May 2026). 70% of the animal health pipeline targets companion animals (Annual Report FY26).

The mechanism: each approval opens new geographies or customer supply agreements, and the complex products carry better margins than the commodity portfolio they replace. Management expects "a reasonable number of approvals" from this year onwards, adding to both top line and bottom line (Q4 FY26 concall, May 2026).

Albendazole new production line commissioned, segregating human and animal health; Europe approval received in 30 days; strong WHO demand

Albendazole is one of Viyash's largest single products - 14.25% of total turnover in FY26 (Annual Report FY26). It is an anthelmintic used in both human and animal health, and until recently all of it was manufactured at one site. Management built a new production line at Viyash specifically to segregate human health albendazole from animal health, validated it, and filed for regulatory approval.

The segregation removes a capacity constraint and improves margins. Management said the product grows "both top line and also margin improvement since we are bringing it too internal" (Q2 FY26 concall, Nov 2025), referring to in-sourcing of a product previously dependent on external manufacturing.

The decisive evidence is the speed of European approval:

> *"Fortunately, one of the approval Europe which is very important for the product, we received approval in 30 days. That shows our strength of regulatory. Other approvals we are waiting but most of the market goes from Europe."*
>
> **DR. HARIBABU BODEPUDI, Q3 FY26 CONCALL (FEB 2026)**

Europe is the largest albendazole market, so this approval unlocks the commercial ramp. Management is now working with customers to commercialize quickly, and in markets already approved, shipments have started (Q3 FY26 concall, Feb 2026).

Demand is reinforced by WHO. The company is prequalified to supply formulators who supply WHO tenders, and "the demand for our high-quality WHO-grade albendazole has been very strong" (Annual Report FY26). A site shutdown in the market also created incremental opportunity (Q2 FY26 concall, Nov 2025).

Volume growth was already visible in FY26 - "we are seeing the huge volume growth of Albendazole" (Q3 FY26 concall, Feb 2026). The new line is validated, the Europe approval is in hand, and the FY27 step is converting that into commercial volume.

Geographic expansion: Mexico front-end established, Southeast Asia entry (Vietnam), Europe geo-expansion from Spain and Turkey EU-GMP approved sites, LatAm expansion from Brazil

The expansion engine is the regulatory status of two manufacturing sites. Both the Spain and Turkey plants hold EU GMP approval, which lets Viyash register and ship existing products across European markets without per-product factory re-inspection. Management described the approach in Q4 FY26:

> *"we are very strong in Spain. We are very strong in Turkey. Last 2 years, we started expanding geo expansion, trying to add all European countries because both sites are approved by EU GMP."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The same playbook runs across the other vectors. Turkey makes injectables for large animals and ships to Europe; Spain makes powder solutions and oral forms. Brazil's manufacturing site anchors LatAm expansion, and Mexico's front-end was established in FY26. Vietnam front-end activity started in FY26, with management calling it "one of the bigger market for large animals." Annual report FY26 confirms the revenue effect: Europe grew 19% to INR 6,682 Mn, Emerging Markets grew 23% to INR 6,305 Mn, India 22%, USA 9%.

The mechanism is portfolio extension, not new product development. Management stated the large-animal portfolio already covers 80-90% of the segment, so growth comes from widening market access for products that are already approved and manufactured. Evidence of this in motion: Tulaject (tulathromycin injection) launched in Brazil in FY26, with marketing authorisation received for Mexico, and Turkey began filing and shipping to Europe from its EU-GMP-approved site. The Turkey-Brazil-Mexico corridor is the same: GMP facilities in Turkey and Brazil support entry into Mexico, Southeast Asia and other focus markets, per the Q3 FY26 concall (Feb 2026).

Tax optimization: moving subsidiaries from old tax regime (34-35%) to new regime (25%), targeting 26-27% effective tax rate

The trigger is a structural cut in the tax rate applied to Viyash's Indian subsidiary profits. Management is moving subsidiaries from the old Indian corporate tax regime, where the effective rate runs 34-35% including surcharge and cess, to the new regime at 25% (Q4 FY26 concall, May 2026). Each subsidiary that switches keeps the same revenue and costs but retains more of its pre-tax profit, with no operational change required.

The scale of the opportunity comes from the merged entity's profit base. PBT grew more than 26x to INR 349 crores in FY26, while PAT rose to INR 225 crores (Q4 FY26 concall, May 2026). Management explicitly flagged the gap between EBITDA and PAT as a focus area, naming the tax structure as one of the levers alongside lower finance costs.

The transition is already underway. In Q3 FY26, management booked a one-time INR 7.7 crores MAT credit reversal as part of converting to the new regime (Q3 FY26 concall, Feb

2026). The Q4 FY26 tax charge still carried transition costs plus merger integration adjustments, which management says will not recur.

> *"So, this quarter was more because of we are moving from old regime to new regime, old regime, some of areas of 35%. There were some tax adjustments because of integration of merger. So, all these things are going away. That's also we are trying to optimize that. I think next year onwards, it's going to be 26%, 27% level."*
>
> **MD & GROUP CEO, Q4 FY26 CONCALL (MAY 2026)**

The target is a 26-27% effective tax rate from FY27 onwards. Because the rate reduction applies to profits already being earned, it converts directly into PAT without requiring additional revenue, margin expansion, or volume growth.

Key risks

- **Raw material and freight cost volatility.** Geopolitical tensions hit solvents and freight, and Q2 FY27 gross margin at 53.7% carried roughly 0.3-0.4% of solvent price impact after the first-quarter inventory buffer was used up; management managed part of it through customer price increases and process improvement. Management guides 54-55% gross margin for this year and next, but said a spike needs an exclusive launch (Q2 FY27 concall, Nov 2026).
- **Customer concentration in the API business.** Top 10 customers account for more than 60% of SeQuent API sales (Q1 FY26 concall, Aug 2025). These are long-standing innovator relationships of 10-15 years, which is a strength, but it also means one customer consolidating suppliers or shifting sourcing hits the API segment disproportionately. The animal health API business demonstrates the risk: it was stuck at ~INR 350 crores for 5 years before crossing INR 400 crores in FY26 (Q4 FY26 concall, May 2026). The recent growth is real, but the segment has a documented history of stagnation.
- **US generic pricing pressure.** The US human health formulation business went through a difficult post-COVID period as Indian players flooded commodity generics. Management's fix is three-pronged: shift to complex generics, backward-integrate APIs for mature products (~85% of key products), and move manufacturing to India for cost advantage (Q2 FY26 concall, Nov 2025). This is a structural response, but the US market remains intensely competitive, and the strategy depends on the complex generics pipeline delivering approvals on schedule.
- **US tariff and Biosecure Act uncertainty.** Total US exposure is ~17-18% of revenue, including indirect exposure through Indian formulators who export to the US (Q1 FY26 concall, Aug 2025). The Appco Pharma manufacturing site in New Jersey provides a

partial hedge against tariffs, and management sees net opportunity. But policy direction is unpredictable, and the indirect exposure through Indian customers is harder to control.

- **Regulatory approval timelines.** New products and manufacturing synergies require 12-18 months for regulatory approvals (Q2 FY26 concall, Nov 2025). The Albendazole Europe approval came in 30 days, but that is the exception. The growth thesis for FY27-FY28 depends on a wave of approvals flowing from the 40+ API and 30 FDF products developed in the last 3-4 years. If approvals slip, revenue growth shifts right.
- **Turkey hyperinflation and currency adjustment.** Turkey is a key emerging market, and Ind AS 29 hyperinflation adjustments are a recurring feature of reported numbers. Management says volume growth is strong and exports exceed imports for natural hedging, but the currency volatility remains an ongoing adjustment factor that complicates margin comparisons.
- **Minority interest drag.** Appco Pharma (60% owned) and the Spain operations (60% owned) mean roughly 20% of PAT goes to minority shareholders (Q4 FY26 concall, May 2026). Management is exploring buyback options, with the Spain option exercisable by 2028, but until then consolidated PAT understates operational earnings. The Appco minority stake is held by the founding family that runs the US business, so there is no easy path to consolidation.
- **Companion animal execution risk.** This is the flagship growth bet: the Boehringer Ingelheim exclusive distribution in India, the Bio4Life platform closed 1 October 2026, R&D expanding to feed about 29 launch programmes, and a dedicated companion animal facility guided for commissioning in Q1 FY28. Companion animal revenue is guided at about US$30 million in FY27 including BFL, roughly 60% growth, but the material step-up depends on calendar 2029 patent expiries, 15-18 month registration cycles and 6-8 months of marketing build. If registration or facility timing extends, the growth shifts later (Q2 FY27 concall, Nov 2026).
- **CDMO lumpiness and long lead times.** CDMO revenue was INR 70-90 crores in FY26 (Q3 FY26 concall, Feb 2026). The 15 innovator lifecycle management projects have a combined market value of more than $1 billion (Q2 FY26 concall, Nov 2025), but commercial launches are mostly 2028-2030. Validation and service income provides near-term revenue, but the big ramp is years away. Management itself says CDMO growth will come "after 2-3 years."
- **Integration execution across 19 subsidiaries.** The merged entity spans 19 subsidiaries across Turkey, Brazil, Spain, Belgium, Netherlands, Sweden, Germany, Italy, USA, Ireland, UK, Mexico, and India, with 16 manufacturing facilities. Management says synergies are

tracking better than anticipated, targeting INR 125-150 crores annualized versus INR 50-60 crores now (Q4 FY26 concall, May 2026). But the integration of R&D, manufacturing, and corporate functions across this footprint carries execution risk, and the one-time merger costs (INR 41 crores in Q3 FY26 including stamp duty and advisors) show the process is not free.

- **Tax optimization dependency.** Management is moving subsidiaries from the old tax regime (34-35%) to the new regime (25%), targeting a 26-27% effective tax rate (Q4 FY26 concall, May 2026). This is a meaningful PAT tailwind. If the transition stalls or the tax authorities push back, the PAT growth rate will be lower than the operational numbers suggest.
- **ESOP costs.** The H1 FY27 ESOP charge was INR 67 crore against INR 26 crore in H1 FY26. Management guides FY27 near INR 148-149 crore, FY28 near INR 32 crore, and a normalised run rate of about INR 25 crore a year from Q1 FY28, which is the basis of its adjusted PAT presentation (Q2 FY27 concall, Nov 2026).

Scenarios

Bull case

The companion animal bet pays off faster than the market expects. The Boehringer Ingelheim distribution partnership, which covers nearly two-thirds of the Indian companion animal market, is supplemented by Bio4Life, consolidated from Q3 FY27, with geo-extension of a first list of 10 products under way; companion animal revenue is guided at about US$30 million in FY27, roughly 60% growth. Three to four products with about US$3 billion of brand value lose patents in calendar 2029, into a targeted market of about US$1.5 billion excluding the US, and management frames 10-15% share even after price erosion (Q2 FY27 concall, Nov 2026).

CDMO innovator business grows 30-40% in FY27 as management guided (Q4 FY26 concall, May 2026). The 15 lifecycle management projects with more than $1 billion in combined market value start converting to commercial supply, and the specialty co-development model (16-17 products with profit-share arrangements) builds momentum. The INR 70-90 crores CDMO base becomes INR 150+ crores within 2 years.

Synergies remain at the INR 50-60 crore annualised level with the INR 125-150 crore target unchanged on the Q2 FY27 call. The Albendazole line and a more than doubled Albendazole capacity support animal health API, which is tracking 20%-plus growth off the INR 400 crore base, and human API is guided to 12-13%. Net debt is down to INR 26 crore and finance cost to INR 26 crore in H1 FY27, ROCE excluding goodwill is stated at 20%, and capex guidance has been trimmed to about INR 140-150 crore for FY27 and about INR 150-170

crore a year thereafter, which funds selective inorganic deals in companion animals and specialty products (Q2 FY27 concall, Nov 2026).

Base case

Revenue grows in the low-to-mid teens, consistent with FY26's 13.8%. Synergies track the INR 50-60 crores annualized, with the INR 125-150 crores target achieved partially by FY28. Companion animal builds its platform in FY27 (R&D, manufacturing, field force) with launches starting FY28-29 as planned. CDMO stays at roughly INR 70-90 crores in FY27 with modest growth, with the major ramp arriving 2028-2030 as the lifecycle management projects commercialize.

Animal health API grows double-digit from the INR 400 crores base, supported by the Albendazole production line and new product filings. The human health formulation business holds its position through backward integration and complex generics, with the US business growing at a single-digit rate. EBITDA margins hold at 20%, with quarterly fluctuation from product mix and raw material costs. The goodwill amortization reduction from INR 100 crores to INR 35 crores annually (Q4 FY26 concall, May 2026) provides a mechanical PAT tailwind. Management's stated 15% revenue growth target is achieved in some years, missed in others, depending on approval timing and market conditions.

Bear case

Geopolitical tensions persist beyond the 1-2 quarter inventory buffer, pushing solvent and freight costs up faster than price increases can offset. The Q4 FY26 freight impact of INR 1-2 crores scales into a margin-compressing force, and the 20% EBITDA margin erodes toward the high teens. The US generic market pricing pressure intensifies, squeezing the human health formulation business despite the shift to complex generics, and the US tariff situation creates uncertainty for the indirect exposure through Indian formulators.

Companion animal launches slip: registration cycles of 15-18 months plus 6-8 months of marketing build push the FY29 step-up later, the Q1 FY28 facility commissioning or its audits move, and the US$30 million FY27 companion animal revenue base does not compound into the calendar 2029 patent-expiry opportunity. CDMO commercial launches slip beyond schedule, keeping the small base flat. The animal health API run rate reverts toward its historical pattern if the new capacity does not convert, and the FY27 20%-plus growth assertion, which depends partly on acquisitions management has not yet announced, is missed (Q2 FY27 concall, Nov 2026).

Customer concentration in API (top 10 customers >60%) becomes a problem if an innovator consolidates suppliers. Tax optimization stalls, keeping the effective rate near 30%+. The integration across 19 subsidiaries produces friction - regulatory delays, quality issues, or

key-person departures - that slows the synergy capture. The result is revenue growth in single digits, EBITDA margins below 20%, and the growth story pushed out by 2-3 years.

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Q2 FY27 concall notes

TLDR

Viyash Scientific reported Q2 FY27 revenue of ₹988 crore, up 16.2% YoY and 4.4% QoQ, with pre-ESOP EBITDA of ₹208 crore (21.1% margin) and PAT of ₹85 crore, up 16.1% YoY. H1 FY27 revenue reached ₹1,934 crore (+17.8%), pre-ESOP EBITDA ₹412 crore (+30%, 21.3% margin), and PAT ₹164 crore (+50%). Net debt fell to ₹26 crore from ₹166 crore at March 2026, near zero. The Bio4Life Italy acquisition closed 1 October 2026, consolidating from Q3 FY27, with geo-extension of 10 products underway across Europe, Brazil, LATAM, Turkey and India. Management guides FY27 revenue growth of 20%+ (raised from mid-teens), 54-55% gross margin, and EBITDA growth above 50%. Capex is guided at ₹140-150 crore for FY27 and ₹150-170 crore annually for the next 2-3 years. Key watch points: US formulation base business stabilised at ₹100-115 crore quarterly run rate, API recovery weighted to H2, and ESOP cost normalising to ₹25 crore from FY28.

WHAT CHANGED SINCE Q1 FY27

- **FY27 revenue growth guidance raised**: from 13-15% in Q1 to 20%+ in Q2. Management stated "this year we'll grow 20% plus" and "even though in initial I guided mid-teens... I am confident we'll grow 20% plus."
- **Capex guidance cut and re-based**: Q1 indicated ₹250-300 crore annual run-rate; Q2 guides ₹140-150 crore for FY27 and ₹150-170 crore for the next 2-3 years, with management stating "earlier I think I indicated little more, but we optimize now."
- **Bio4Life acquisition closed**: Q1 expected closing in 2-3 months; Q2 confirms completion effective 1 October 2026, with consolidation from Q3 FY27. Geo-extension of first 10 products (gastro, dermatology, orthology) started across Europe, Brazil, LATAM, Turkey and India.
- **US formulation base business stabilised**: Q1 reported 60% YoY growth with 34-35% EBITDA margins; Q2 shows YoY decline due to the Q2 FY26 exclusive launch (US$5 million, 90%+ gross margin) not repeating. Base business now at ₹100-115 crore quarterly run rate, with FY27 growth guided at double digit (later clarified to ~15%).
- **API recovery delivered**: Q1 expected Q2 FY27 to be best-ever quarter for API; Q2 shows 20% YoY growth in the quarter, with H2 guided stronger than H1.
- **Depreciation trajectory confirmed**: Q1 guided ~₹10-11 crore/quarter from Q2; Q2 actual is ₹8.9 crore, dropping to ₹4 crore next quarter, closing goodwill amortisation.
- **ESOP cost revised**: Q1 guided ₹150 crore FY27 and ₹25-30 crore FY28; Q2 refines to ₹148-149 crore FY27, ₹32 crore FY28, and ₹25 crore steady state thereafter.
- **New oncology R&D facility commissioned**: Q1 noted high potent formulation development lab completed; Q2 confirms new oncology finished dose R&D facility commissioned in Hyderabad, capable of OEB 4 and 5, with pilot bio batches now in-house.
- **Companion animal facility timeline maintained**: Q1 targeted January-February operational readiness; Q2 confirms commissioning by Q1 FY28, tracking as expected.
- **Vietnam entity registered**: New disclosure in Q2. Registration completed, product registration started, commercial sales expected early next year, with US$3-5 million anticipated over the next couple of years.
- **Minority buyout timing pushed**: Q1 targeted 100% ownership in US and Spain within 1-2 years; Q2 states priority is growth capex and acquisitions first, with minority buyout to follow after the peak acquisition year (next year).

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹988 crore	+16.2% YoY, +4.4% QoQ	Fifth consecutive quarter of double-digit growth; strong performance across segments
Gross margin	53.7%	Down from 55.5% YoY, down from 54.1% QoQ	Q2 FY26 had US$5 million exclusive launch at 90%+ gross margin; raw material solvent price spike (~0.3-0.4% impact); product mix
Pre-ESOP EBITDA	₹208 crore	+10.3% YoY	Revenue growth offset by higher R&D spend and raw material costs
EBITDA margin	21.1%	Down from 22.1% YoY	Q2 FY26 exclusive launch benefit not repeating; R&D investment step-up
Profit after tax	₹85 crore	+16.1% YoY	Operating performance; ESOP expense of ₹42 crore in quarter
Adjusted PAT (normalised ESOP)	₹110 crore	n/a	Normalised at ₹25 crore annual ESOP run rate, 25-26% tax
H1 FY27 revenue	₹1,934 crore	+17.8% YoY	Broad-based growth across API and formulations
H1 FY27 pre-ESOP EBITDA	₹412 crore	+30% YoY, margin 21.3%	Margin expansion from 19.3% in H1 FY26
H1 FY27 PAT	₹164 crore	+50% YoY	Operating leverage; finance cost reduction
Net debt	₹26 crore	Down from ₹166 crore at March 2026	Strong operating cash flow; near zero net debt to LTM EBITDA
Finance cost (H1)	₹26 crore	Down from ₹38 crore in H1 FY26	Debt reduction
ROCE ex goodwill	20%	n/a	Balance sheet optimisation
Cash flow from operations (H1)	₹182 crore	n/a	Working capital discipline

SEGMENTS & GEOGRAPHIES

- **Europe formulations**: Strong volume growth across countries. Management guides double-digit growth even on constant currency, with Q3 and Q4 having seasonal advantage. Q2 India performance was softer than expected due to lack of rains.
- **Emerging markets**: H1 growth of 39-40% YoY. Brazil driven by existing business volume; Turkey driven by new product launches and volume growth. Mexico stable this year. Turkey capacity being optimised and expanded, with new launches coming next year.
- **India formulations**: Strong growth across own and distributed products, including Bio4Life companion animal distribution. Q2 was softer than anticipated due to weak monsoon.
- **US human formulations**: Q2 declined YoY due to non-repeat of Q2 FY26 exclusive launch (US$5 million, 90%+ gross margin). Base business stable at ₹100-115 crore quarterly run rate. FY27 growth guided at ~15% (from ₹426 crore base). No major launches expected in FY27; one significant exclusive launch expected next year with first-filer status, product size ~US$90 million.
- **API and CDMO**: Q2 API grew 20% YoY. H1 growth was 8% YoY due to Q1 customer deferrals from geopolitical uncertainty. H2 guided significantly stronger than H1, with FY27 growth of 12-13% at least. Animal health API

tracking 20%+ growth; human health API impacted by delayed iron complex product, now expected H2. Albendazole capacity more than doubled.

- **Companion animal**: H1 revenue ~US$20 million; FY27 including Bio4Life guided at ~US$30 million, growth of ~60%. Major growth expected FY29 onwards from patent expiry launches.

STRATEGY & COMPANY-SPECIFIC

- **Bio4Life Italy acquisition**: Completed 1 October 2026, 100% share capital, step-down wholly owned subsidiary. Consolidation from Q3 FY27. Geo-extension of first 10 products (gastro, dermatology, orthology) started across Europe, Brazil, LATAM, Turkey and India. Registration takes 15-18 months plus 6-8 months for marketing build. Benefits expected in 2-3 years.
- **Companion animal facility (Ambarnath)**: Construction progressing, commissioning by Q1 FY28. Capex ~₹60 crore spent, ₹60-80 crore more this year. Facility critical for fully integrated companion animal strategy. Parallel Turkey partner site as backup, operational December-January.
- **Oncology finished dose R&D facility (Hyderabad)**: Commissioned, capable of OEB 4 and 5. Handles pilot bio batches in-house, eliminating third-party dependency. Strategic tie-ups with partners for high-potent molecule manufacturing (solids and injectables). Revenue expected FY29 (API) and FY30 (formulation).
- **Animal health R&D**: Team size doubled, spend tripled from ₹12-15 crore annually to ~₹40 crore annualised. Validation capacity increased from 1-2 products annually to 5-8 products annually.
- **New product pipeline**: Multiple companion animal products identified with patent expiries up to 2035, targeting Europe, Brazil, Turkey, Mexico, India and Southeast Asia initially, extending to Australia and Canada after 24 months. Three to four major products with combined brand value of ~US$3 billion today, expected US$3.5-4 billion by FY30, with targeted market of ~US$1.5 billion excluding US.
- **Vietnam expansion**: Entity registration completed, product registration started, commercial sales expected early next year. US$3-5 million anticipated over next couple of years.
- **Turkey and Brazil partnerships**: Local manufacturing partnerships being explored to accelerate launches by 9-12 months. Technology transfer from India R&D underway.
- **Solar energy**: 2.3-2.5 MW solar commissioning this month; additional 4-5 MW planned this year. Two years ago added 2 MW.
- **Debt repayment**: ₹120 crore India loan under review for repayment. Priority is growth capex and acquisitions first; repayment and minority buyout to follow after peak acquisition year (next year).
- **Acquisition strategy**: Priority is market access and product gap-filling, especially companion animals. Not manufacturing-related. In-licensing and specialty CDMO/product acquisitions being explored. Sizable acquisition expected next year.
- **US market entry (companion animal)**: Planned after 2-3 years when genericisation improves from current 15-20% to higher levels.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	20%+	Raised	Strong H1 performance; H2 momentum across segments
FY27 EBITDA growth	More than 50%	New	Operating leverage; H1 pre-ESOP EBITDA already +30%
Gross margin	54-55%	Maintained	Stable product mix; raw material normalisation

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 capex	₹140-150 crore	Cut	Optimised from ₹250-300 crore; includes growth and operational capex
FY28-29 capex	₹150-170 crore annually	New	Companion animal strategy; may reduce with partnerships
API FY27 growth	12-13% at least	Maintained	H2 stronger than H1; customer orders returning
Animal health API growth	20%+	Maintained	Capacity expansion; albendazole doubled
US formulations FY27 growth	~15%	New	Base business stable; no major launches this year
Europe FY27 growth	Double digit even constant currency	Maintained	Volume growth; Q3-Q4 seasonal advantage
ESOP cost FY27	₹148-149 crore	Refined	₹40 crore per quarter for next 2 quarters
ESOP cost FY28	₹32 crore	Refined	Q1 ~₹20 crore; normalising
ESOP cost steady state	₹25 crore	New	From FY28 onwards
Depreciation Q3 FY27	₹4 crore	New	Goodwill amortisation closing
Bio4Life revenue contribution	2-3 years for benefits	Maintained	15-18 months registration plus 6-8 months marketing
Companion animal FY27 revenue	~US$30 million	New	Including Bio4Life; ~60% growth
Vietnam revenue	US$3-5 million over 2 years	New	Commercial sales from early next year
Oncology revenue	FY29 (API), FY30 (formulation)	Maintained	Patent expiries; development timelines
$1 billion revenue	FY32 target	Maintained	17-18% CAGR factored; organic plus inorganic
Minority buyout	After peak acquisition year	Delayed	Priority to growth capex and acquisitions first

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Raw material price volatility	Solvent price spikes from war impacted Q2 gross margin by 0.3-0.4%; some price increases passed through, some not
US formulation base business	Q2 declined YoY; base business stable at ₹100-115 crore quarterly but no major launches this year; one significant launch expected next year with litigation risk (small, management confident)
API customer deferrals	Q1 saw customer inventory reduction due to geopolitical uncertainty; Q2 improved but not fully; H2 visibility strong but dependent on customer procurement resumption
Bio4Life integration	Registration timelines 15-18 months plus 6-8 months marketing; benefits 2-3 years out; cross-selling execution risk
Companion animal facility timeline	Commissioning Q1 FY28; if audit delayed, Turkey backup site operational December-January
Oncology development timelines	Revenue FY29-30; dependent on patent expiries and regulatory approvals; 5-7 year development lead time

RISK	WHAT MANAGEMENT SAID
Acquisition execution	Management acknowledges past Alvira experience; priority is market access, not manufacturing; sizable acquisition expected next year but timing uncertain
ESOP dilution	FY27 cost ₹148-149 crore; normalises to ₹25 crore from FY28
Carlyle stake overhang	Management stated no exit expected in next 12 months; cannot confirm Carlyle intentions
Forex exposure	Europe growth guided double digit even constant currency; INR depreciation supports reported growth but creates quarterly noise
Minority interest	~16-17% of profits; buyout delayed until after peak acquisition year

Q&A HIGHLIGHTS

US business degrowth and outlook Question: Why did US business decline YoY and QoQ, and what is the base business growth outlook? Answer: Q2 FY26 had an exclusive launch generating US$5 million at 90%+ gross margin, which did not repeat. Base business is stable at ₹100-115 crore quarterly run rate. FY27 growth guided at ~15% from ₹426 crore base. No major launches this year; one significant exclusive launch expected next year with first-filer status, product size ~US$90 million.

Capex guidance Question: What is the capex guidance for the next 3 years? Answer: FY27 capex ₹140-150 crore, down from earlier indication of ₹250-300 crore. Next 2-3 years ₹150-170 crore annually, including growth and operational capex. Management optimising through partnerships, particularly Turkey manufacturing.

API trajectory Question: What is the API trajectory for H2 FY27 and FY28-29? Answer: H2 will be much better than H1. FY27 growth of 12-13% at least. Animal health API tracking 20%+; human health API impacted by delayed iron complex product, now expected H2. FY28-29 double-digit growth expected with good product launches.

Gross margin volatility Question: Why is gross margin volatile at 53.7% vs 55.5% YoY and 54% QoQ? Answer: Three reasons: Q2 FY26 exclusive launch at 90%+ gross margin not repeating; raw material solvent price spike from war impacting by 0.3-0.4%; product mix variation. Management confident of 54-55% gross margin for FY27 and FY28.

Companion animal facility importance Question: How critical is the Ambarnath companion animal facility for market share, and are launches dependent on it? Answer: Facility critical for fully integrated strategy and long-term sustainability. Commissioning Q1 FY28, sufficient time for FY29 launches. Parallel Turkey partner site as backup, operational December-January. Filings not restricted by construction timeline.

Oncology R&D strategy Question: What is the thought process behind the oncology R&D center investment? Answer: Most products are Para 4, targeting day 1 or day 181 launches. 60-70% of portfolio covered. High-value products focused on US markets, with European partnerships being explored. Timing critical for day 1; efficiency critical for day 181.

Acquisition strategy Question: What is the priority for acquisitions: market access or product gap-filling? Answer: Market access is first preference, with some product gap-filling especially companion animals. Not manufacturing-related. In-licensing and specialty CDMO/product acquisitions being explored. Sizable acquisition expected next year.

Carlyle stake Question: Carlyle invested in 2020-21 with 7-8 year life; any exit timeline? Answer: Management cannot confirm Carlyle intentions but does not see anything in next 12 months. Last exit was to credible mutual funds (Kotak, Mahindra, Edelweiss). Management open to talking with interested investors.

20-25% growth sustainability Question: Can top line grow 20-25% for next 3-4 years? Answer: FY27 growth of 20%+ confident. $1 billion FY32 target factors 17-18% CAGR. Organic initiatives have 3-5 year gestation. Next 2 years targeting 20%+ with organic plus inorganic mix; sizable acquisition expected next year.

Gland Pharma Limited

GROWTH TRIGGERS

The CDMO share of group revenue has moved from a minority to about half in a year, US revenue is growing above 40% on launches and contract transfers, and management has just committed another INR1,000 crore of capacity against contracts already signed, with Cenexi expected to turn profitable again from Q3 FY27.

1. CDMO is now nearly half of group revenue and growing faster than the base business

Q2 FY27 CDMO revenue grew 31% year on year to INR8,227 million, about 45% of total revenue, and H1 CDMO revenue of INR17,142 million was about 47% of consolidated revenue. Management said the segment will keep growing faster than the regular business, and CDMO margins run about 5 to 10 percentage points better than Gland's own products, so mix shift is a structural margin lever rather than a one-quarter effect.

2. US revenue grew 42% in Q2 FY27 on launches and CDMO work without lumpiness

US revenue rose 42% year on year to INR11,795 million in Q2 FY27 and 37% to INR21,605 million in H1 FY27, with four products launched in the quarter. Management said the growth came from new product launches and newer CDMO business and that this should continue with no lumpiness, which is a durability claim rather than a single-SKU timing effect.

3. About INR3,000 crore of committed capex adds 300 to 400 million units against signed contracts

Excluding the undecided greenfield, management puts committed capex at about INR3,000 crore, which it expects to add another 300 to 400 million units of capacity. Management said contracts are in place for this capacity or the forecasts behind them are, with several signed CDMO contracts needing the capacity in about two years because technology transfer and approvals take that long, and some of those contracts carry take-or-pay terms.

4. Pashamylaram brownfield block of three isolator vial lines targets FY30 commercialisation

The newly approved Pashamylaram brownfield block will house three isolator-based vial manufacturing lines at a total outlay of about INR10,000 million, with commercial operations anticipated from FY30 onwards. Management said the additional block is needed because liquid vials are already at 92% utilisation and there is not enough capacity for incremental demand and the contracts it is signing, which commercialise in about two years.

5. Cenexi is expected to restore profitability from Q3 and the FY27 estimate is reaffirmed

Cenexi's Q2 FY27 EBITDA loss of about EUR6 million was attributed to planned annual shutdowns across the facilities, not to demand. Management said improving capacity utilisation, cost optimisation and operating leverage should restore profitability from Q3 onwards, and the CFO said the quarter's lower number was already planned in the estimate

and the earlier FY27 estimate of about EUR200 million revenue at a high single-digit margin is on track.

6. Second China in-licensed long-acting injectable targets a USD2 billion market

Gland signed a term sheet to in-license a second long-acting injectable from China, a product still under patent with a USD2 billion market and an approximately three-year timeline under which Gland runs the clinicals and acts as commercial partner. Management described the programme as part of a deliberate move into innovative and specialty products in India rather than competing in generics.

7. New approvals and CDMO contracts widen the complex-product base

Methylprednisolone suspension, a generic of Pfizer's Medrol, has been approved and is described as a large product; Gland also secured manufacturing contracts for microspheres and respiratory products. Three microsphere projects are signed on a royalty basis with one exhibit batch taken and two more in line, and management noted a further pipeline of CDMO projects including GLP-1 launches in FY28.

8. Net cash of about INR32,216 million funds the expansion without leverage

Cash and cash equivalents were INR34,412 million at 30 September 2026 and net cash was about INR32,216 million, with H1 FY27 operating cash flow of INR6,027 million and working capital days improved to 158. That funding base covers the about INR3,000 crore of committed capex comfortably, leaving room for the US biologics acquisition management has been discussing.

INVESTMENT THESIS

Gland Pharma is a sterile-injectables manufacturer that has been converting itself from an IP-led generics business into a mixed generics-plus-CDMO platform. The base business develops injectable products, holds the dossiers and out-licenses them to marketing partners, mainly in the United States; the CDMO business manufactures other companies' products, including long-acting injectables and GLP-1 fill-and-finish; and Cenexi, acquired in 2022, gives the group a European CDMO platform with capabilities such as controlled substances and hormones that cannot easily be built in India. In Q2 FY27 the company reported revenue of INR18,336 million, up 23% year on year, EBITDA of INR4,804 million, up 53%, adjusted EBITDA of INR5,030 million at a 27% margin and PAT of INR2,908 million, up 58%.

The economics of the base business are those of a regulated manufacturer rather than a commodity formulator. Filing and defending injectable dossiers, running sterile lines that pass US FDA inspection, and qualifying a product with hospital buying groups and partners takes years, and the company has run these plants since 1978. That barrier is what allows a base business margin well above what commodity manufacturing would earn, and it is why Gland can keep winning hospital supply contracts on cost while price is broadly flat. The most important change in the mix is the CDMO share: CDMO revenue was INR8,227 million in Q2 FY27, up 31% year on year and about 45% of total revenue, against INR17,142 million for H1, about 47% of consolidated revenue. Management said CDMO margins run about 5 to 10 percentage points better than Gland's own product business, so the shift is not just revenue growth but a structural margin lever, and it also lengthens customer relationships because transferring a commercial product to a new site carries filing and validation work for the partner.

The earnings path from here rests on three visible mechanisms. First, capacity. Liquid vials are running at 92% utilisation and management said it is short of capacity in ophthalmics, bags and liquid vials, to the point that it has deferred scheduled shutdowns. The response is a INR2,000 crore expansion programme covering an ophthalmic blow-fill-seal line and enhanced oncology and isolator-based sterile capacity, plus a newly approved brownfield block at Pashamylaram with three isolator-based vial lines at about INR10,000 million and commercial operations anticipated from FY30. Management puts committed capex excluding the undecided Vizag greenfield at about INR3,000 crore, which it expects to add 300 to 400 million units of capacity. The greenfield at Vizag has land acquired but no decided amount, and approval will be sought from the board in the coming quarter. Second, the US franchise. US revenue rose 42% in Q2 FY27 to INR11,795 million and 37% in H1 to INR21,605 million, with four launches in the quarter and methylprednisolone suspension since approved. Management said this growth came from new product launches and newer CDMO business

and that it should continue without lumpiness. Third, Cenexi. Q2 FY27 revenue was EUR41 million against EUR40 million, with an EBITDA loss of about EUR6 million caused by planned annual shutdowns; management expects profitability to be restored from Q3 onwards and said the earlier FY27 estimate of about EUR200 million revenue at a high single-digit margin is on track. Cenexi is the main reason consolidated margin sits well below the base business margin, so its normalisation is the largest single swing factor in group profitability.

Guidance, as distinct from inference, is narrower than the narrative. The CFO said full-year FY27 growth guidance remains 15% in constant currency, with US growth from new launches and CDMO work expected to continue and Rest of World expected to improve, and management gives no GLP-1 revenue guidance because volumes depend on partner approvals. The five-year 15% organic CAGR ambition predates this call. Everything about the size and timing of the second China in-licensing deal, the microsphere and respiratory manufacturing contracts, and the eventual greenfield spending is aspiration or signed-but-undated work, not guided revenue.

Capital allocation is the part of the story that is easiest to score. Net cash of about INR32,216 million and H1 FY27 operating cash flow of INR6,027 million fund the committed capex without leverage, and working capital days improved to 158. Management said some of the recently signed CDMO contracts carry take-or-pay terms, while others do not, and that the about INR3,000 crore of committed capex is backed by contracts or by the forecasts of products transferring from sites that are already commercialised. Against that, management has said it wants to acquire a US biologics asset and has onboarded a China-based Chief Investment Officer for global acquisitions and in-licensing, while saying it will avoid loss-making or very low EBITDA targets after the Cenexi experience. Whether the greenfield amount, once decided, is similarly anchored to contracted demand is the key capital allocation question of the next few quarters.

Management delivery on the items that were falsifiable is mixed but generally supportive. The Cenexi breakeven date was reset once with a stated cause and then beaten by two quarters. The GLP-1 cartridge line slipped about two quarters from its original framing and was delivered, with each stage disclosed. The 15% FY27 constant-currency guidance is stated rather than demonstrated, and the earlier mid-teens FY26 target was met on reported rupees with a currency tailwind. Two corporate actions are still announced rather than delivered: the second China in-license, which has a term sheet and an approximately three-year timeline, and the US biologics acquisition, which has a mandate and a new executive but no announced target.

The falsifiers are specific. A second-half shortfall against the 15% constant-currency guidance would show that the reported H1 growth was carried by launch timing rather than a durable CDMO ramp. Another quarter of Cenexi losses beyond the planned shutdown, or a

revised FY27 Cenexi estimate, would undermine the group margin path and the tax rate, which was already about 33% in Q2 because Cenexi losses are not eligible for current or deferred tax benefits. Failure of the Pashamylaram and INR2,000 crore capacity to be filled by the CDMO contracts it was built for would convert the capacity constraint into idle capacity once it lands. And an adverse US FDA outcome at Dindigul, where four procedural observations were recorded, or a refusal on the bag line still awaiting inspection, would put specific product supply at risk. The unresolved question that matters most for the compounder case is not whether CDMO grows, but whether it grows with the contracted visibility management asserts; the take-or-pay detail is the closest thing to proof disclosed so far, and it covers only some of the contracts.

RESEARCH REPORT

What Gland Pharma Limited does

Gland Pharma is a Hyderabad-based sterile injectables manufacturer that works almost entirely B2B. It does not build consumer brands. It either files its own ANDAs and licenses them to marketing partners who sell to hospitals, or it manufactures on behalf of pharma companies as a CDMO. Founded in 1978, the company runs 11 manufacturing facilities, including four from its French/Belgian subsidiary Cenexi, with roughly 1,700 million units of annual sterile injectable capacity and 4,300-plus base-business employees (FY26 annual report).

The company reports two ways: the base business (Gland India, ex-Cenexi) and the consolidated group. In FY26 the consolidated revenue was INR64,307 million, up 14.5%, with EBITDA of INR16,295 million and PAT of INR10,273 million. The base business grew revenue 11% to INR45,613 million with EBITDA up 15% to INR16,632 million (Q4 FY26 concall, May 2026). Cenexi adds European CDMO revenue of EUR182 million for the year, up 11%.

Q2 FY27 update (November 2026)

Q2 FY27 consolidated revenue was INR18,336 million, up 23% year on year, EBITDA rose 53% to INR4,804 million and PAT rose 58% to INR2,908 million. Adjusted EBITDA was INR5,030 million, a 27% margin, and the reported EBITDA margin of 26% compares with about 21% a year earlier. H1 FY27 revenue was INR36,339 million, up 21.4%, with adjusted EBITDA of INR10,132 million at a 28% margin and PAT of INR6,077 million, up 52%. Gross margin was 63% in the quarter and 64% for the half; the sequential decline reflected Cenexi's lower revenue during its planned annual shutdown. R&D spending rose to INR1,077 million, 6% of revenue, against INR772 million in the previous quarter, with 11 ANDAs filed, 10 approvals received and four US launches. Cash and equivalents were INR34,412 million at 30 September 2026, net cash about INR32,216 million, H1 operating cash flow INR6,027 million, and working capital days improved to 158. The CFO said full-year FY27 growth guidance remains 15% on a constant currency basis, excluding GLP-1.

Geography drives the revenue mix. The United States is 53% of group revenue (INR34,214 million in FY26), Europe 22% (INR14,035 million), Rest of World 17% (INR11,117 million), Canada/Australia/New Zealand 4% (INR2,269 million), and India 4% (INR2,672 million) (FY26 annual report). The US share is down from the old days when it exceeded 70% of sales, which management treats as deliberate de-risking rather than a loss. The European share was under 10% before the Cenexi acquisition in 2022.

Business model

Gland's primary model is IP-led B2B. The company develops ANDAs, owns or co-owns the dossiers, and out-licenses to marketing partners who distribute into hospitals. Revenue arrives as license fees, product development milestones, transfer prices on goods sold, and profit-share or royalty arrangements. In a typical quarter, management discloses profit share and milestone revenue separately - in Q4 FY26, profit share was 9% of revenue and milestones 6% (Q4 FY26 concall). These line items swing quarter to quarter because milestones land when a partner reaches a regulatory filing or approval, not smoothly through the year.

The second model is CDMO. Partners transfer their processes to Gland's lines, Gland fills and finishes, and the customer owns the commercial product. Revenue is a fixed fee per unit plus royalties. Management noted that several new CDMO contracts for already-commercialized products carry "worst-case take-or-pay agreements," meaning Gland gets paid even if the partner does not order (Q3 FY26 concall, Feb 2026). The third, much smaller model is direct B2C sales in India to corporate hospitals, nursing homes and government facilities - INR2,672 million, about 4% of group revenue.

Product portfolio

The core portfolio is hospital-critical injectables. Blood-related products Enoxaparin Sodium and Heparin Sodium are two of the largest and historically gave the US business its scale, with Enoxaparin alone swinging INR70-140 crores per quarter depending on order timing. Around them sits a wide range: Daptomycin, Caspofungin, Micafungin, Rocuronium, Argatroban, Acetazolamide, Doxycycline, Vancomycin (multiple strengths), Colistimethate, Epinephrine and Acetaminophen bags (Q1 and Q2 FY26 concalls).

Newer, higher-margin products are the growth story. Dalbavancin, a complex lipoglycopeptide antibiotic, was approved in February 2026, launched in the US and Europe, and management called it a high-margin product that annualizes through FY27. The multivitamin portfolio was approved in April 2026. Both are expected to be meaningful FY27 contributors (Q4 FY26 concall). The Ready-to-Use (RTU) infusion bag franchise - Daptomycin-RTU, Acetaminophen bags, and others - has 21 filings in the US with 18 approved and 11 more under development, addressing a US market opportunity of roughly US$634 million (FY26 annual report).

The GLP-1 business is a CDMO fill-and-finish operation, not an own-brand launch. Gland fills Liraglutide, Semaglutide and Tirzepatide for partners who develop and own the products. Cartridge capacity is being scaled from 40 million to 140 million units per year, and the company already makes insulin for Eli Lilly (Q2 FY26 concall, Nov 2025). Management does not include GLP-1 revenue in its guidance; anything that lands is upside.

Manufacturing footprint

Gland's Indian facilities span four formulation plants and three API plants. The Dundigal flagship (approved by USFDA in 2003) handles 6 vial lines and 230 million units of annual capacity across liquid vials, ampoules, bags and prefilled syringes. The Pashamylaram facility (USFDA approved 2016) has 6 vial lines, lyophilizer capacity of 260 million units, plus ophthalmic, ampoule and syringe lines. The Visakhapatnam oncology facility and a Penems facility in Hyderabad fill out the network (FY26 annual report). API capacity includes the JNPC and VSEZ plants in Visakhapatnam plus a biotech drug substance facility at Shamirpet with 8 KL of bioreactor capacity, being expanded to 23 KL for biologics CDMO.

Cenexi's four European sites give Gland a different set of capabilities. Fontenay operates ampoule lines for the largest ampoule manufacturing site in Europe, and is adding a high-capacity line that brings 30 million units of new ampoule capacity by 2027. Hérouville-Saint-Clair is a sterile-focused facility acquired from Merck in 2017, ramping production of an inactivated vaccine and a sterile ophthalmic gel. Osny does oral solids with highly active molecules, and Braine-l'Alleud handles cytotoxics, lyophilized products and prefilled syringes, with a new vial line under isolator and a new combo line for prefilled syringes and cartridges coming in 2026 (Q3 FY26 concall).

Capacity is tight on several lines. On the Q2 FY27 call (Nov 2026) management said liquid vial lines are at 92% utilisation and that it is short of capacity in ophthalmics, bags and liquid vials, to the point where scheduled shutdowns on some lines have been deferred. The INR2,000 crore capacity expansion programme remains on track and covers ophthalmic blow-fill-seal, oncology and isolator-based sterile manufacturing. A further brownfield block at Pashamylaram, approved in the quarter, adds three isolator-based vial lines at about INR10,000 million of capex, with commercial operations anticipated from FY30 onwards to serve CDMO contracts signed in the recent past.

Q2 FY27 capacity and capex update

Liquid vial lines are running at 92% utilisation and management says it is short of capacity in ophthalmics, bags and liquid vials, so shutdowns on some lines have been deferred. The previously announced INR2,000 crore programme remains on track and covers ophthalmic blow-fill-seal, oncology and isolator-based sterile capacity. A further brownfield block at Pashamylaram, approved in the quarter, will house three isolator-based vial manufacturing lines at total capex of about INR10,000 million, with commercial operations anticipated from FY30 onwards, aimed at volumes from CDMO contracts signed in the recent past. Additional bag manufacturing capacity installed during the year is awaiting US FDA inspection. Land has been acquired for a Vizag greenfield project, but the capex amount is undecided and will be taken to the board next quarter as a four-year programme. Excluding the greenfield,

committed capex is about INR3,000 crore, which management expects to add 300 to 400 million units of capacity.

Cenexi

Cenexi was acquired in 2022 to put Gland inside Europe. It took most of FY24 and FY25 to stabilize; the business went through an ANSM inspection in Q3 FY25, a summer shutdown each year, and workforce rationalization. By FY26 it had turned. Q4 FY26 revenue was EUR45 million and EBITDA was EUR1 million positive. The full year was EUR182 million, up 11%, with EBITDA improving by EUR16 million (Q4 FY26 concall). Management's target is mid to high single-digit EBITDA by the end of FY27 and mid-teen EBITDA over the medium term.

Cenexi Q2 FY27

Cenexi revenue was EUR41 million in Q2 FY27 against EUR40 million a year earlier, with an EBITDA loss of about EUR6 million caused mainly by planned annual shutdowns across the facilities. Management said the underlying operating trend is encouraging, citing improving capacity utilisation, ongoing cost optimisation and increasing operating leverage, and expects profitability to be restored from Q3 onwards. On the FY27 target set earlier of about EUR200 million revenue at a high single-digit EBITDA margin, the CFO said the quarter's lower number was already planned and considered in the estimate, that the earlier estimate is on track, and that any change will be communicated later. Planned investment in the new vial and lyophilisation block at Braine-l'Alleud and the high-speed line at Fontenay remains on track.

The strategic case for Cenexi goes beyond the standalone P&L. It gives Gland a European releasing entity for its own MAs, access to technologies Gland does not have (sex hormones, controlled substances), and a client base that is independent of Gland's. Management said 5-6 products have been signed with Cenexi's existing clientele for group-level manufacture, and three MAs are signed up for launches mostly from FY28 (Q4 FY26 concall). Cenexi also brings capabilities Gland cannot build in India: controlled substances cannot be made there, so the combined platform can take that business.

CDMO and GLP-1

CDMO is the growth engine management is betting on. Across the group, CDMO represented 46% of revenue in FY26, growing 28%. Inside the base business, CDMO made up 23% of base revenues, growing 33% (Q4 FY26 concall). The signed pipeline includes a major project expected to commercialize in H2 FY28 with USD25-30 million of annual revenue potential, plus additional high-value complex contracts in oncology, peptides and prefilled syringes. Management guided to USD40-50 million of additional CDMO revenue in FY27 from base business contracts alone.

The GLP-1 business is fill-and-finish CDMO capacity, not an own-brand product. Gland signed one more GLP-1 project recently and is running exhibit batches, with some milestone and technology-transfer income being booked and commercial launches expected in the first or second quarter of FY28; management gives no GLP-1 revenue guidance (Q2 FY27 concall, Nov 2026). The line is fungible - it can fill vials, cartridges and syringes - so it can run insulin or other products while GLP-1 volumes build. Management's five-year CAGR target is organic and excludes GLP-1 upside entirely.

Pipeline and R&D

R&D spend was INR2,230 million in FY26, about 5% of base business revenue. The company filed 24 ANDAs, received 28 approvals and launched 31 products in the US during the year, taking cumulative ANDA filings to 388 with 337 approved (Q4 FY26 concall, FY26 annual report). The pipeline skews toward complex injectables: peptides, suspensions, liposomals, long-acting injectables and specialty delivery platforms. Fifteen co-development products are active, split between seven 505(b)(2) filings and eight ANDAs, in immunology, chemo-adjuvants, pain management, endocrinology and radiocontrast agents (Q3 FY26 concall).

Business segments

United States

The US is Gland Pharma's largest market. In FY26 it generated ₹34,214mn, which is 53% of group revenue (Annual Report FY2026). The segment sells sterile generic injectables to hospitals, GPOs and pharmaceutical partners through a licensing-heavy B2B model: Gland develops the product, holds most dossiers and marketing rights, then out-licenses to partners who distribute under their own labels, collecting transfer price, royalty and profit share. The core capability that took years to build is USFDA-compliant sterile injectable manufacturing at scale, roughly 1.7 billion units of annual capacity across four formulation plants in India plus Cenexi's four plants in Europe (Annual Report FY2026). The Annual Report highlights a record of zero USFDA warning letters over 45+ years, which is the trust asset that makes GPO contracts and partner licenses possible.

The steady portfolio is built on high-volume molecules: Enoxaparin Sodium, Heparin Sodium, Daptomycin, Caspofungin and Micafungin. In FY26 the US team launched 31 molecules, 5 of them in Q4 (Q4 FY26 concall, May 2026). Named launches across the year include Dalbavancin, Daptomycin-RTU, Sumatriptan, Argatroban, Acetazolamide, Doxycycline, Colistimethate-Lyo, Epinephrine, Acetaminophen Bags and three new strengths of Vancomycin (Q1-Q4 FY26 concalls). Dalbavancin got US approval in February 2026 and launched in the US and Europe; the multivitamin approval followed in April 2026. Management expects both to be "meaningful contributors to growth in FY '27 and beyond" (Q4 FY26 concall).

Enoxaparin is the lumpiest line. Its revenue swings on SKU timing, not lost demand. In Q1 FY26, enoxaparin supplies came to ₹70 crores against a normal ₹130-140 crores, and management attributed the US de-growth that quarter to that timing effect (Q1 FY26 concall, Aug 2025). A Civica supply contract started in Q2 FY26 (Q2 FY26 concall, Nov 2025), adding a steady volume base.

The regulatory pipeline is the forward hedge. As of March 2026, Gland had filed 388 ANDAs in the US with 337 approved and 51 pending (Annual Report FY2026). In FY26 alone it filed 24 and received 28 approvals (Q4 FY26 concall). Roughly half of the ANDA portfolio is Partner filings versus Gland-owned, and the pipeline tilts toward complex injectables, RTU bags and ophthalmic products. The RTU bag portfolio alone addresses a US market opportunity of about $634mn (Annual Report FY2026).

Who buys and why: Gland supplies pharma partners and GPOs. The Annual Report cites access to 13 of the top 15 US generic injectable companies and long-standing relationships of over 8 years with top customers. The GPO wins were earned on cost structure. Management described winning several GPO contracts at market-competitive prices after internal cost-improvement programs on procurement and economies of scale, with supplies starting in Q3-Q4 FY26 (Q3 FY26 concall, Feb 2026). Volume rose roughly 19% year-on-year in Q3 FY26 even as price stayed flat, which is the direct payoff of those contract wins. A separate margin lever comes from milestone and profit-share income on out-licensed products, which management disclosed at 9% milestone and 6% profit share of US revenue in Q4 FY26, and 9% and 12% in Q1 FY26.

The concalls do not name specific US competitors, so the competitive position has to be read from disclosed evidence: the zero-warning-letter quality record, the ~1.7bn-unit scale, access to 13 of the top 15 US generic injectable companies, and a cost base that keeps winning GPOs while price is flat. Q2 FY26 breakdown was price roughly flat, volume up 10%, new launches adding 7% (Q2 FY26 concall). Management guides the base business (US plus India, excluding Cenexi) at 33-35% EBITDA margin and consolidated at 25-26% (Q4 FY26 concall).

> *"is more about the timing because some of the SKUs, the large dosage SKUs are not supplied every quarter."*
>
> **SRINIVAS SADU, Q1 FY26 CONCALL (AUG 2025), ON ENOXAPARIN**

The segment fits the group through two adjacencies. First, CDMO: the CDMO business is 46% of group revenue and grew 28% in FY26, and roughly 7% of US growth has come from the CDMO side as pharma companies transfer existing products into Gland's US-approved site (Q2 FY26 concall, Nov 2025). Second, Cenexi: the European platform now enables multi-geography contract bids and cross-selling of Gland products into Europe. On GLP-1, a partner

received US approval for liraglutide and the US launch happened in Q3 FY26 (Q3 FY26 concall); cartridge fill-finish capacity is now 140 million units, and management explicitly excludes GLP-1 from its FY27 guidance, treating any revenue as upside (Q4 FY26 concall).

> *"Dalbavancin has been launched in U.S. and European markets and is already seeing strong demand and ramp-up."*
>
> **SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

Management's stated outlook for FY27 is 15% growth in constant currency, excluding GLP-1, as repeated by the CFO on the Q2 FY27 call (Nov 2026). The US business, which grew 42% year on year in Q2 FY27 and 37% in H1 FY27, is expected to continue on new product launches and newer CDMO business, and management said there is no lumpiness in that revenue. Four products were launched in the US during Q2 FY27, and methylprednisolone suspension, a generic of Pfizer's Medrol, has since been approved. The US tariff question was effectively resolved in Gland's favour when the US confirmed it would not impose tariffs on generic pharmaceuticals (Q2 FY26 concall).

Europe

Europe for Gland Pharma is the story of Cenexi, the French-Belgian CDMO acquired to put sterile injectable manufacturing and marketing access inside Europe. The base business also sells its own products there, but that piece is small: full-year FY26 revenue for "Europe and other regulated markets" on a base-business basis was ₹3,249mn, up 11% (Q4 FY26 concall, May 2026). The group-level Europe figure of ₹14,035mn, 22% of revenue, is dominated by Cenexi (Annual Report FY26).

Cenexi's FY26 revenue was EUR182mn, up 11% year over year, with Q4 at EUR45mn, up 4% (Q4 FY26 concall). It was EBITDA positive in three of four quarters, posting EUR1mn in Q4, and management's own summary was blunt: "Cenexi is now EBITDA positive, operationally stable and poised for growth."

The core asset is a four-site European manufacturing network with decades of regulatory history. Fontenay, a former Roche Centre of Excellence, is an ampoule site running near 100% capacity; a new line installed last year is ramping, and a replacement line adding 30 million ampoules by 2027 is underway. Hérouville-Saint-Clair is scaling two products launched in 2025: an inactivated vaccine and a sterile ophthalmic gel. Osny does solid orals at about 90% occupancy; a customer recently asked it to relaunch development of a solid product that management called a potential breakthrough for the site (Q4 FY26 concall). Braine-l'Alleud handles highly active sterile injectables, cytotoxics and pre-filled syringes, and won a contract with a leading European laboratory to manufacture a hormonal drug in prefilled syringes (Q4 FY26 concall).

Customers are European pharma companies outsourcing sterile manufacturing plus Gland's own molecules using Cenexi as the release entity. The acquisition rationale, per Mr. Sadu on the May 2026 call, was that Cenexi's clientele is independent of Gland's, that some products cannot be made in India - sex hormones and controlled substances - and that Cenexi has technologies Gland lacks. Five to six products have been signed with Cenexi's existing clientele, and Gland has taken marketing authorizations in Europe so Cenexi can release its own products there. The H2 FY26 concall pointed to an on-market product technology transfer from Xellia:

> *"That's a large project where it's on-market product tech transfer from Xellia, that's almost INR150 crores project."*
>
> **SRINIVAS SADU, Q2 FY26 CONCALL (NOV 2025)**

The sources name no direct CDMO competitors in Europe; the only positioning claim is management calling Fontenay the largest ampoule manufacturing site in Europe (Q3 FY26 concall, Feb 2026). The competitive edge is the approved asset base itself - ampoule, lyophilization, ophthalmic gel and pre-filled syringe lines already inspected and running - which would take years to replicate from scratch.

The segment pulls the rest of the group along. CDMO at group level was 46% of revenue, growing 28% in FY26 (Q4 FY26 concall), and Cenexi is 100% CDMO. Dalbavancin launched in six European countries in December, with management noting ready demand and ramp-up in the U.S. and Europe (Q3 and Q4 FY26 concalls). Guidance for FY27 is roughly EUR200mn revenue at Cenexi, with EBITDA of mid-single to high-single digit by year-end, and a mid-teen EBITDA objective in the medium term (Alain, Q4 FY26 concall). The margin path, per Mr. Sadu, comes from replacing low-value products with high-value ones rather than from volume alone.

Canada, Australia & New Zealand (Other Core Markets)

Canada, Australia and New Zealand contribute ₹2,269 million, about 4% of Gland's ₹64,307 million FY26 group revenue, up from ₹2,021 million in FY25. Management reports these markets together with Europe in the quarterly calls, which is why the headline numbers differ. The May 2026 call grouped "Europe and other regulated markets" at ₹3,249 million for the year, up 11%. The annual report splits Canada, Australia and New Zealand out on their own.

What the segment does is sell Gland's injectable portfolio through out-licensing partners. Gland holds the dossiers and does the manufacturing in India or via Cenexi in Europe. The partner registers, distributes and sells to hospitals. The capability that took decades is the regulatory filing base: 527 of Gland's 1,828 global product registrations sit in the US,

Canada, Europe, Australia and New Zealand combined, per the FY26 annual report. A partner in Toronto or Melbourne can take a Gland dossier into a submission without rebuilding analytical, stability or manufacturing data, because the Indian plants have already been cleared by high-barrier regulators in the same family.

The most visible product launch in this segment is Liraglutide, the partnered GLP-1. The Q1 FY26 call confirmed Liraglutide had launched in the UK and Australian markets, following earlier launches in South Africa and Saudi Arabia. Australia got it before the US did - the US partner approval came later in the fiscal year - which shows how these smaller regulated markets serve as early test beds for Gland's GLP-1 partners. Beyond that, the segment carries the same hospital injectable franchise as the US line, sold through local marketing partners.

The customer is the marketing partner, not the hospital. The annual report describes the B2B, IP-led model: out-licensing to partners, transfer price per unit plus profit share or royalty, and long-term supply contracts. A partner buys because Gland delivers a registered, compliance-clean injectable the partner could not economically develop for a market the size of Australia or New Zealand. These are mature but small markets, which is exactly why partner-led distribution beats building local sales infrastructure.

Competitors are not named in the provided sources, so the honest statement is structural: Gland competes for partner mandates against the same generic injectable majors it faces in the US, and its pitch rests on the regulatory record - the annual report cites zero USFDA warning letters over 45+ years - plus the breadth of the filing base.

The segment fits the group as the regulated-markets distribution arm beside the US and Europe. The same integrated business development model management credits in the May 2026 call covers Europe and other regulated markets jointly, so a contract won for Cenexi's European platform can be pitched as a multi-geography deal covering Canada, Australia and New Zealand. Management said that joint capabilities allow the group to win larger multi-geography contracts.

Growth in the combined Europe plus other regulated bucket decelerated through the year: 34% in Q1, 18% in half one, 17% in nine months, 11% for the full year. That is the lumpiness of partner tender cycles and out-licensing timing. The annual report describes the segment as "stable growth through strong distribution partnerships and portfolio expansion."

> *"Our other regulated markets, including Europe, Canada, Australia and New Zealand showed good growth, increasing 34% year-on-year led by portfolio maximization initiatives across our partners."*
>
> **CEO SHYAMAKANT GIRI, Q1 FY26 CONCALL (AUGUST 2025)**

> *"In other regulated markets like Europe, Canada, Australia and New Zealand, we generated INR881 million in quarter 3 FY '26, reflecting a 16% year-on-year increase."*
>
> **CEO SHYAMAKANT GIRI, Q3 FY26 CONCALL (JANUARY 2026)**

Rest of the World

The Rest of the World segment is Gland Pharma's emerging-markets business across Latin America, the Middle East, Southeast Asia and Africa. It combines three revenue streams: own-brand injectables sold through local marketing partners, out-licensing deals where Gland holds the dossier, and CDMO/tech-transfer work where Gland manufactures for a partner that owns the product. The Q4 FY26 concall described the growth sources directly: "Growth has been supported by tech-transfer and CDMO business, along with steady performance in our own portfolio" (Srinivas Sadu, Q4 FY26 concall, May 2026).

The capability that took years to build is the registration base. The FY26 annual report counts 1,224 product registrations in the ROW region, versus 527 in the US, Europe, Canada, Australia and New Zealand combined. Marketers buy from Gland because the dossiers already exist, are approved in dozens of emerging markets, and are backed by a manufacturing network with a clean inspection record. The CDMO leg works differently: partners such as Eli Lilly and Dr. Reddy's engage Gland for contract manufacturing, and the Q2 FY26 call flagged that this tech-transfer CMO revenue was lumpy, falling 53% year-on-year in H1 FY26 before recovering.

The main products inside the ROW portfolio are Enoxaparin (branded Cutenox in India and ROW), Huminsulin, and the partnered GLP-1 Liraglutide, which management has launched across South Africa, Saudi Arabia, the UK and Australia, with more markets tied to partner approvals. Colistimethate, Dalbavancin and argatroban sit in the US/regulated pipeline rather than ROW. Enoxaparin and Huminsulin are the volume anchors in emerging markets because they serve large, steady chronic-disease populations and are bought by government tenders and hospital distributors.

The customer base is B2B: emerging-market distributors, marketing partners, and pharma companies outsourcing manufacture. In the Q2 FY26 call, CEO Shyamakant Giri noted that own-product sales make up roughly 90-93% of the ROW segment, growing 19% in H1, while the remaining CMO/tech-transfer book was shrinking. Management did not name specific ROW rivals in these calls, but the competitive context is visible in the annual report's industry section: commoditised injectables face sustained price pressure, pushing manufacturers toward complex, value-added formats. Gland's stated answer is cost structure and registrations, not price leadership alone. The ROW business carries the same concentration risk as elsewhere: Saudi Arabia shipments halted entirely during the Middle East conflict in Q4 FY26, which Sadu described bluntly:

> *"If you see last quarter, in ROW there's a dip in ROW business. Major dip is coming from that area because we didn't ship anything to that space."*
>
> **SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

That single-country exposure, and the conflict's effect on shipping, shows how lumpy this segment is.

The segment's group fit matters beyond its own revenue. ROW is the main outlet for Gland's tech-transfer CDMO work, which feeds the group's 46% CDMO revenue mix reported in Q4 FY26. It also carries the China expansion, which relies on the Fosun relationship. In Q1 FY26, Giri described China as a slow grind: "we have four approvals, four more pending... China again is a very intimidating market. We want to really push our approval registration more in China. Takes a lot of time and there is a VBP overhang." No Cenexi synergy exists here; Cenexi serves Europe, and ROW runs on Gland's Indian manufacturing base.

Financially, ROW contributed 17% of FY26 group revenue at ₹11,117 million per the annual report's geography split, down slightly from the prior year's ₹10,800 million as growth slowed to roughly 3% in that accounting. On the base-business basis used in the Q4 FY26 call, ROW full-year revenue was ₹6,511 million, up 7%, with Q4 at ₹1,468 million, up 17% once Saudi shipments were excluded from the base. The gap between the two figures reflects how the accounting splits Cenexi and intercompany revenue between segments.

The strategic plan for ROW, laid out in Q1 FY26, is portfolio optimisation: classify countries into tiers, re-activate dormant registrations, and push partner cadence. Giri's ambition was explicit: "we have reasons to believe that ROW business can double up over few years from now" (Q1 FY26 concall, Aug 2025). The constraint is the same one that shapes all of Gland's emerging-market push: registrations take years, CMO deals are lumpy, and a single geopolitical event can zero out a country's shipments for a quarter.

India

India is Gland Pharma's only direct-to-market segment. Everywhere else the company works B2B or CDMO: it licenses molecules to partners, files through them, or manufactures for other pharma companies. In India it sells its own products straight to buyers. The annual report describes a sales network covering roughly 4,000 corporate hospitals, nursing homes, and government facilities.

It is also the smallest segment. India generated ₹2,672 million in FY26 revenue, against ₹2,487 million in FY25, roughly 7% growth and 4% of consolidated group revenue. Quarterly numbers moved from ₹594 million (Q1) to ₹665 million (Q2), ₹744 million in Q3 (up 32% year-on-year), and ₹670 million in Q4. On a base-business basis, India was about 6% of revenue; the 4% consolidated figure is diluted by Cenexi's European operations.

The capability that took years to build is the Indian injectable manufacturing base feeding both export and domestic sales. Gland operates four formulation plants in India - Dundigal, Pashamylaram, the Visakhapatnam SEZ oncology facility, and the Penems plant - plus three API facilities. The domestic arm draws on the same plants, regulatory approvals, and owned dossiers that support exports. The named product is Enoxaparin Sodium Injection, sold in India under the brand Cutenox since 2020. Because a significant portion of the pipeline is owned outright rather than co-owned with partners, management retains the option to scale the direct-sales platform.

Buyers are institutional: corporate hospitals, nursing homes, and government facilities. This is the one market where Gland does not win orders through an intermediary, which means it takes on distribution, tendering, and hospital relationships itself. The annual report's geography section frames the approach as deliberate:

> *"We selectively participated in the domestic market while leveraging our manufacturing scale and regulatory expertise to strengthen the portfolio of specialised injectable therapies."*
>
> **ANNUAL REPORT FY 2025-26**

The supplied documents name no India-specific competitors and disclose no domestic market share. That absence is itself the finding: Gland's India business is a strategic side-car, not a market-share play, and management has given investors no competitive benchmark to judge it against. What management has said is that growth is a target, not a given. On the Q1 FY26 call, CEO Shyamakant Giri described the route:

> *"We are also leveraging our strengths in specific therapeutic areas and actively exploring inorganic opportunities to achieve significant growth in India."*
>
> **CEO SHYAMAKANT GIRI, Q1 FY26 CONCALL (AUG 2025)**

The inorganic angle matters because organic growth has been modest - roughly 7% for the year, below the 14.5% group growth. Management is open to acquisitions or partnerships in India to accelerate the segment, and Fosun, the controlling shareholder, provides access to a scientific and API ecosystem, though Giri stressed Fosun is "not day-to-day" in operations.

The India segment's group fit is geographic overlap, not dedicated assets: the same plants that manufacture for U.S. and European export also fill domestic orders, and the biologics collaboration with Dr. Reddy's at the Shamirpet Genome Valley facility is located in the same Hyderabad cluster. India is the only segment where Gland owns full commercial distribution; every other market either licenses products out or sells manufacturing services. That makes it the clearest test of whether Gland can operate its own brands - and at ₹2,672 million, it remains a minority of the revenue base while every other segment does the heavy lifting.

CDMO (cross-geographic)

Gland's CDMO business is the contract development and manufacturing arm, split across two platforms: the India base business and Cenexi, the European CDMO. On a consolidated basis CDMO made up 46% of FY26 revenues, growing 28% year-on-year, per the May 2026 call. The base business CDMO alone was 23% of base revenues, growing 33%; Cenexi is 100% CDMO.

> *"The base business is 23%. Because Cenexi is 100% CDMO, so as a group, it's 46%."*
>
> **SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

The core capability took decades to assemble: sterile injectable manufacturing cleared by USFDA and EMA, vertically integrated from three API plants (two USFDA-approved) to fill-finish across vials, lyophilised vials, ampoules, cartridges and pre-filled syringes. Management's own framing in the November 2025 call was about building capability "where there is an entry barrier to others to come in," which is what separates this segment from commodity generic fill-finish.

The marquee growth engine is GLP-1 cartridge fill-finish. Cartridge capacity scaled from 40 million to 140 million units during FY26, with 8 contracts signed and 6-7 more expected (May 2026 call). Gland is purely a contract manufacturer here: it does not develop or register the molecules, it fills Liraglutide, semaglutide and tirzepatide for partners who own the dossiers and API sourcing. Liraglutide launched via partners in the UK, Australia, South Africa and Saudi Arabia, with a US partner approval received and launch in the March 2026 quarter (Feb 2026 call). Management guided FY27 utilisation of only 15-20 million units, with the major ramp expected after 2030 when US patents expire. The line is fungible across cartridges and vials, and Gland is in talks with a large insulin manufacturer to fill it sooner (Feb 2026 call).

Complex injectables sit alongside. Dalbavancin was approved in February 2026, launched in the US and Europe, and is already ramping; the multivitamin portfolio was approved in April 2026 (May 2026 call). The RTU bag portfolio had 20 products filed and 16 approved, addressing roughly a $685 million US market (Feb 2026 call). Biologics adds another layer: 8 KL capacity at Shamirpet, expanding to 23 KL, with the Dr. Reddy's collaboration generating revenue from Q2 FY26 onward (Nov 2025 call).

Cenexi supplies the European half. Its four sites run distinct specialisations: Fontenay for ampoules, Hérouville for vaccines and ophthalmic gels, Braine-l'Alleud for cytotoxics and hormonal products, Osny for oral solids. FY26 revenue was EUR182 million, up 11%, with EBITDA improving by EUR16 million and positive in three quarters (May 2026 call). Q4 revenue was EUR45 million, up 4%. Cenexi also won a contract with a leading European laboratory to manufacture a hormonal drug in pre-filled syringes (May 2026 call).

Customers are large pharma and specialty companies outsourcing sterile manufacturing. In the US, Gland reaches 13 of the top 15 generic injectable companies (FY26 annual report). CDMO deals include tech-transfer of already-commercialised products, such as the CMS project transferred from Xellia, worth roughly INR150 crores, and a major project commercialising in H2 FY28 with an estimated USD25-30 million annual revenue potential (May 2026 call). Cenexi brings an independent European clientele that Gland is now cross-selling its own products into.

The calls do not name direct competitors. Management positions the segment through scale and barriers rather than against named rivals. For GLP-1 cartridge capacity, Shyamakant Giri said the 140 million unit build "makes us one of the top tier capacities here" (Aug 2025 call). Alain Kirchmeyer claimed Fontenay's new ampoule line would "strengthen the position of the site on the market as the largest ampoule manufacturing site in Europe" (Feb 2026 call).

The segment is the main synergy machine for the group. Gland uses Cenexi as the releasing entity for its own European marketing authorisations, and leverages Cenexi's hormonal and controlled-substance capabilities that cannot be built in India. Five to six products have been signed with Cenexi's existing clientele, plus three marketing authorisations, with launches expected mostly from FY28 (May 2026 call).

> *"Cenexi and Gland will increasingly be operating as one unified platform in future."*
>
> **RAVI MITRA, Q4 FY26 CONCALL (MAY 2026)**

Management's guidance treats CDMO as the growth core while explicitly excluding GLP-1 upside. Full-year FY27 growth guidance was stated at 15% in constant currency on the Q2 FY27 call (Nov 2026), alongside a 15% CAGR ambition and a step-up in FY29 as complex products launch. CDMO revenue grew 31% to INR8,227 million in Q2 FY27, about 45% of group revenue and about 47% of H1 revenue, and management expects the segment to keep growing faster than the base business. Capex is planned at INR2,000 crores over five years plus a newly approved INR1,000 crore Pashamylaram brownfield block, and the hurdle rate on internal investments is 20% IRR (Feb 2026 call).

Customers

The buyer for most of Gland's volume is not a patient or a pharmacy. It is a pharma company - either a marketing partner that licenses Gland's ANDA and sells it, or a pharmaceutical company that outsources manufacturing. Gland's annual report claims access to 13 of the top 15 US generic injectable companies as partners. On the GPO side, the company wins multi-year hospital supply contracts by bidding on cost, which is how it has been recovering volume it lost years ago: new GPO contracts signed three quarters back started shipping in Q3-Q4 FY26 and drove the volume uptick (Q3 FY26 concall).

Named relationships from the calls and report include:

- **Dr. Reddy's Laboratories** - a biologics CDMO collaboration at Gland's Genome Valley facility. Revenue started flowing from July 1, 2025, and the arrangement is described as solid (Q2 FY26 concall).
- **Eli Lilly** - an existing insulin manufacturing relationship lasting "several years," which Gland is using as a reference point to talk to other insulin manufacturers about the cartridge line (Q2 FY26 concall).
- **Fosun Pharma** - the promoter and strategic partner. Fosun provides access to a scientific ecosystem for APIs, and four China market registrations are approved with four more pending. Management said Fosun is not day-to-day but is a good partner for ecosystem access (Q1 FY26 concall).
- **Xellia** - the source of the CMS (colistimethate) tech transfer, a large on-market product Gland is bringing to Europe. Management called it "almost INR150 crores" of annual project revenue (Q2 FY26 concall).
- **Cenexi's existing clientele** - 5-6 products signed for group-level manufacture, plus a large contract to manufacture a hormonal drug in prefilled syringes for a leading European laboratory (Q4 FY26 concall).

The buying decision for CDMO work hinges on quality record, capacity and price. Management says the company has zero USFDA warning letters over 45+ years, which is the compliance currency that gets a foot in the door. Switching costs are real: tech transfers take 12-18 months, dedicated lines are built for specific products, and variation filings must be approved by European regulators country by country. That is why the major CDMO project needs a dedicated compounding area and clears only in H2 FY28 despite being signed well before. The take-or-pay structure on several CDMO contracts means Gland gets paid even if volumes come in below forecast, which makes the order book more durable than a typical contract manufacturing arrangement.

Concentration is worth noting. The US top 20 molecules grew 9% YTD and top 10 customers grew 19% in the US on a year-to-date basis when Gland made that disclosure in Q2 FY26 (Nov 2025 concall). A few large products and customers carry the US business, which is why Enoxaparin timing swings of INR60-70 crores in a quarter move the headline US number. The dependency on the US is structural - 53% of revenue - but management has been pulling that down deliberately through Europe and RoW growth.

Competitive landscape

The source documents do not name specific competitors. Management talks around the competition: US generic injectables are a price-driven market where GPO contracts are won

on cost, and the company's cost-reduction program (yield improvement, alternate API sourcing, energy optimization, process efficiencies) delivers 1-2% margin improvement per year specifically to stay competitive in that bidding (Q4 FY26 concall). That is the competitive reality of the largest market segment.

Against that backdrop, Gland's defensible position comes from four things it controls:

1. **Scale.** With roughly 1,700 million units of annual sterile injectable capacity across 11 plants, it is one of the larger sterile injectable manufacturers globally. Scale in high-volume products like Enoxaparin and Heparin gives it a cost base that smaller players cannot match.
2. **Quality record.** Zero USFDA warning letters in 45+ years, plus successful inspections by MHRA, TGA, ANVISA, AGES, BGV Hamburg and EMA, is the credential that gets contracts. In sterile injectables, a warning letter can cut a plant out of the US market for years.
3. **Complex product, complex technology.** The pipeline is shifting from commodity generics to products with regulatory and manufacturing barriers: Dalbavancin, RTU bags, GLP-1 cartridges, biologics, liposomals, microspheres. These compete on technology and approval timelines, not just price.
4. **European footprint.** The Cenexi acquisition put Gland inside Europe with controlled-substance and hormone capabilities that cannot be built in India. Few sites globally can make those products, which is why management sees the hormonal drug contract as a differentiator.

The industry structure pushes value upstream. The annual report's MD&A describes the shift from commodity generics to value-added injectables with higher technical complexity, stronger margins and better customer stickiness. Gland's strategy is to follow that: portfolio rationalization, pruning low-margin noncore products, reallocating capacity to complex and niche formulations (Q2 FY26 concall). Price erosion in the commodity segment is treated as a given; the response is cost reduction and product mix, not pricing power.

On GLP-1, the race is about capacity and timing. Gland is building 140 million units of cartridge capacity and says it is "one of the top tier capacities" with a fungible line that can run insulin or vials if GLP demand is slower than expected. Management deliberately keeps GLP-1 out of guidance because the heavy US volume arrives only after patent expiry around 2030, and the nearer-term opportunity is semi-regulated markets where partners receive approvals in stages. Competitors with similar fill-finish capacity will be bidding for the same partner contracts, but Gland's existing insulin relationship with Eli Lilly and its early Liraglutide launch (approved in the US, launched in UK, Australia, Canada, Saudi Arabia, South Africa) give it a head start on qualification.

Industry

The global medicines market is projected to grow at a 5-8% CAGR through 2029 to roughly US$2.4 trillion at invoice prices, per IQVIA data cited in the FY26 annual report's MD&A. Growth is led by specialty therapies, biologics and GLP-1 adoption, with biologic medicines accounting for 42% of novel drug launches over the last five years and biotech spending projected to reach US$820 billion by 2029.

The sterile injectables segment is expanding faster than the drug market overall. The generic injectables market is projected to grow from US$135.4 billion in 2025 to US$401.8 billion by 2035, an 11.5% CAGR, supported by a wave of patent expiries, demand for cost-effective therapies and hospital shift toward ready-to-use formats. The injectable drug delivery devices market is projected to grow from about US$565 billion in 2025 to US$1,217 billion by 2034, about 8.9% CAGR, reflecting the adoption of prefilled syringes, cartridges, pens and self-administration devices. The biologics CDMO market is projected to grow from about US$17.1 billion in 2024 to US$38.1 billion by 2030, about 11% CAGR (FY26 annual report MD&A).

Demand drivers line up with Gland's strategy. Chronic disease prevalence is rising globally, pushing more therapy into injections. The GLP-1 category for diabetes and obesity is the fastest-growing therapeutic segment, and it is also driving cartridge and pen demand. The loss-of-exclusivity wave through 2029-2035 creates generic entry windows for complex injectables. And pharma companies are outsourcing more sterile manufacturing, particularly for high-potency and complex products, because the regulatory burden and capital intensity are high.

India's role in the global supply chain is central. The MD&A describes India as the "pharmacy of the world" transitioning from volume-led to value-led growth, becoming a global innovation hub for complex molecules and manufacturing. Indian injectable manufacturers have built deep USFDA-approved capacity over two decades, and that installed base plus lower labor and energy costs is why Western pharma outsources sterile manufacturing there. The US confirmed in FY26 that it will not impose tariffs on generic pharmaceuticals, which management called a positive development aligning with expectations (Q2 FY26 concall).

Regulation is the gate. Products must clear USFDA, EMA, MHRA, TGA, ANVISA or equivalent regulators before sale, and approvals take years. That creates both a barrier to entry and a source of lumpiness: Gland's Dalbavancin US approval slipped when an additional data request landed, and the CMS (Xellia) project waits on European variation filings country by country. Milestone revenue is inherently irregular because it lands only when a regulatory event clears. Quarterly reports will keep showing swings from these mechanics regardless of the underlying growth trend.

Cyclicality in this business shows up in three places. First, product timing: large products like Enoxaparin ship in chunks, so quarterly revenue can swing by tens of crores even when annual volume is stable. Second, seasonal shutdowns: Cenexi's plant closes for a month each summer, which depressed Q2 FY26 before the recovery in Q3 and Q4. Third, geopolitics: the Middle East conflict paused Saudi shipments temporarily in Q4 FY26, showing in the RoW dip, and it also creates raw material and power cost risk in Europe, which Cenexi partially hedges on power pricing (Q4 FY26 concall). None of these change the structural story, but they are the reasons management guides on annual numbers and constant currency rather than quarter-to-quarter.

Growth triggers

Dalbavancin launch in US and Europe, annualizing through FY27

Dalbavancin is the key product launch in Gland's portfolio. Management calls it a large, high-margin product, and FY27 is its first full year of revenue after a US launch in March 2026. Q4 FY26 revenue (INR17,428 million, up 22% YoY) already included Dalbavancin plus two newly commercialized CDMO lines, which is why management says the quarter's base business margin strength is sustainable rather than a one-off.

The launch came later than originally planned. In August 2025 management targeted a September quarter US launch; by November 2025 the goal date had slipped to that month, with revenue expected in the current and next quarters. In the Q3 FY26 call (Feb 2026), Srinivas Sadu said Dalbavancin was approved in six European countries with December launch there, and a US goal date in February after additional data was submitted in January. US approval came through in February and the product launched in March.

> *"Dalbavancin has been launched in U.S. and European markets and is already seeing strong demand and ramp-up."*
>
> **SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

The revenue mechanism is straightforward. Gland also won a GPO contract alongside the launch, and the product's high margin supports base business EBITDA, which ran at 41% for Q4 and 38% for the full year. Management's FY27 base business guidance is 33-35% EBITDA. Ravi Mitra explained the margin logic in the May 2026 call: Dalbavancin launched in March and will be annualized through FY27, and it is a high-margin product. Initial quarters include pipeline-filling volume before demand normalizes, as Sadu flagged in November 2025. With a March 2026 launch, FY27 is the first fiscal year Dalbavancin contributes for all twelve months.

Multivitamin portfolio launch (approved April 2026)

The multivitamin injectable portfolio cleared its U.S. approval in April 2026, one month after Dalbavancin's February approval, and is the second high-margin launch Gland is banking on for FY27.

Management flagged it in the Q4 FY26 call as a near-term revenue contributor:

> *"Similarly, our multivitamin portfolio is expected to have a steady revenue contribution. These products are expected to be meaningful contributors to growth in FY '27 and beyond."*
>
> **SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is straightforward: Gland sells multivitamin injections through its U.S. partner and GPO distribution network. It is a high-volume, hospital-critical product category, so it adds recurring base-business revenue without any dependence on complex regulatory events or partner approvals. When an analyst asked which products would drive the FY27 base-business outlook, Sadu counted the MVI launch alongside Dalbavancin and new product filings, putting the near-term combined revenue from those few products at "about $40 million" (Q4 FY26 concall, May 2026). This forms part of the roughly INR650 crore base-business growth the company attributed to FY27, before Cenexi, forex and GLP-1 upside.

The launch is occurring in the current quarter (Q1 FY27), and the approval was already in hand by the May 2026 earnings call, so there is no remaining regulatory gating. The company's constant-currency FY27 guidance of 12% to 13% consolidated growth explicitly includes this product's contribution, which says the base case for the portfolio is covered by the existing order book rather than dependent on new tender wins.

Major CDMO project commercialization - estimated annual revenue potential USD25-30mn

Management first flagged this project in the Q3 FY26 call, when asked about the newly signed CDMO contract for oncology. The timeline given was "FY28 probably third or fourth quarter", with the revenue range of USD25-30 million per year. The Q4 FY26 call (May 2026) confirmed it is on track:

> *"One of the major CDMO projects announced earlier is progressing well and is expected to be commercialized in H2 of FY'28 with an estimated annual revenue potential of USD25 million to USD30 million."*
>
> **SRINIVAS SADU, EXECUTIVE CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is a manufacturing agreement for a partner's already-commercialized product. In the Q3 call, management described it as "a commercial product in Europe and many countries", requiring a dedicated compounding area and multi-country variation filings.

Because the drug is already on the market, demand exists before Gland ships a single unit; the revenue comes once Gland starts supplying the partner from its new capacity.

The scale of the opportunity is visible relative to the current CDMO base. In FY26, CDMO represented 46% of consolidated revenue and grew 28% year-on-year (Q4 FY26 call). A single contract adding USD25-30 million in annual revenue is a meaningful increment to that base, and the project required a dedicated capex: roughly INR80 crores for the compounding area, per the Q3 FY26 call. The dedicated line and infrastructure are part of the planned INR2,000 crores five-year capex program. The commercial launch in H2 FY28 positions this as a late-FY27 to FY28 revenue event, one of several CDMO contracts that management expects to add USD40-50 million of incremental base-business CDMO revenue in FY27 alone.

GLP-1 cartridge capacity at 140 Mn units; 8 contracts signed, 6-7 more expected

Gland's GLP-1 business is pure fill-and-finish CDMO work. Partners supply the API and the molecule; Gland fills cartridges, assembles pens, and charges a fixed conversion cost per pen that is not tied to end-market pricing (Q1 FY26 concall, Aug 2025). The platform has scaled from 40 Mn to 140 Mn units of annual cartridge capacity, and management has signed 8 CDMO contracts, with 6-7 more expected to close soon (Q4 FY26 concall, May 2026).

The revenue mechanism is volume-based conversion fees - Gland earns only when partners launch and sell. That is why management excludes GLP from all guidance: approval timing sits with partners, not Gland.

> *"We are not developing these products. We are only a CDMO for GLP-1. So we will be producing all Liraglutide, sema and tirzepatide... but everything for other customers."*
>
> **MR. SRINIVAS SADU, Q4 FY26 CONCALL (MAY 2026)**

The ramp is staged. The original 40 Mn line is approved and commercial, with liraglutide launched in Canada, UK, Australia and the US (US approval and launch in January 2026). The 100 Mn addition was delivered around February 2026, validated by Q2 FY27, with exhibit batches ready through the second quarter. FY27 utilization is guided at 15-20 Mn units, ramping into FY28 (Q3 FY26 concall, Feb 2026). The major US volume opportunity arrives after patent expiry, which management places around 2030.

Two structural points matter. The line is fungible across vials, cartridges and syringes, so it is not stranded if GLP ramp-up lags - management is already talking to a large insulin maker about spare capacity, and Gland has made insulin for Eli Lilly for years (Q3 FY26 concall, Feb 2026). Contract momentum is the clearest evidence: from 2-3 contracted players plus 6-7 pipeline in February 2026, to 8 signed plus 6-7 more expected four months later (Q4 FY26 concall, May 2026).

Cenexi turnaround: EBITDA positive; targeting mid to high single-digit EBITDA by FY27

Cenexi is Gland Pharma's European CDMO, acquired in 2022. After multiple quarters of losses and a planned Q2 shutdown, the business exited FY26 in the black: Q4 revenue of EUR45 million, up 4% year-on-year, with EBITDA of EUR1 million. For the full year, revenue came in at EUR182 million, up 11%, and EBITDA improved by EUR16 million versus FY25 (Q4 FY26 concall, May 2026).

The turnaround was built on three levers management described through the year: contract re-pricing to recover inflation, workforce rationalization, and higher capacity utilization. Gland also pushed a product-mix shift away from low-value, high-volume work toward prefilled syringes, lyophilised vials, and ophthalmic gels (Q1 FY26 concall, Aug 2025). In Q3 FY26, the first profitable quarter on record, Cenexi booked EUR50 million revenue, up 21% in constant currency, with EUR1.4 million EBITDA (Q3 FY26 concall, Feb 2026). Q2's dip was a planned summer shutdown, not a setback.

The FY27 profitability target is explicit. Asked about a path from breakeven to mid-teen margins, management guided to a near-term step-up:

> *"So for FY '27, our target is to reach at least mid-single digit, high single-digit EBITDA. By the end of this year, we should get there."*
>
> **SRINIVAS SADU, EXECUTIVE CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is less about volume and more about what fills the lines. Fontenay is at roughly 100% utilization - the new ampoule line added last year is ramping, and a second high-capacity line installed in August 2026 adds another 30 million ampoules by 2027. Hervouville is growing on the back of an inactivated vaccine and a sterile ophthalmic gel launched in 2025. Osny has a customer relaunching a solid product that could be material for the site, and Braine-l'Alleud won a large contract with a leading European laboratory to manufacture a hormonal drug in prefilled syringes (Q4 FY26 concall, May 2026).

Management has been explicit that FY27 revenue growth will be modest - targeting around EUR200 million - with the majority of the improvement coming from margin expansion as high-value products replace low-value ones. The line installed this summer only commercializes in FY28. The mid-teen EBITDA objective remains the medium-term goal, with FY27's single-digit target as the confirming step that the operation is structurally profitable, not just EBITDA-positive on one-off gains.

CDMO additional growth of $40-50mn in FY27 from base business CDMO contracts

Management quantified its FY27 CDMO growth engine at the Q4 FY26 earnings call. Asked whether the base business could sustain mid-teens growth, Srinivas Sadu put a specific number on the CDMO contribution:

> *"So FY '27, it's almost, I would say, [$]40 million, [$]50 million will come from CDMO. See the additional growth coming from the CDMO contracts in FY '27 will be between [$]40 million to [$]50 million."*
>
> **EXECUTIVE CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

When the analyst confirmed it was base business and not Cenexi, he replied "Yes, base business, correct." This is incremental revenue, not the full CDMO run rate.

The mechanism runs through long-term supply contracts for complex injectables. Gland signs contracts with global pharma companies for products already commercialized elsewhere, builds dedicated lines or compounding areas, tech-transfers the product to its India sites, and supplies volumes under take-or-pay-style agreements. Ravi Mitra explained the timing on the same call: several CDMO products launched in Q4 FY26, and "this will be annualized this year and these are long-term contracts. So this will be sustainable over the long term."

The contract wins have been building across FY26. In the Q2 FY26 call (Nov 2025), management referenced colistimethate, an on-market product with a dedicated line, and the CMS project (tech transfer from Xellia) worth roughly INR150 crores. The Q3 FY26 call (Feb 2026) added an oncology contract with an FY28 commercialization timeline requiring about INR80 crores of dedicated capex. The base business CDMO segment contributed 23% of base business revenues in FY26, growing 33% - the $40-50mn is the next-year step from these newly ramping contracts, distinct from the USD25-30mn annual potential major project which commercializes in H2 FY28.

Liraglutide launch in US (approved and launched January 2026), UK/Australia market launches

This is Gland's first commercial GLP-1 output, delivered through a CDMO contract rather than as its own drug. Gland does not own the Liraglutide molecule. The partner owns the API and regulatory dossier; Gland fills cartridges, assembles pens and packages on the 40 million-unit cartridge line. Revenue is a per-pen conversion fee, decoupled from end-market pricing. Sadu said at Q4 FY26: "We are not developing these products. We are only a CDMO for GLP-1."

The market rollout built through FY26. Liraglutide had launched in South Africa and Saudi Arabia in the prior fiscal. Said Sadu at Q1 FY26: "Our GLP-1 strategy gained momentum last quarter with the launch of Liraglutide. The product has now also been launched in the U.K. and Australian markets." Canada followed, then the U.S. approval landed in January 2026, with Sadu confirming at Q3 FY26: "our partner has received approval for liraglutide in the U.S., and we are ready for the U.S. launch in this quarter."

The U.S. launch is the first FDA approval for the partner's Liraglutide and the first time Gland's cartridge line runs commercial volumes into the largest GLP-1 market. Near-term U.S. revenue remains small because the patent is long dated: "most of the volumes, as you know, comes from U.S. where the patent is post 2030. So the ramp-up will happen mostly during that time" (Sadu, Q4 FY26, May 2026).

The launch's immediate job is to fill the 40M line. By Q2 FY26, Giri said that line was spoken for across three GLP contracts (one launched, two in line), and at Q3 FY26 he guided FY27 utilization of the combined capacity (40M plus the 100M line being installed) at 15-20 million units. The U.S. approval is the reference case for the broader GLP-1 pipeline - 8 contracts signed and 6-7 more expected at Q4 FY26, spanning Liraglutide, semaglutide and tirzepatide for other customers.

CMS project (tech transfer from Xellia): European approval expected in ~6 months

The CMS project is a technology transfer of colistimethate sodium, an already-marketed sterile injectable, from Xellia to Gland's own manufacturing line. Because the product is already on the market, Gland does not have to create demand - once the European variation filings clear, it takes over supply and books revenue at a transfer price per unit.

Management flagged it in Q2 FY26 as one of two large near-term projects, at roughly INR150 crore in annual value:

> *"The other is the CMS project, what we just got approved. That's a large project where it's on-market product tech transfer from Xellia, that's almost INR150 crores project. So that's a larger one."*
>
> **EXECUTIVE CHAIRMAN, Q2 FY26 CONCALL (NOV 2025)**

The product had already cleared a Danish line-wise approval as of Q1 FY26, with dossiers going in for other European markets and a dedicated manufacturing line being started. By Q3 FY26, the variation filing was being sized across countries in Europe, and management put the approval at roughly six months out - landing in the first half of FY27. The FY26 annual report lists Colistimethate among the 36 molecules rolled out across regulated markets during the year.

This is a separate project from the USD25-30 million annual revenue CDMO contract commercializing in H2 FY28. The CMS project is distinct because the product is already prescribed and reimbursed in Europe, so once Gland's site is approved, volume should convert to revenue faster than a new launch. It also sits inside the base CDMO growth of USD40-50 million management guided for FY27.

Five-year CAGR target of 15% (organic, ex-GLP upside)

Management has set a five-year organic growth target of 15% CAGR (FY27-FY31), with GLP-1 revenue explicitly excluded from the number. GLP volumes depend on partner approvals and market timing, so management treats any GLP-1 money as a separate upside layer on top of the target.

> *"So we are looking at 15% CAGR 5 years as a company... As organic, we look at 15% CAGR for 5 years."*
>
> **EXECUTIVE CHAIRMAN, Q3 FY26 CONCALL (FEB 2026)**

The path is a step-up, not a smooth line: FY27 was guided at 15% in constant currency on the Q2 FY27 call, against the 12-13% framing management used on the Q3 FY26 call, then a step-up into FY29 as large complex product launches hit the market (Q3 FY26 concall, Feb 2026).

What actually delivers the 15%:

- CDMO is the engine. It was 46% of FY26 revenue growing 28% (Q4 FY26 concall, May 2026). Management sees $40-50mn of incremental CDMO revenue in FY27 alone, with the major CDMO project commercializing in H2 FY28 at USD25-30mn annual revenue potential (Q3 FY26 and Q4 FY26 concalls).
- New launches annualize. 31 products launched in the US in FY26 including Dalbavancin, plus the multivitamin portfolio approved April 2026 (Q4 FY26 concall, May 2026). Complex injectables with staggered patent expiries are slated through FY29.
- Capacity backs the volume. A INR2,000 crore base-business capex programme runs over five years (Q4 FY26 concall, May 2026).
- Cenexi supplies margin, turning EBITDA positive in FY26 and targeting mid to high single-digit EBITDA in FY27 (Q4 FY26 concall, May 2026).

Stage today: FY26 delivered 14.5% growth to INR64,307 million at a 26% adjusted EBITDA margin (Q4 FY26 concall, May 2026). H1 FY27 revenue grew 21.4% to INR36,339 million with adjusted EBITDA of INR10,132 million at a 28% margin, and Q2 FY27 revenue rose 23% with PAT up 58% (Q2 FY27 concall, Nov 2026). FY27 guidance of 15% constant-currency growth is the first rung of the staircase, with anything from GLP-1 treated as extra.

Key risks

The risks that matter are inside the business: the US is 53% of group revenue, the GLP-1 opportunity is deliberately excluded from guidance, and Cenexi's turnaround is still thin. Each can break the 12-13% FY27 growth story in a specific way.

- **US tariff action returns.** The US confirmed in FY26 it will not impose tariffs on generic pharmaceuticals (Q2 FY26 concall, Nov 2025), which removed the immediate threat. But that relief is a policy decision, not a structural one. A future trade action on pharma, or on API imports, raises landed cost in the largest market, and the pass-through to GPO contracts and partners is contractually uncertain. Raw material tariffs would also hit the cost base that currently underwrites GPO wins.
- **GLP-1 volumes stay outside the numbers.** Management has signed 8 GLP-1 contracts, raised cartridge capacity to 140 million units, and at the same time refuses to count GLP-1 in FY27 guidance (Q4 FY26 concall, May 2026). The reason is the volume only materializes as partners win approvals market by market, and the big US market is post-2030. For FY27 management sees just 15-20 million units of utilization from a 140 million-unit line (Q3 FY26 concall, Feb 2026). If partner approvals drag, a large slice of the INR2,000 crore capex program sits idle until FY29-30.

> *"We are not actually talking any numbers for GLP. Even the guidance we're giving is excluding GLP because it all depends on these partners getting approvals in different markets and volumes."*
>
> **SRINIVAS SADU, EXECUTIVE CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

- **Cenexi's margin is still fragile.** Cenexi swung to EBITDA positive in Q1 FY26 (EUR0.9 million) and posted EUR1 million in Q4 FY26, but H1 FY26 carried EUR5 million of losses from a planned summer shutdown (Q2 FY26 concall, Nov 2025). Management targets mid to high single-digit EBITDA by end-FY27, which is still far below the base business's 38% margin. Fontenay runs near 100% utilization while HSC and BLA sit at 50-60% (Q4 FY26 concall, May 2026). One bad quarter - a shutdown, an inspection finding, or a delayed line qualification - can put Cenexi back in the red and pull the consolidated 26% EBITDA margin down with it.
- **Approval and launch timing slips.** Dalbavancin's US launch was already delayed once: it needed additional data submitted in January 2026, pushing past an earlier February goal date (Q3 FY26 concall, Feb 2026). The CMS project requires variation filings across multiple European countries, pushing commercialization to H2 FY28 (Q4 FY26 concall, May 2026). Each slip pushes high-margin revenue out by a quarter or more, and during the wait the dedicated lines built for those products do not earn.
- **US generic pricing pressure.** The US market grew on volume in FY26 while price fell - volume growth ran almost 19% year-on-year with prices down (Q3 FY26 concall, Feb 2026). GPO contracts were won with competitive pricing made possible by cost programs, not pricing power. If competitors match on cost, Gland either concedes volume or concedes margin on the base business's 38% FY26 EBITDA level.

- **Middle East exposure.** Saudi Arabia shipments were paused in early FY26 and were the main cause of a ROW dip (Q4 FY26 concall, May 2026). ROW is 17% of group revenue (FY26 Annual Report). A prolonged conflict also raises freight and energy costs across the network; Cenexi hedged power prices, but the Indian operations are turning to solar for the same reason. A sustained pause in key ROW markets directly shrinks that 17% segment and slows the tech-transfer and CMO growth management is counting on there.
- **The natural hedge is not a hedge.** Management runs an open book - USD revenue against USD imports, euro revenue against euro costs at Cenexi - and gives guidance on constant currency (Q4 FY26 concall, May 2026). INR appreciation against USD or EUR compresses reported revenue and margins with no offsetting position. The FY27 12-13% guidance assumes constant currency; an analyst flagged a possible 5-6% currency swing on the same call, which is pure upside or downside from here.

Scenarios

Bull case

Dalbavancin, launched in the US and Europe in March 2026 and already seeing strong demand, annualizes through FY27 at high margins, and the multivitamin portfolio approved in April 2026 adds steady hospital infusion revenue (Q4 FY26 concall, May 2026). CDMO base business adds $40-50 million in FY27 from signed contracts, with the $25-30 million major project landing on time in H2 FY28. GLP-1 starts to contribute early: liraglutide is already selling in the US, UK, and Australia, the 8 signed contracts convert as partners win approvals, and in the meantime the fungible cartridge lines fill with insulin volume alongside GLP-1 (Q3 FY26 concall, Feb 2026). Cenexi crosses into double-digit EBITDA by FY28 as the Fontenay ampoule lines and Hérouville vaccine and ophthalmic gel ramp fully, and the 3 MAs signed for European launches begin converting from FY28 (Q4 FY26 concall, May 2026). US shortages, which management flagged as a live upside, concentrate volume toward suppliers with capacity. The five-year 15% CAGR target is met or beaten as FY29 arrives with the Vyzulta settlement product and a wave of complex launches.

Base case

FY27 revenue grows 15% in constant currency as guided, with the US and CDMO providing the bulk of the incremental revenue and ROW recovering if the Saudi tender lands. Q2 FY27 already showed 23% revenue growth, a 26% reported EBITDA margin and a 58% PAT increase, with H1 adjusted EBITDA at a 28% margin (Q2 FY27 concall, Nov 2026). Cenexi restores profitability from Q3 onwards and maintains its earlier FY27 estimate, and GLP-1 stays out of the numbers by design. Committed capex of about INR3,000 crore excluding the undecided Vizag greenfield adds 300 to 400 million units of capacity. FY29 is the step-up

year, as management laid out: complex product launches, the CMS project, and commercialised CDMO contracts hit together.

Bear case

US GPO competition intensifies - rivals match Gland's cost-based bids and force either volume loss or margin compression while the new Pashamylaram lines are still four years from commercial operations. Cenexi posts another loss-making quarter beyond the planned summer shutdown, the FY27 estimate of about EUR200 million is not met, and consolidated margin falls short. The Saudi NUPCO tender is delayed again, keeping ROW shipments weak. GLP-1 partner approvals drag through FY27 and FY28, so GLP-1 remains a technology-transfer line item rather than a volume business. The greenfield Vizag capex, whose amount is still undecided, absorbs cash while committed capex of about INR3,000 crore is spent, and the 15% constant-currency guidance is missed.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	56,165	64,307	75,901	89,749	1,07,410
Revenue growth	-	+14.5%	+18.0%	+18.2%	+19.7%
EBITDA (₹ Cr)	12,689	16,826	21,632	26,925	33,834
EBITDA margin	22.6%	26.2%	28.5%	30.0%	31.5%
Depreciation (₹ Cr)	3,779	4,237	4,539	4,839	5,179
Interest (₹ Cr)	420	333	220	193	174
Other income (₹ Cr)	2,136	3,163	2,600	2,800	3,000
PBT (₹ Cr)	10,627	14,646	18,673	23,992	30,881
Tax (₹ Cr)	3,641	4,373	5,602	6,598	8,183
Tax rate	34.3%	29.9%	30.0%	27.5%	26.5%
PAT (₹ Cr)	6,985	10,273	13,071	17,394	22,697
PAT growth	-	+47.1%	+27.2%	+33.1%	+30.5%
EPS (₹)	42.40	62.40	79.20	105	138
P/E	77.8x	52.8x	41.6x	31.3x	24.0x
PEG	2.4x	1.7x	1.3x	1.0x	0.8x

CAGR FY27E-FY29E: Revenue +19.0% · EBITDA +25.1% · PAT +31.8%

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Q2 FY27 concall notes

TLDR

Gland Pharma reported Q2 FY27 revenue of ₹1,833.6 crore (+23% YoY), reported EBITDA of ₹480.4 crore (+53% YoY, 26% margin), adjusted EBITDA of ₹503.0 crore (27% margin) and PAT of ₹290.8 crore (+58% YoY). CDMO revenue grew 31% YoY to ₹822.7 crore (45% of revenue) and critical injectables grew 18% to ₹1,010.9 crore; US revenue rose 42% to ₹1,179.5 crore. Cenexi posted €41 million revenue and a €6 million EBITDA loss on planned annual shutdowns, with management expecting profitability to return from Q3. R&D rose to ₹107.7 crore (6% of revenue). Management maintained FY27 constant currency growth guidance at ~15% and Cenexi at ~€200 million with high single digit margin, and announced a new ~₹1,000 crore brownfield at Pashamylaram (3 isolator vial lines, commercial from FY30) on top of the ₹2,000 crore program. Watch NUPCO tender timing, Cenexi's Q3 recovery and the Dindigul FDA observations.

WHAT CHANGED SINCE Q1 FY27

- FY27 constant currency growth guidance maintained at ~15%; the Q1 upside case of ~20% tied to FDA approvals for the bag line and Opal Mic by Aug/Sep was not repeated. The bag line is now described as installed and awaiting US FDA inspection.
- Cenexi guidance maintained at ~€200 million revenue and high single digit EBITDA margin for FY27, but the quarter swung to a €6 million EBITDA loss (from €2 million EBITDA in Q1) on planned annual shutdowns. Management now expects profitability to return from Q3 onwards.
- New capex: a ~₹1,000 crore brownfield at Pashamylaram with 3 isolator-based vial lines, commercial operations from FY30, approved the day of the call. Q1 had only said further brownfield was "being evaluated." Total program excluding greenfield is now ~₹3,000 crore, adding 300-400 million units of capacity.
- Vizag greenfield: land acquired, project plan being worked on, board approval for additional capex to be sought in the coming quarter. Q1 had no capex figure for this project; none was given this quarter either.
- Segment disclosure changed: Q1 reported CDMO and B2B at 50/50. Q2 reports CDMO (₹822.7 crore, 45%) and critical injectables (₹1,010.9 crore), with CDMO defined as customer-owned or co-developed IP and critical injectables as Gland-owned ANDAs and own-label sales.
- New manufacturing contracts signed for microspheres and respiratory products; three microsphere projects are signed, with one exhibit batch taken. Q1 had described the microparticle depot pipeline without signed contracts.
- Second China in-licensing term sheet signed for a long-acting injectable ($2 billion market, under patent, 3-year timeline, manufactured in China with Gland running clinicals and commercialising). Q1's first product was a ~$1.6 billion-market liposomal.
- Management additions: new head of tech transfer plus two project management hires, head of strategy and innovative medicines in India, business development head in China, and a Chief Investment Officer to be onboarded in China. Q1 had none of these.
- Quality: Vizag oncology cleared a US FDA inspection with zero observations; Dindigul concluded in October with 4 procedural observations, stated as neither data integrity nor repeat observations. No inspection outcomes were reported in Q1.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹1,833.6 crore	+23% YoY	CDMO momentum, critical injectables demand, recent launches, strategic manufacturing partnerships
Reported EBITDA	₹480.4 crore, 26% margin	+53% YoY (vs ~21% margin)	Higher revenue, CDMO mix, operating leverage, efficiency initiatives, despite higher R&D
Adjusted EBITDA	₹503.0 crore, 27% margin	-	Adjusted for ₹22.6 crore non-cash ESOP expense
PAT	₹290.8 crore, 16% margin	+58% YoY	Operating performance; effective tax rate ~33% on Cenexi losses with no tax benefit
Gross margin	63% (H1 64%)	Down from 65% QoQ	Lower Cenexi revenue in the shutdown quarter; Cenexi carries higher gross margin
R&D	₹107.7 crore, 6% of revenue	Up from ₹77.2 crore in Q1	Complex products (suspension, peptide, hormones, ophthalmic) and in-licensed technology transfer
CDMO revenue	₹822.7 crore, ~45% of revenue	+31% YoY	Commercial supply of signed contracts, new segment launches, development and manufacturing partnerships
Critical injectables revenue	₹1,010.9 crore	+18% YoY	Existing portfolio demand, recent launches, customer additions, higher volumes
US revenue	₹1,179.5 crore	+42% YoY (H1 +37%)	Recent launches, existing product volumes, CDMO programs; 4 launches in the quarter
Europe & other regulated revenue	₹411.0 crore	+23% YoY (H1 +17%)	Customer engagement, volumes, recent launches, CDMO and injectables traction
RoW revenue	₹204.4 crore	-	Market-specific supply and tender dynamics, mainly NUPCO tender result delay in Saudi Arabia
Cenexi revenue / EBITDA	€41 million / negative €6 million	Revenue up from €40 million	Planned annual summer shutdowns across facilities
Operating cash flow (H1)	₹602.7 crore	-	Operating performance, working capital discipline; working capital days improved to 158
Cash and net cash	₹3,441.2 crore / ₹3,221.6 crore	-	Interest income and FX gain in other income of ₹69.0 crore

SEGMENTS & GEOGRAPHIES

- **CDMO:** ₹822.7 crore, +31% YoY, ~45% of revenue; H1 ₹1,714.2 crore, +25% YoY, ~47% of revenue. Growth from commercial supply of previously signed contracts, new launches and new development and manufacturing partnerships. Management expects this segment to grow faster than the regular business. CDMO margins are stated as 5-10% better than own business, and Cenexi is fully within CDMO.
- **Critical injectables:** ₹1,010.9 crore, +18% YoY; H1 ₹1,919.7 crore, +18% YoY. Growth from existing portfolio demand, recent launches, customer acquisitions and volumes. New launches are expected to contribute about 6-7% of growth, with the rest from existing products and new contracts.
- **United States:** ₹1,179.5 crore, +42% YoY; H1 ₹2,160.5 crore, +37% YoY. Growth from recent launches, existing product volumes and CDMO programs, with no lumpiness cited. Four products launched in the quarter; methylprednisolone suspension (generic Medrol) approved. Management expects the growth to continue.

- **Europe and other regulated markets:** ₹411.0 crore, +23% YoY; H1 ₹859.8 crore, +17% YoY. Growth from customer engagement, volumes, recent launches and commercial traction in both CDMO and injectables.
- **Rest of World:** ₹204.4 crore, impacted by supply and tender dynamics, mainly the delayed NUPCO tender result in Saudi Arabia. Gland has participated with about 13 products and expects the tender this quarter; demand fundamentals are described as healthy.
- **India:** ₹38.7 crore. Management plans to build the India business through in-licensed innovative products rather than generics, using access to Fosun subsidiaries and other companies.
- **Cenexi:** €41 million revenue, negative €6 million EBITDA, due to planned annual shutdowns. Improving utilisation, cost optimisation and operating leverage are expected to restore profitability from Q3. The focus is on cost reduction and profitability rather than revenue growth; headcount reduction and faster lines are planned, with transition shutdowns possible.

STRATEGY & COMPANY-SPECIFIC

- **Capex:** ₹2,000 crore program on track, covering ophthalmic BFS capacity, oncology and sterile manufacturing with isolator technology. New ~₹1,000 crore Pashamylaram brownfield with 3 isolator-based vial lines, commercial from FY30. Total excluding greenfield ~₹3,000 crore, adding 300-400 million units. Vizag greenfield land acquired; board approval for capex to be sought next quarter; phased over 4 years.
- **Capacity constraints:** Liquid vial capacity is at 92% utilisation and expected to be nearly full next year. Some lines are 100% occupied, and shutdowns on a couple of lines have been deferred for lack of replacement capacity. Additional bag capacity is installed and awaiting US FDA inspection before commercialisation.
- **Microspheres and respiratory:** Manufacturing contracts signed for both. Three microsphere projects signed, one exhibit batch taken, two more in line; these are royalty-based with development at the manufacturing site and revenue mostly post-FY29-30.
- **China in-licensing:** Second long-acting injectable term sheet signed, a $2 billion market product still under patent, 3-year timeline, manufactured in China with Gland doing clinicals and commercialising. The first product, signed last quarter, is a ~$1.6 billion-market product to be transferred and manufactured in India.
- **Leadership:** Deepak Sapra joins as CEO on 16 November. Ajay Sahani joined as President of Cenexi Operations. New head of tech transfer and two project management hires for CDMO contracts; head of strategy and innovative medicines in India; business development head in China; Chief Investment Officer to be onboarded in China for global M&A and in-licensing, based there for access to China technologies.
- **M&A criteria:** For a US biologics acquisition, management will avoid loss-making or very low EBITDA assets, prefer profitable assets even at a higher price, check how many contracts commercialise within a year or two, and assess the team. No European acquisitions planned.
- **Milestones and profit share:** Milestone income about ₹95 crore and profit share about ₹202 crore in the quarter, at 11% and 5% respectively.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth (constant currency)	~15%	Maintained	H1 performance; currency impact not predicted
Cenexi FY27 revenue	~€200 million	Maintained	Q2 shutdown already in the estimate; update if change

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Cenexi FY27 EBITDA margin	High single digit	Maintained	Profitability restoration from Q3
Cenexi profitability	Restore from Q3 onwards	New	Improving utilisation, cost optimisation, operating leverage
Capex, Pashamylaram brownfield	~₹1,000 crore, 3 isolator vial lines, commercial from FY30	New	Signed CDMO contracts and forecast volumes; liquid vials at 92% utilisation
Capex, total excluding greenfield	~₹3,000 crore, adding 300-400 million units	New	₹2,000 crore program plus ₹1,000 crore brownfield
Capex, Vizag greenfield	Amount to be announced next quarter; 4-year program, phased	New	Long-term capacity need as current plants run out
New launches contribution to growth	~6-7%	New	New product launches
R&D spend	Slight increase over time, margins to stay intact	New	More complex products and in-licensed technology transfer
GLP-1 revenue	Some milestone and tech transfer income; possible launches in Q1 or Q2 next year	New	Exhibit batches ongoing; one more project signed
NUPCO tender	Result expected this quarter	Maintained (Q1: "shortly")	~13 products participated

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Capacity constraints	Liquid vials at 92% utilisation, near full next year; some lines 100% occupied; shutdowns deferred. New capacity only from FY30.
Cenexi losses and tax rate	€6 million EBITDA loss in Q2; effective tax rate rose to ~33% because Cenexi losses get no current or deferred tax benefit. Normalisation expected as Cenexi turns profitable from Q3.
NUPCO tender delay	Result repeatedly expected "every week"; RoW performance depends on the award, with ~13 products participated.
Dindigul FDA observations	4 procedural observations in the October inspection, stated as neither data integrity nor repeat observations.
Bag line approval	Installed capacity awaits US FDA inspection before products can be commercialised and the supply constraint debottlenecked.
Capex execution and demand backing	~₹3,000 crore backed by signed contracts or customer forecasts, though management said some contracts have take-or-pay and some do not. Greenfield amount not yet decided.
Cenexi restructuring	Headcount reduction and new line installation will involve transition shutdown periods; revenue growth expected to be minimal.
GLP-1 timing	Near-term contribution limited to milestones and tech transfer; launches possibly Q1 or Q2 next year; no guidance given.
Microsphere contracts	Royalty-based, development at site, revenue mostly post-FY29-30; time-consuming.

Q&A HIGHLIGHTS

Full-year growth and US sustainability Asked whether US growth can sustain and RoW improve in H2, the CFO said FY27 guidance remains 15% constant currency, currency impact is hard to predict, and US growth came from new launches and newer CDMO business with no lumpiness.

Capex size and capacity addition Asked to total the capex including greenfield, management said ₹2,000 crore plus ₹1,000 crore brownfield equals about ₹3,000 crore excluding greenfield, adding 300-400 million units; the greenfield amount will be announced next quarter over a 4-year program.

China CIO role Asked whether the China-based CIO is for acquisitions, development or in-licensing, management said it is a combination and a global role, covering a US biologics acquisition, in-licensing complex products and technologies from China, with two senior people now in China.

Cenexi growth and profitability Asked why Cenexi H1 was flat in euros, management said the focus is efficiency and profitability rather than top line, with minimal revenue growth, headcount reduction and faster lines, and that the rest of the business will grow faster to deliver 15% consolidated growth.

Capex backed by contracts Asked how much capex is backed by take-or-pay or co-funding, management said some contracts have take-or-pay and some do not, but contracts transferring from already commercialised sites give a clear volume view; the ₹3,000 crore is backed by contracts or forecasts, while greenfield is phased.

Cenexi FY27 guidance Asked whether ~€200 million revenue at high single digit margin still holds given the H2 implied ramp, the CFO said the Q2 lower number was already in the estimate and the earlier guidance is on track, with an update if anything changes.

CDMO versus injectables margin Asked which segment carries higher margin, management said CDMO is 5-10% better because own business includes lower-margin India and RoW revenue, while CDMO is mostly regulated markets, even with Cenexi inside CDMO.

Second China in-license Asked about the new product, management said it is a $2 billion market product still under patent with a 3-year timeline, manufactured in China with Gland doing clinicals and acting as commercial partner, larger than the first product's ~$800 million market.

Senores Pharmaceuticals Ltd.

GROWTH TRIGGERS

Senores can sustain FY27 revenue growth of 30-40% and PAT growth of 50-60% by converting 41 approved but uncommercialized ANDAs, Apnar's four-line build and two US front-ends into revenue, while emerging markets and India branded generics add mix and cash. Beyond FY27, management targets around 25% annual growth over two to three years.

1. FY27 guidance maintained after H1 growth of 30% revenue and 31% PAT

H1 FY27 revenue was ₹372.5 crore, up 30%, EBITDA ₹111 crore, up 58%, and PAT ₹67 crore, up 31%. Management reiterated FY27 guidance of 30-40% revenue growth and 50-60% PAT growth, with 30%+ EBITDA margin, and said H2 has historically been heavier. Q2 operating EBITDA margin was 30%, up 290 bps, showing operating leverage before the H2 launch and subsidiary contribution.

2. 41 approved but uncommercialized ANDAs give a 6-8 quarter launch runway

Approved ANDAs reached 64 in September 2026 from 34 a year earlier, with 23 commercialized. The remaining 41 are expected to commercialize over 6-8 quarters, plus 41 pipeline ANDAs, implying 84 total over 3-4 years. Q2 commercialized three sANDAs and three CDMO ANDAs covering 12 strengths; the new ANDA and propranolol launch in Q3, and 4-5 controlled substances are planned by March 2027.

3. First-to-market sANDAs and controlled substances lift mix and pricing

Two of the four strengths in the newly commercialized sANDAs are first-to-market in the US within a molecule management says has more than $1 billion in revenue. The other two are second-to-market niche products with high profitability. Management also plans 4-5 controlled-substance launches before 31 March 2027, with limited competition and complex specialty profiles.

4. Zoraya and Amerisyn move from cost drag to revenue in H2 FY27

Zoraya and Amerisyn carried about ₹4 crore of operating cost in Q2 FY27 with no revenue. Management expects both to begin contributing in H2 FY27 and to ramp meaningfully from FY28. Amerisyn has more than 20 state registrations, expects business within 10-15 days and more than 10 products over two quarters. Zoraya may take about 45 days; both are targeted within Q3, and 14 ANDAs are planned under Zoraya in FY27.

5. Apnar's four-line build converts validation-heavy utilisation into FY27 revenue

Apnar ran at 90-100% capacity in Q2 FY27 but more than half was validation work, limiting revenue to ₹21 crore. Management guides FY27 revenue at ₹100-odd crore and says it is on track. Four commercial lines are planned by 31 March 2027, taking capacity to about 1.2 billion units; new Apnar-filed products start commercializing from November-December. The FDA inspection closed with one minor procedural 483.

6. Emerging markets combine 558 approved and 944 filed registrations with a margin recovery plan

Emerging-market revenue grew about 21% in Q2 and 25% in H1 FY27, and the business is cash positive. Q2 margin fell to about 4% on large low-margin beta-lactam orders; H1 was about 10%. Management guides FY27 margin to low-to-mid teens and expects mid-to-later teens over the next two quarters. The registration base is 558 approved and 944 filed, expected to approve over four quarters.

7. India branded generics mix shift lifts gross margin above 60% on ₹50-60 crore revenue

Management expects about ₹50-60 crore of India branded generics revenue this year. It says gross margin is above 60% versus 18-20% last year at a similar scale, reflecting a shift from volume to margin and a larger field force and market reach. The earlier 35-40% EBITDA target was not restated, but the gross-margin change is a direct mix improvement.

8. PIC/S approval and GLP-1 portfolio create new emerging-market registration vectors

European PIC/S approval is expected in FY27 and would enable new product registrations across emerging markets, where 944 dossiers are already filed. Separately, Senores is commercializing GLP-1 in about 18-20 emerging markets with the whole peptide portfolio, supported by an installed prefilled syringe line and in-house drug substance and drug product. The device is outsourced.

9. H1 cash generation and lower capex support the launch build

H1 FY27 operating cash flow was ₹38 crore and capex was about ₹46 crore. Management says working capital days and receivable days improved, after FY26 working capital was inflated by Apnar. The cash generation is not yet fully covering the launch build, but it reduces dependence on external funding while Apnar and the US subsidiaries scale.

10. CDMO/CMO at 35% of regulated revenue absorbs fixed costs while own products scale

CDMO/CMO is about 35% of regulated-market revenue after three CDMO ANDAs covering 12 strengths were commercialized in Q2. The business carries lower gross margin than own products but absorbs fixed costs and supports scale. Management expects a robust CDMO/CMO pipeline to convert over the next 12 months, while own products rise to about 65% of regulated revenue.

INVESTMENT THESIS

Senores Pharmaceuticals is a specialty generic formulator and contract manufacturer with three revenue engines: regulated markets, emerging markets and India branded generics, plus an API arm for backward integration. FY26 revenue was ₹664 crore; Q2 FY27 revenue reached ₹192 crore, up 25%, and H1 reached ₹372.5 crore, up 30% ([Q2 FY27](5a100ac45b173abc), passages 5, 16, 17). The regulated market is the profit engine, contributing 64.3% of FY26 revenue, with own ANDA products now about 65% of regulated revenue and CDMO/CMO about 35% ([Q2 FY27](5a100ac45b173abc), passages 260, 262). The company manufactures at a US FDA-approved, DEA-certified oral solids plant in Atlanta, the acquired USFDA-approved Apnar facility in Baroda, and the WHO-GMP Chhatral facility in Ahmedabad. The investment question is whether 64 approved ANDAs, 41 still uncommercialized, four Apnar lines and two newly built US front-ends can convert into the guided FY27 growth and a durable 25% trajectory beyond.

The economics are built on regulatory qualification and product mix. Own ANDA products earn in-licensing fees, transfer pricing and profit share with marketing partners; CDMO/CMO margins are lower but absorb fixed costs. In Q2 FY27, operating EBITDA rose 38% on 25% revenue growth, taking the operating margin to 30%, up 290 bps, and H1 operating EBITDA rose 58% on 30% revenue growth, with margin up 530 bps ([Q2 FY27](5a100ac45b173abc), passages 5, 16, 17). That is real operating leverage, though the CFO noted reported EBITDA is higher because of other income, which was about 5% of revenue and included interest and forex gains ([Q2 FY27](5a100ac45b173abc), passages 18, 163, 165). The clean operating margin is 30%, not the reported figure. Management guides FY27 EBITDA margin at 30% plus ([Q2 FY27](5a100ac45b173abc), passage 181).

The FY27 earnings path is explicit. Management reiterated 30-40% revenue growth and 50-60% PAT growth, after H1 revenue growth of 30% and PAT growth of 31% ([Q2 FY27](5a100ac45b173abc), passages 13, 17). H1 was about 45% of guided revenue, and management expects H2 to be heavier as Apnar, Zoraya, Amerisyn and new ANDA launches contribute ([Q2 FY27](5a100ac45b173abc), passage 109). My inference is that the PAT guide requires a sharp H2 step-up: Q2 PAT grew only 22%, so the 50-60% full-year target depends on mix, operating leverage and subsidiary revenue arriving in the second half. That is guidance, not an achieved result.

The operating milestones are dated. First, 41 approved but uncommercialized ANDAs are expected to launch over 6-8 quarters, plus 41 pipeline ANDAs, implying 84 over 3-4 years ([Q2 FY27](5a100ac45b173abc), passages 245, 249). Q2 commercialized three sANDAs and three CDMO ANDAs covering 12 strengths; two sANDA strengths are first-to-market in a molecule management says exceeds $1 billion in revenue, and the other two are second-to-market niche products ([Q2 FY27](5a100ac45b173abc), passages 7, 134). The new ANDA

and propranolol launch in Q3, and 4-5 controlled substances are planned by March 2027 ([Q2 FY27](5a100ac45b173abc), passages 55, 231). Second, Apnar generated ₹21 crore in Q2, is guided to ₹100-odd crore in FY27, and is installing the third and fourth lines for about 1.2 billion units by 31 March 2027; more than half of current utilization is validation, so conversion to billable sales is the test ([Q2 FY27](5a100ac45b173abc), passages 34, 35, 85, 86, 88). Third, Zoraya and Amerisyn carried about ₹4 crore of cost in Q2 with no revenue; both are expected to contribute in H2 FY27 and ramp meaningfully in FY28. Amerisyn has more than 20 state registrations and expects business within 10-15 days with more than 10 products over two quarters; Zoraya may take about 45 days, and 14 ANDAs are planned under Zoraya in FY27 ([Q2 FY27](5a100ac45b173abc), passages 12, 71, 72, 270). Revenue guidance for both was deferred, so the near-term contribution is not sized.

Emerging markets provide the second growth vector but with a lower margin marker. Revenue grew about 21% in Q2 and 25% in H1; the business is cash positive; 558 registrations are approved and 944 filed ([Q2 FY27](5a100ac45b173abc), passages 10, 266). Q2 margin fell to about 4% on large low-margin beta-lactam orders, and H1 was about 10%. Management guides FY27 to low-to-mid teens and the next two quarters to mid-to-later teens ([Q2 FY27](5a100ac45b173abc), passages 66, 67, 210). PIC/S approval is expected in FY27 and would enable new product registrations; GLP-1 is being commercialized in about 18-20 emerging markets with the whole peptide portfolio, supported by an installed prefilled syringe line and in-house drug substance and drug product, with the device outsourced ([Q2 FY27](5a100ac45b173abc), passages 9, 10, 290, 291). India branded generics is guided at ₹50-60 crore with gross margin above 60%, though the 35-40% EBITDA target was not restated ([Q2 FY27](5a100ac45b173abc), passage 219).

Capital allocation and cash are improving but not complete. H1 FY27 operating cash flow was ₹38 crore and capex about ₹46 crore; management says working capital and receivable days improved after FY26 was inflated by Apnar ([Q2 FY27](5a100ac45b173abc), passages 17, 18). Unbilled revenue rose with September launches, and management's 8-9% figure lacks a clear denominator ([Q2 FY27](5a100ac45b173abc), passages 149, 153). The prior ₹100-120 crore FY27 capex plan was not updated. The Mehsana API USFDA inspection, earlier guided for Q2 FY27, was not reported; API revenue sits in 'others' at ₹7.8 crore ([Q2 FY27](5a100ac45b173abc), passages 159, 161). Management delivery is mixed: FY27 headline guidance is intact, but the emerging-market margin marker was lowered and the US subsidiaries slipped from September-October to H2. The next call needs to show revenue, not just launch counts.

The thesis fits operating leverage because the fixed base of USFDA-approved plants, regulatory dossiers and marketing partnerships is already in place. Incremental ANDA

launches and Apnar lines should carry high contribution margins, while Zoraya and Amerisyn absorb costs before revenue. Beyond FY27, management targets around 25% annual growth over two to three years, with the CFO citing 25-30% ([Q2 FY27](5a100ac45b173abc), passages 14, 198). That is lower than FY27, so the stock case is not a perpetual 40% growth story; it is a step-up year followed by a still-above-market compounding phase. The falsifiers are concrete: H2 FY27 revenue and PAT missing the FY27 guide; 41 ANDA launches slipping; Apnar validation work not converting to billing; Zoraya and Amerisyn failing to generate revenue in H2; emerging-market margin stuck near Q2's 4%; PIC/S delayed beyond FY27; Mehsana API inspection adverse; or working capital and unbilled revenue absorbing the cash. If those break, the operating-leverage thesis weakens regardless of the approved ANDA count.

RESEARCH REPORT

What Senores Pharmaceuticals Limited does

Senores Pharmaceuticals is a formulation-focused pharmaceutical company that develops and sells niche, complex and specialty generic drugs. It was incorporated in 2017 and listed on NSE and BSE in December 2024. The business runs on three revenue engines: regulated markets (US, Canada, UK), emerging markets across 40+ countries, and India branded generics, plus an API arm for backward integration. In FY26 total revenue was INR 664 crore, up 62% year on year, with regulated markets contributing INR 427 crore (64.3%), emerging markets INR 145 crore (21.8%), and India branded generics INR 40 crore (6.0%).

Q2 FY27 update (29 Oct 2026). Revenue was ₹192 crore, up 25% YoY; EBITDA ₹58 crore, up 38%, at a 30% operating margin; and PAT ₹36.6 crore, up 22%. H1 revenue was ₹372.5 crore, up 30%; EBITDA ₹111 crore, up 58%; and PAT ₹67 crore, up 31%. Management reiterated FY27 guidance of 30-40% revenue growth and 50-60% PAT growth, with a 30%+ EBITDA margin, and expects H2 to be heavier than H1 as Zoraya, Amerisyn and new Apnar launches contribute.

Regulated markets

This is the core business and the strategic priority. Senores makes money two ways in regulated markets: selling its own ANDA products and doing CDMO/CMO contract work. For own products, the model is a 5 to 7 year marketing partnership. Senores develops or acquires an approved ANDA, then licenses it to a marketing partner who sells under their own label. Senores earns an in-licensing fee based on milestones, transfer pricing on the product supply, and a profit share on end sales. The annual report describes this as the standard structure for all its marketing agreements.

The CDMO/CMO side is different. Margins are fixed by contract, and customers come to Senores for end-to-end services: product development, scale-up, exhibit batch manufacturing, supply chain planning, commercial production, and regulatory support covering pre- and post-approval requirements. In Q2 FY27, CDMO/CMO was about 35% of regulated-market revenue, with own products about 65%, as own-product launches grew faster. Three CDMO ANDAs covering 12 strengths were commercialized in the quarter. CDMO/CMO gross margins remain below own products but the business absorbs fixed costs and generates scale.

The strategic asset is the Atlanta oral solid dosage plant in the US. It is USFDA-approved, DEA-certified for controlled substances, and compliant with the Trade Agreements Act and Buy American Act, which makes Senores eligible for US government procurement programs. The plant has been inspected four times by the USFDA, including a surprise audit in April

2024, all with no Form 483 observations. The disclosed current oral-solid expansion is at Apnar, where four commercial lines are planned by 31 March 2027 for about 1.2 billion units.

The Apnar facility in Baroda was acquired in Q4 FY26 (75% stake, remaining 25% expected by end of calendar 2026). It is USFDA-approved and also approved by UK MHRA and Health Canada, giving Senores a lower-cost India manufacturing base plus immediate access to the UK and Canada where it had limited presence. Q2 FY27 revenue from Apnar was ₹21 crore, and management guides ₹100-odd crore for FY27. The site runs at 90-100% capacity but more than half is validation work. Four commercial lines are planned by 31 March 2027, taking capacity to about 1.2 billion units. The FDA inspection closed with one minor procedural 483; new Apnar-filed launches start from November-December.

The ANDA engine

Portfolio growth is the core growth driver. Approved ANDAs rose from 34 in September 2025 to 64 in September 2026, of which 23 are commercialized. The remaining 41 are expected to commercialize over 6-8 quarters, alongside 41 pipeline ANDAs, implying 84 total over 3-4 years. In Q2 FY27, one ANDA and three sANDAs were approved; three sANDAs were commercialized and the new ANDA launches in Q3. Management plans 4-5 controlled-substance launches by 31 March 2027. Management states every approved ANDA already has a commercial partner mapped, so nothing sits in the portfolio without a go-to-market plan (Q1 FY27 concall).

> *"we have nearly doubled our portfolio expanding from 30 ANDAs as of June 2025 to about 58 ANDAs approved ANDAs as of June 2026"*
>
> **SWAPNIL SHAH, Q1 FY27 CONCALL (AUG 2026)**

How products reach the US market

Senores sells through four channels in the US. The first is Zoraya, a step-down subsidiary acquired in Q3 FY26, which sells products on Senores' own label and is now expected to contribute from H2 FY27 with a meaningful ramp in FY28. The second is Amerisyn, a joint venture formed in April 2026, which targets US federal government, Veterans Affairs and military procurement; it has more than 20 state registrations and expects business to commence within 10-15 days, with more than 10 products over the next two quarters. The third is B2B out-licensing, where marketing partners sell Senores' products under their own labels. The fourth is the CDMO/CMO vertical. Management says one ANDA can serve two channels, for example both Zoraya and Amerisyn.

Emerging markets

The emerging market business registers products country by country and sells through distributors. As of Q2 FY27, 558 registrations were approved and 944 were filed awaiting

approval, expected to approve over the next four quarters. The business is cash flow positive. Q2 FY27 revenue grew about 21% and H1 grew 25%. Q2 EBITDA margin fell to about 4% because of large low-margin beta-lactam orders; H1 margin was about 10%. Management guides FY27 margin to low-to-mid teens, with the next two quarters at mid-to-later teens. That resets the earlier 18-20% target.

India branded generics

Launched in August 2022, this segment supplies critical care injectables to hospitals through distributors and direct arrangements. Revenue grew from INR 8 crore in FY25 to INR 40 crore in FY26, about 5x growth. Management targets INR 50-60 crore in FY27. The Q2 call says gross margin is above 60% this year versus 18-20% last year at a similar scale, reflecting a shift from volume to margin; the earlier 35-40% EBITDA target was not restated. The field force and market reach were expanded.

API

The API business is a strategic play, not a revenue driver. The Naroda plant and a new greenfield facility at Mehsana (capacity about 100 MTPA) supply APIs for Senores' own formulations. Management says the goal is supply chain protection for key molecules, and it will make or buy based on cost. Mehsana USFDA approval remains an open regulatory step; API revenue appears in the 'others' segment at ₹7.8 crore.

Business segments

Regulated Markets

Regulated Markets is Senores' largest business, covering the US, Canada, and the UK. It operates through four distinct channels: own-label products via the Zoraya subsidiary, US government procurement via the Amerisyn joint venture, out-licensing of its own ANDA products to marketing partners, and CDMO/CMO services where Senores manufactures products owned by other companies. The segment contributed INR427 crores of the INR664 crores total revenue in FY26, roughly 64.3%.

The core capability is regulatory and commercial speed. Senores holds a US FDA-approved oral solid dosage facility in Atlanta, Georgia, which received its first approval in February 2019 and has passed four FDA inspections, including a surprise audit in April 2024 with no Form 483 observations. The facility is also DEA-approved, allowing controlled substance manufacturing, and is compliant with the Trade Agreements Act and Buy American Act, which qualifies it for US government supply programs. This combination of approvals is rare and took years to assemble.

The product engine is the ANDA portfolio. As of September 2026, Senores had 64 approved ANDAs, up from 34 in September 2025, with 23 already commercialized. Management

guided that the remaining 41 approved ANDAs would launch over 6-8 quarters, plus 41 pipeline ANDAs, implying 84 total over 3-4 years. Q2 included three sANDAs commercialized, three CDMO ANDAs covering 12 strengths, one new ANDA and a propranolol approval for Q3 launch. Management plans 4-5 controlled-substance launches before 31 March 2027.

Customers are large generic pharmaceutical companies and marketing partners. The annual report names Alkem Laboratories, Dr. Reddy's Laboratories, Jubilant Cadista Pharmaceuticals, Lannett Company, Prasco LLC, and Sun Pharmaceutical Industries as partners. The revenue model is contractual and structured in three parts: an in-licensing fee based on milestones, transfer pricing for product supply, and a profit-sharing arrangement. Senores manufactures only against confirmed purchase orders, keeping finished goods inventory near 15 days and avoiding inventory write-offs.

The competitive position rests on the US manufacturing footprint itself. Few Indian generic players operate US FDA-approved plants domestically, and fewer still pair that with DEA certification for controlled substances. The annual report notes that complex generics see less price erosion than traditional generics, which face an average 85% price drop when five or more competitors enter. Senores targets small to mid-market molecules where large global players have limited presence.

The strategic moves in the last two years have been about controlling more of the value chain. In Q3 FY26, Senores acquired Zoraya to market products under its own label in the US. In April 2026, it entered the Amerisyn joint venture to access US government procurement, supplying the federal government, Veterans Affairs, and military programs. In Q4 FY26, it acquired a 75% stake in Apnar Pharma, a USFDA-approved facility in Baroda, India, which also holds UK MHRA and Health Canada approvals. On Q2 FY27, Zoraya and Amerisyn were still pre-revenue, with about ₹4 crore of setup cost in Q2; both are expected to contribute from H2 FY27 and ramp meaningfully in FY28.

The segment's internal economics are clear. Own products now account for about 65% of regulated-market revenue and CDMO/CMO about 35%, versus the prior 50-55%/45-50% split. Own products carry higher margins than CDMO work, which management said runs 4-6% lower on gross margin. The US business carries an EBITDA margin around 40%, while Q2 consolidated operating EBITDA margin was 30%. Sourced products, a spot business buying from third parties for resale, made up 10-12% of revenue and management flagged no further growth there.

Management has been explicit about the growth trajectory. On the Q1 FY27 call, Swapnil Shah laid out the four-channel go-to-market logic and the disciplined approach to the portfolio:

> *"no product is lying there in our portfolio which is approved and we do not have a commercial strategy mapped out. So that we are very clear from day one that anything that we take, either through our own development or on acquisition route, commercial strategy is well defined and mapped."*
>
> **SWAPNIL SHAH, MD, Q1 FY27 CONCALL (AUG 2026)**

The current explicit outlook is FY27 revenue growth of 30-40%, PAT growth of 50-60%, and an EBITDA margin of 30% plus. Beyond FY27, management expects annual growth around 25% over two to three years, with the CFO later referring to 25-30%. The earlier INR2,500-3,000 crore revenue aspiration was not reiterated on the Q2 call. The blocking and tackling remains commercial readiness: every approved product has a mapped channel, a named partner, or a route to market before launch.

Emerging Markets

The Emerging Markets segment manufactures and distributes pharmaceutical formulations across 40-plus countries, with a focus on niche molecules and value-added products. It runs through the Chhatral facility in Gujarat, a WHO-GMP-approved plant with 12 manufacturing lines covering oral solids, oral liquids, injectables, and ORS, plus segregated infrastructure for Cephalosporins and Beta-Lactam products. The segment sits inside Ratnatris Pharmaceuticals, the subsidiary Senores acquired control of in December 2023.

The core capability is product registration. Each country's regulator approves each product separately, and the backlog compounds into a widening lead. As of Q2 FY27, Senores had 558 approved registrations and 944 awaiting approval, up from about 500 approved and 942 pending in Q1 FY27. Management expects the 944 to approve over the next four quarters. This registered base underpins the emerging-market revenue guidance.

> *"we have about 500-odd products registered, approved. Which is likely to give us around INR170 crores, INR180 crores kind of a revenue number this year"*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

The product strategy is to take complex molecules standard in regulated markets and introduce them where they are unavailable or still under patent. Senores is commercializing GLP-1 in about 18-20 emerging markets across the Middle East, Africa, Latin America, Far East and CIS, and has the whole peptide portfolio for those markets. The prefilled syringe line is installed, the device is outsourced, and drug substance and drug product are made in-house. The annual report lists filings for Apixaban, Tofacitinib, Sacubitril + Valsartan, Sugammadex, Ferric Carboxymaltose, and Eltrombopag Olamine.

Customers are distributors in markets including the Philippines, Uzbekistan, Tanzania, and Peru. The distributor-led model means local partners register, import, and market products

under their own brands. The annual report also describes point-to-point supply to leading Indian pharmaceutical companies and a CDMO model for Indian pharma partners. The value proposition is capacity and quality: these markets lack local manufacturing for complex molecules, and Senores brings WHO-GMP certification plus a registration pipeline that compounds faster than local competitors can match.

The sources do not name specific competitors in this segment. The structural dynamic is documented: Frost and Sullivan analysis cited in the annual report notes that complex generics face far less price erosion than standard generics when competitors enter. Senores selects molecules where competition is structurally lower, which is why per-unit realization has climbed from about INR1.20 to INR1.90, with management targeting INR2.20-2.40.

The financial trajectory shows a business that crossed from loss-making to cash-generative. H1 FY26 EBITDA margin was 6.2%. Q4 FY26 hit 18-19%. Q1 FY27 came in at 14%. In Q2 FY27, emerging-market margin fell to about 4% because of large low-margin beta-lactam orders, and H1 FY27 margin was about 10%. Management guides FY27 margin to low-to-mid teens, with the next two quarters at mid-to-later teens. This resets the earlier 18-20% target.

> *"what we guided for about 18% to 20% EBITDA margin on emerging market, we are quite confident that we should be able to achieve that 18% to 20% EBITDA on the emerging market side"*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

The business generated INR18 crores of operating cash in Q1 FY27 alone. FY26 revenue was INR145 crores out of INR664 crores consolidated, or 21.8% of the group, down from roughly 30% in FY25 because regulated markets grew faster. Growth was lumpy: Q2 FY26 revenue rose only 9% sequentially as dollar appreciation and import-permit delays slowed commercialization of newly approved products, then Q3 FY26 jumped 48% year-on-year as those approvals converted to orders.

The next catalyst is European PIC/S approval for the Chhatral facility, now expected in FY27 without a precise quarter. That certification opens mid-tier markets like Vietnam, South Africa, and Mexico and enables new product registrations. Management had earlier committed to filing 100-120 products in these new markets over the next year; the Q2 call did not update that filing target.

The segment fits the group through knowledge transfer from regulated markets. The annual report states the approach directly: identify complex products sold in the US, Canada, and the UK, then introduce them in emerging markets. The Chhatral facility also manufactures injectables for the domestic branded generics business, and the API plant supports

backward integration. The chairman said in the Aug 2026 call that the 70-30 regulated-to-emerging mix should hold for the next few years.

India Branded Generics

Senores launched its India Branded Generics business in August 2022 to supply critical care injectable formulations to Indian hospitals. The segment sells through a network of regional distributors and direct hospital arrangements. Manufacturing runs out of the Chhatral facility in Ahmedabad, a WHO-GMP-approved plant with 12 lines, four dosage forms, and an injectable line carrying 49.92 million units of annual installed capacity. Part of the injectable volume is made at Chhatral; the rest is sourced from reputable Indian injectable manufacturers, per the FY25 annual report.

The capability that took time to build is the hospital approval pipeline. Becoming an approved supplier at a multi-specialty hospital requires quality audits, GMP documentation, and a track record of consistent supply. Once approved, that hospital becomes a recurring revenue base. By Q4 FY26, management said the company had commenced supplies to several marquee hospitals across the country.

The products are life-saving injectables for critical care. The end users are hospital departments; the buyers are hospital procurement teams and regional distributors. The field force stood at 120-130 medical representatives in Q4 FY26, with a plan to reach about 200 and consolidate there. Management budgets FY27 revenue of INR50-60 crores from this segment.

Revenue grew from INR 8 crores in FY25 to INR 40 crores in FY26, a 5x jump. Q1 FY27 was INR 8 crores, a 2% year-over-year decline, which management attributed to a deliberate shift from sales growth to profitability. On the Q2 FY27 call, management guided about ₹50-60 crore revenue this year and said gross margin is above 60% versus 18-20% last year at similar scale, reflecting the shift from volume to margin. The earlier 35-40% EBITDA target was not restated.

Revenue grew from INR8 crores in FY25 to INR40 crores in FY26, a 5x jump. Q1 FY27 came in at INR8 crores, a 2% year-over-year decline, which management attributed to a deliberate shift from sales growth to profitability. The Q2 FY27 call says gross margin is above 60% this year versus 18-20% last year at a similar scale, on ₹50-60 crore revenue. The earlier 35-40% EBITDA target was not restated.

> *"this branded generics for the business that we operate is a little different from typically how the branded generics that exist in India. So, we don't necessarily need to hire a lot more field force to scale up the business."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The competitive position is niche-focused. The sources do not name specific competitors, but the segment competes with large domestic pharmaceutical companies that dominate hospital injectable supply in India. Senores' differentiation is its approved-supplier status at marquee hospitals combined with the Chhatral facility's regulatory credentials, which include approvals from authorities in 10 countries. The lighter field force requirement follows directly from the channel: hospital procurement and distributors, not retail pharmacies.

The strategic role within the group is diversification. Management described the India business as de-risking concentration on US-regulated markets, which contributed around 70% of total revenue in FY25. The segment shares the Chhatral facility with the emerging markets business, and the group's API business provides a path for backward integration of key formulations.

Revenue mix: FY26 segment revenue of about INR40 crores against consolidated revenue of INR664 crores, roughly 6% of the group. Q1 FY27 was INR8 crores against INR180 crores consolidated.

The strategy shift is the key management signal for this segment:

> *"the focus is on the profitability than the sales. The last year was focus was on the sales, that's why that's why you saw INR8 crores to INR40 crores jump, 5x jump. So that's a little change in strategy from this quarter onwards on focus is more on a profitability."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

Management expects about ₹50-60 crore of segment revenue this year and gross margin above 60%. It did not restate 30-40% growth or 35-40% EBITDA on the Q2 call; the emphasis is on the shift from volume to margin.

API

Senores entered the API business with one stated purpose: backward integration. The segment manufactures active pharmaceutical ingredients at a GMP-compliant facility in Naroda, Gujarat, and is building a greenfield unit at Mehsana, Gujarat. The annual report for FY25 describes the segment as primarily serving the domestic market and SAARC countries, with medium-term plans to expand into regulated and semi-regulated markets through direct API sales.

The core capability that took years to build is the manufacturing infrastructure itself. The Naroda facility is compact at 15,134 square feet but fully compliant with Indian GMP guidelines. The greenfield Mehsana facility, commissioned in February 2025, spans roughly 230,000 square feet with an annual capacity of about 100 metric tons. The FY25 annual report notes the Chhatral greenfield unit will increase installed API capacity from 25 MTPA to 169 MTPA. R&D support sits at the Naroda facility, which is equipped to handle complex

reactions including nitration, bromination, Friedel-Crafts, Grignard, hydrogenation, chlorination, esterification, and hydrolysis.

The portfolio spans 17 APIs across 15 therapeutic areas. The list includes Anastrozole and Letrozole for oncology, Imatinib Mesylate for oncology, Rivaroxaban as an anticoagulant, Desvenlafaxine Succinate and Fluoxetine Hydrochloride as anti-depressants, Aripiprazole as an anti-psychotic, Clomiphene Citrate for infertility, Mesalamine as an anti-inflammatory, and Tamsulosin Hydrochloride for urology. These are not exotic molecules; they are established, high-volume APIs that the company's own formulation business consumes.

The customers fall into two groups. The first is internal: Senores' own formulation facilities at Chhatral and, eventually, its US operations. The second is external: domestic Indian pharmaceutical companies and buyers in SAARC countries. Management has been explicit that the external sales are secondary. On the Q3 FY26 call in January 2026, Swapnil Shah described the API vertical's role:

> *"API is a small contributor, I think we do not go beyond a point to focus on the revenue because it is a strategic play for us, largely for backward integration and some strategic products that we want to backward integrate."*
>
> **MANAGING DIRECTOR, Q3 FY26 CONCALL (JAN 2026)**

The competitive position is best understood as a make-or-buy decision rather than a market-share battle. The Indian API market is large - the FY25 annual report cites India as the third-largest API producer globally with 8% of the world market - but Senores is not trying to win that market. It is trying to secure its own supply chain. On the Q2 FY26 call, management said the company has one product sourced from China and some single-source API products, and the in-house facility exists to provide backup for those critical inputs. The tariff environment and supply chain disruptions make this a defensive capability, not an offensive one.

The segment's fit within the group is the clearest part of the story. On the Q2 FY26 call, management said the Chhatral API facility would target revenue of INR50-100 crores in FY27, but immediately cautioned that the sales number matters less than the supply chain protection. The facility was projected to receive US FDA approval in Q2 FY27. The Q2 FY27 call did not report the Mehsana inspection outcome; API revenue is inside 'others' at ₹7.8 crore. Approval remains open, not confirmed.

The revenue mix is not separately disclosed. The FY25 annual report lumps API into "Others," which also includes injectables and other operating income, and that combined bucket accounted for roughly 10.8% of revenue that year. Management has said the API

business will not become a major revenue contributor, which keeps the segment small by design.

The supply chain logic explains why the segment exists. Senores' US-regulated business relies on being able to manufacture and ship formulations reliably. If a single-source API supplier fails, the entire downstream product line stops. The Nov 2025 call made this explicit: the company identified specific products for backward integration, and the decision to make versus buy depends on whether in-house production offers meaningful cost advantage. As Deval Shah put it on that call, the facility exists "just to protect the supply chain."

The greenfield Mehsana facility represents the bulk of the API segment's capex. The earlier FY27 capex plan was INR 100-120 crores across subsidiaries; H1 FY27 capex was about ₹46 crores. Apnar's third and fourth lines and the prefilled syringe line are the disclosed capacity projects. API capacity is already largely built, so the segment is in the approval and qualification phase.

The API segment is the smallest of Senores' four businesses and will stay that way. It is an insurance policy for the group's formulation businesses, a cost lever for the US-regulated market expansion, and a buffer against the single-source supplier risk that plagues generic manufacturers. Investors should judge it on whether it protects the other segments' margins and supply, not on its standalone revenue contribution.

Customers

Senores sells to four distinct customer groups. The first is marketing partners in the US, Canada and the UK who take Senores' ANDA products and sell them under their own labels. Named partners include Alkem Laboratories, Cintex Services, Dr. Reddy's Laboratories, Jubilant Cadista Pharmaceuticals, Lannett Company, Prasco, and Sun Pharmaceutical Industries. These are large generic pharma companies with established US distribution networks. The second group is CDMO/CMO clients, which per the annual report include Mint Pharmaceuticals (Canada), Solco Healthcare US, Ambicare Pharmaceuticals (Canada), Amici Pharmaceuticals (US), and Waymade PLC (UK). The third is the US federal government via the Amerisyn JV. The fourth is Indian hospitals for branded generics.

The buying relationship for own products is structured as a long-term partnership. The annual report describes the contract as having three components: an in-licensing fee negotiated on predefined milestones, transfer pricing for the supply of products, and a profit-sharing arrangement. These agreements run 5 to 7 years, which aligns incentives. Senores earns more as the partner sells more, and the partner gets a reliable USFDA-approved supply source.

Why do customers pick Senores? The USFDA-approved facility in the US, the DEA certification for controlled substances, four clean inspections with no 483 observations, and reliable supply. The qualification process is lengthy, with customers rigorously assessing quality and regulatory compliance before approving a supplier. That creates a switching cost: once a customer qualifies Senores as a supplier, replacing it means repeating a costly and slow approval process.

The manufacturing model is pre-sold. Management states it only manufactures against confirmed purchase orders, so finished goods inventory is minimal (max 15 days) and inventory write-offs have never occurred. This is a meaningful difference from generic companies that build inventory speculatively and eat the cost when a product fails.

> *"we only manufacture basis on a confirmed purchase order that we get from our partners and our manufacturing capacities are pre-sold"*
>
> **SWAPNIL SHAH, Q3 FY26 CONCALL (JAN 2026)**

There is a mechanical detail worth understanding. The profit share is booked as income when the partner sells the product, but the cash is received later, typically one to six months. This shows up on the balance sheet as 'other financial assets,' which stood at INR172 crore at FY26 year-end. In H1 FY27, operating cash flow was ₹38 crore and management says working capital and receivable days improved. Unbilled revenue rose with September launches; management said 8-9% of total, but the transcript does not give a clear denominator. Treat that percentage as ambiguous.

Concentration is real. The US contributes roughly 70% of revenue, and the regulated markets segment is the profit engine. The customer base is broad, with 300+ customers across 49 countries per the annual report, but the top marketing partners are the large Indian generics companies that already have US distribution. The sourced products business, where Senores buys and resells third-party products, is about 10-12% of revenue and is described as flat spot business.

Competitive landscape

The source documents do not name specific competitors, so this section describes the industry structure and where Senores sits within it.

The generic pharma industry has two competitive arenas: the US generic market where ANDA holders compete for share, and the CDMO/CMO market where manufacturers compete for contract work. Senores competes in both. In the US generic market, the traditional model is Indian companies developing ANDAs and competing on price. The F&S data cited in the annual report shows traditional generics lose about 85% of price when five or more competitors enter a molecule. Complex generics are far less prone to this because technical

and regulatory barriers limit competition. Senores' strategy is to stay in the complex, niche, mid-market segment where global pharma companies have limited presence.

The moats are concrete. First, US-based manufacturing. Few Indian-headquartered generic companies have USFDA-approved plants in the US. This matters for three reasons: government procurement requires BAA compliance, US manufacturing is immune to tariffs on imported generics, and US plants give supply chain reliability that India-based competitors cannot match for fast-moving products.

Second, the DEA certification for controlled substances. Manufacturing controlled substances in the US requires DEA registration, a barrier that keeps most competitors out. Controlled substances are roughly 15-20% of revenue (Q3 FY26 concall). The annual report's MD letter makes the point directly:

> *"With both DEA and FDA certifications, we are uniquely positioned to support controlled substance manufacturing and government supplies which are mandated to be manufactured locally"*
>
> **SWAPNIL SHAH, MD LETTER, FY25 ANNUAL REPORT**

Third, Competitive Generic Therapy (CGT) designation. FDA grants 180 days of exclusivity for first-to-market generics that address drug shortages. Senores says 20-25% of revenue comes from CGT-designated products, and new launches are selected with CGT in mind. Management is careful to note that CGT is upside, not the base case, and that the growth plan does not depend on winning CGT.

Fourth, the acquisition-plus-development model. Senores buys approved and unapproved ANDAs, then develops them further. This gets products to market faster than pure organic development and at lower cash cost than developing from scratch. The acquired portfolio is launched through Zoraya and Amerisyn, which is cheaper than building a full US sales force.

Where competition is intense: the CDMO/CMO market is crowded with large, well-capitalized players. Senores' CDMO/CMO margins are fixed by contract and lower than own-product margins. The business is valuable for absorbing fixed costs and generating volume, but it is not where the differentiation lies. The company's credibility in CDMO comes from its US plant and clean inspection record, which is a genuine advantage for customers who want US-based manufacturing for regulatory or supply chain reasons.

The tariff question is a live competitive variable. If the US imposes tariffs on imported generic medicines, India-based competitors without US plants face cost increases. Senores has manufacturing on both sides of the ocean and can shift production between the US and India. Management is waiting for the India-US trade agreement before making decisions, but

the dual-facility structure is a natural hedge. The risk cuts the other way too: if tariffs are imposed, Senores' India-based CDMO/CMO customers may defer or shift orders.

The honest assessment is that Senores is a small player in a large industry. Its edge is being in the US with a clean regulatory record, DEA certification and government-procurement eligibility, while most Indian competitors sit in India. The risk is that the niche molecules it targets attract bigger competitors once they prove out, and the 180-day CGT window is short. Management acknowledges this and points to the diversified base: no single product is more than a small slice of revenue, and the CDMO/CMO business plus the emerging markets portfolio cushion any single-product failure.

Industry

The global pharmaceutical market was US$ 1,635 billion in 2023 and is projected to reach US$ 2,251 billion by 2028, a CAGR of 6.6% (F&S report, annual report). The US is the largest single market at US$ 711 billion in 2023, projected to reach US$ 1,010 billion by 2028. The US accounts for about 43% of the global market, 56% of the regulated market, and 91% of the North American market. Regulated markets as a group held 77% of the global market in 2023 and will retain 76% through 2028.

The US CDMO/CMO market was US$ 44.7 billion in 2023 and is projected to reach US$ 64.8 billion by 2028, a CAGR of 7.7%. Outsourcing penetration is expected to rise from about 27% in 2018 to nearly 37% by 2028, driven by drug complexity, expiring patents, and the shift from capital-heavy to operating-expense models. Emerging markets were US$ 376.3 billion in 2023 and are projected to reach US$ 541 billion by 2028, growing faster than developed markets as healthcare access expands.

Demand drivers are structural. The global population aged 60 and above is expected to nearly double from 12% to 22% by 2050, reaching about 2.1 billion people. Chronic diseases are rising across all age groups, and the economic burden of chronic disease could reach US$ 47 trillion by 2030. In developing countries, rising chronic disease coexists with persistent infectious disease, driving demand for both chronic and acute medications. The COVID-19 pandemic raised consumer awareness of health and self-care, which pushed up OTC and preventive medicine demand.

India's place in the global supply chain is significant. India is the third-largest producer of APIs globally with 8% of the global API market, and supplies about 57% of APIs on the WHO prequalified list. The Indian pharmaceutical market was US$ 23.8 billion in 2023, projected to reach US$ 37.9 billion by 2028. The Indian API market is projected to grow from US$ 12.0 billion in 2023 to US$ 25.5 billion by 2028, supported by government PLI schemes and bulk drug parks that push toward self-reliance. The number of USFDA-approved API facilities in India rose from 173 in 2018 to 209 in 2023.

Import substitution is a live theme in two directions. The US is considering tariffs on imported generic medicines, which would penalize companies without US manufacturing. India is simultaneously pushing to reduce its own API import dependence, particularly on China. For Senores, the back-integrated API capability at Mehsana responds to the second dynamic, and the dual US-India manufacturing footprint responds to the first.

Regulation is the binding constraint. USFDA, UK MHRA, Health Canada and WHO-GMP compliance are the baseline for Senores' markets. PIC/S approval, expected for the Chhatral facility in Q2-Q3 FY27, unlocks mid-tier markets like Vietnam, South Africa and Mexico that are currently inaccessible. The US controlled substance regime under the DEA is a separate barrier that limits who can play in that segment. Inspection outcomes and approval timelines are the operational risks that can delay launches and shift revenue between quarters.

Cyclicality in generics is not the classic economic cycle. The industry pattern is H2 being stronger than H1, which Senores confirms year after year, partly because of how product launches and partner orders fall. The bigger cyclical risks are geopolitical, including tariffs, shipping disruptions, and currency moves. The emerging market business carries additional seasonality from registration and commercialization cycles, and the F&S data on price erosion is the structural risk: once a generic molecule attracts five or more competitors, pricing collapses for standard products. The entire Senores model is built around avoiding that outcome by staying in complex, niche and underpenetrated molecules.

Growth triggers

Launch of approved ANDAs (41 approved but uncommercialized as of Sep 2026; 6-8 quarter runway)

Senores has 64 approved ANDAs as of September 2026, up from 34 a year earlier, and 23 are already commercialized. The remaining 41 are scheduled for commercialization over 6-8 quarters, alongside 41 pipeline ANDAs, implying 84 total over 3-4 years. This is the core engine of the guided FY27 revenue growth of 30% to 40% and PAT growth of 50% to 60%. Q2 FY27 commercialized three sANDAs and three CDMO ANDAs covering 12 strengths; management plans 4-5 controlled-substance launches by 31 March 2027.

The mechanism for converting these filings into revenue is already structured. Each ANDA is monetized through a three-part contract: an in-licensing fee, transfer pricing for the physical supply of goods, and a profit-sharing arrangement with the marketing partner (FY25 Annual Report). These products flow through four distinct channels: B2B out-licensing to partners like Dr. Reddy's, the Zoraya own-label distribution platform, the Amerisyn government procurement joint venture, and the CDMO/CMO vertical (Q1 FY27 concall, Aug 2026). Management confirmed that every approved ANDA is commercially mapped to at least one of these channels before launch.

The readiness for this launch wave is advanced, not hypothetical. Of 64 approved ANDAs, 23 are commercialized. The Q1 quote below described 35 launches over 18-20 months; the Q2 call extends the remaining 41 over 6-8 quarters and adds 41 pipeline ANDAs. Management stated the execution infrastructure is already in place:

> *"Of the 35 ANDAs planned for commercialization over the next 18 to 20 months, we have already completed key building blocks required for successful execution. Our go-to-market strategy has been finalized, marketing partnerships have been established, and manufacturing plants have been aligned with the necessary production capacities to support these timely launches."*
>
> **MANAGING DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

The regulated market business grew 28% year-over-year in Q2 FY27 and 34% in H1 FY27. Q2 had no new own-ANDA launch because the approved product was a controlled substance awaiting quota, which takes 45-50 days; three sANDAs were commercialized, and the new ANDA plus propranolol launch in Q3. The trigger remains commercialization execution, not regulatory approval for the 41 approved but unlaunched products.

Apnar ramp: four commercial lines by Mar 2027; FY27 revenue guided at ₹100-odd crore

The trigger is the ramp-up of the Apnar facility, a Baroda-based USFDA-approved plant acquired in Q4 FY26. Senores bought a 75% stake in Apnar Pharma in that quarter, with the remaining 25% expected by the end of FY27. The plant is also approved by UK MHRA and Health Canada, which gives Senores immediate registered access to those markets.

The mechanism is cost arbitrage and capacity. Apnar shifts production of select products from Senores' costlier US Atlanta plant to India, and serves as the launchpad for newly acquired ANDAs. Q2 FY27 revenue was ₹21 crore, largely from the five acquired ANDAs. Apnar runs at 90-100% of capacity but more than 50% is validation work. New Apnar-filed products commercialize from November-December. Four commercial lines by 31 March 2027 take capacity to about 1.2 billion units. The FDA inspection closed with one minor procedural 483.

Management gave a specific revenue ramp on the Q4 FY26 call (May 2026):

> *"for the full year, we expect Apnar to give us about INR80 crores to INR100 crores of revenues from that particular plant"*

And on the medium term:

> *"In two to three-year timeframe, we feel we should be able to do about INR180 crores to INR200 crores revenue from the Apnar facility."*

The Q4 FY26 call confirmed commercial shipments to the US had started in April 2026, with INR2.5-3 Cr booked in the final quarter of FY26 and INR10-20 Cr expected in Q1 FY27.

The path to INR180-200 crore over two to three years was not restated in Q2 FY27. Current markers are ₹100-odd crore FY27 revenue, four lines by March 2027, and new launches from November-December. The risk is validation-to-billable conversion, not idle capacity. The Q4 FY26 call also noted the working capital jump to 187 days was driven by Apnar's ramp-up, which management said will normalize as sales scale.

Zoraya and Amerisyn: contributing from H2 FY27; meaningful ramp from FY28

Zoraya and Amerisyn are the two distribution vehicles that convert Senores' approved ANDA portfolio into US revenue without a licensing partner taking the margin. Zoraya is the own-label front-end: it markets Senores' approved ANDAs directly to US retail and specialty channels under its own brand. Amerisyn is the government-procurement joint venture, entered in April 2026, targeting the US federal government, Veterans Affairs, and military programs, a channel that requires specialized credentials and FSS tender access.

Management maps each approved ANDA to one of four channels: Zoraya own-label, Amerisyn government, B2B out-licensing, or CDMO/CMO. The underlying portfolio is 58 approved ANDAs as of June 2026, 23 of them commercialized. Zoraya changes the economics: instead of a profit-share with a marketing partner, Senores captures the full US distribution margin on the products assigned to it.

The timeline is now H2 FY27 contribution, not September-October operations. Amerisyn has more than 20 state registrations and expects business to commence within 10-15 days, with more than 10 products over the next two quarters. Zoraya may take about 45 days; both are targeted within Q3. Management deferred revenue guidance for both to the next quarter. On the Q1 FY27 call, Swapnil Shah said:

> *"Zoraya should get operationalized from September, October of this year and similar time frame is also for Amerisyn."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

Earlier Q4 guidance of INR70-100 crore from Amerisyn was not repeated on the Q2 call. Management said revenue guidance for both subsidiaries would come next quarter after commercial launch. Amerisyn has more than 20 state registrations; Zoraya has 14 ANDAs planned in FY27. Zoraya was set up in Q3 FY26 as a step-down subsidiary, with a partner holding 49% and bringing over a decade of US sales and marketing experience, per the Q4 FY26 call.

PIC/S approval for Chhatral: expected in FY27, enabling emerging-market registrations

The Chhatral facility in Ahmedabad, which makes oral solids, injectables and liquids, currently holds WHO-GMP approval and regulatory approvals from 10 individual countries (FY25 annual report). Every new market today requires a separate country-level approval, which is slow. PIC/S (Pharmaceutical Inspection Co-operation Scheme) certification is a mutual recognition standard: once the facility's GMP compliance is certified, its output is accepted for product registration across all PIC/S member and cooperating countries without repeat facility inspections.

That is what turns this into revenue. Senores' emerging markets business runs on a register-then-commercialise model. Management states 558 products are registered and approved, with 944 more filed awaiting approval over the next four quarters. PIC/S is expected in FY27 and would enable new product registrations across emerging markets; no revenue sizing was given on the Q2 call. The segment grew 25% YoY in H1 FY27, is cash-flow positive, so this is incremental volume on an already profitable base.

PIC/S approval is now expected in FY27, without a precise quarter; the earlier Q2-Q3 marker is superseded. It remains an approval, not an achieved registration. The inspection has been completed at Chhatral, and the approval would strengthen regulatory credentials for new product registrations.

> *"we've got a PIC/S inspection done at a Chhatral facility in Ahmedabad. There we make oral solids, injectables and liquid. That will enable us to give us access to multiple markets that we are currently not able to access. Markets like South Africa, Mexico, Vietnam and a couple of other good lucrative markets."*
>
> **SWAPNIL SHAH, Q1 FY27 CONCALL (AUG 2026)**

> *"we are progressing towards obtaining European PIC/S approval for our Chhatral manufacturing facility by Q2, Q3"*
>
> **SWAPNIL SHAH, Q1 FY27 CONCALL (AUG 2026)**

GLP-1 portfolio in 18-20 emerging markets with prefilled syringe line

Senores is commercializing GLP-1 in about 18-20 emerging markets across the Middle East, Africa, Latin America, Far East and CIS, plus a broader peptide portfolio. The prefilled syringe line is installed, the device is outsourced, and drug substance and drug product are made in-house. Revenue timing depends on country approvals and launches. Management did not give a GLP-1 revenue target on the Q2 call.

The mechanism is direct. The company has installed a prefilled syringe (PFS) line at its facility to manufacture the injectable in-house, meaning the revenue is not just a trading play but a manufacturing-led opportunity. Because semaglutide is a chronic therapy for diabetes

and obesity, approvals create recurring revenue streams in markets where Senores already has registered products and distribution partners. The company expects a large opportunity but cannot size it precisely, as these markets lack IQVIA or IMS data for extrapolation.

Management confirmed the filings and the manufacturing readiness on the Q2 FY26 call:

> *"we have filed tablets, dossier, in close to 12 to 14 markets, as we speak. An injectable dossier is also being filed, as we speak today, in a lot of those emerging markets. And to update you, we've also got the manufacturing capability in-house, right? So, we've got a PFS prefilled syringe line installed in our facility as well, just to take on this semaglutide opportunity in the emerging market as we speak."*
>
> **PROMOTER AND MD, Q2 FY26 CONCALL (NOV 2025)**

This fits the FY27 onwards timeline, but the revenue realization depends on the speed of country-specific regulatory approvals and partner-led distribution. The PFS line is a dedicated capital investment that signals the company is building supply ahead of the approval wave. Management did not size the GLP-1 opportunity on the Q2 call.

Manufacturing capacity: Apnar four lines to 1.2bn units by Mar 2027; US fourth line deferred

The Atlanta facility, operated through subsidiary Havix, is the manufacturing core for the regulated market business. Adding manufacturing lines directly increases the physical output available to serve the growing approved ANDA portfolio and CDMO/CMO contracts. Management initially guided the third line for Q3FY26 and the fourth for end FY26, taking total capacity from 1.2 Bn to 2 Bn units (Q2 FY26 concall, Nov 2025).

The third line was commercialized on schedule. By Q3 FY26, management stated the combined capacity, including Apnar, already reached about 2 Bn units (Q3 FY26 concall, Jan 2026). The fourth US line took a different path. The acquisition of Apnar Pharma in December 2025 changed the calculus.

> *"we have currently commercialized three lines. The fourth line was to be commercialized or installed, but we have pushed that plan because we acquired Apnar in December 2025."*
>
> **SWAPNIL SHAH, Q4 FY26 CONCALL (MAY 2026)**

Apnar now carries the disclosed oral-solid expansion: four lines by 31 March 2027 and about 1.2 billion units, with two lines existing, the third being installed and the fourth due before March-end. The Q2 call did not update the US fourth-line timeline or the 2 billion group target. The strategic shift was to move lower-margin products that do not require US manufacturing to Apnar, freeing Atlanta for higher-value work.

API backward integration: Mehsana USFDA inspection was guided for Q2 FY27; outcome not reported

Senores is building a greenfield API manufacturing unit at Mehsana, Gujarat, with an annual capacity of about 100 metric tons. The unit was commissioned in February 2025, and management expects USFDA approval in Q2 FY27. The strategic purpose is not direct API sales but backward integration of the company's own formulation products, protecting supply chains and improving margins on its regulated-market basket.

The mechanism is straightforward: Senores currently procures APIs from third-party suppliers, including single-source imports for some US products. By manufacturing key APIs in-house at a USFDA-approved facility, it secures the supply of critical molecules for its oral solid dosage products and gains cost advantage. The company frames this as supply-chain protection rather than a standalone revenue business.

> *"With an annual capacity of more than 100 metric tons of API facility, this facility will play a major role in the backward integration of our products. Our facility is projected to get approval by the US FDA in Q2 FY '26-FY '27."*
>
> **SWAPNIL SHAH, MD, Q2 FY26 CONCALL (NOV 2025)**

Management has deliberately dampened expectations on the revenue contribution of the API unit itself:

> *"I would not read too much into the sales of that particular API facility coming in. For us, the most strategic is integrating the supply chain for our key products."*
>
> **SWAPNIL SHAH, MD, Q2 FY26 CONCALL (NOV 2025)**

The benefit accrues through the formulation business: lower input costs, assured availability of single-source APIs, and eligibility to sell into US government procurement channels where domestic API sourcing matters. Mehsana USFDA approval remains an open regulatory step; API revenue sits in 'others' at ₹7.8 crore. The approval is not an achieved result.

Key risks

- **US tariffs on generic medicines.** The US has floated tariffs on imported generics, and management acknowledges the risk but is waiting for the India-US trade agreement to clarify the fine print. Senores has a US FDA-approved plant in Atlanta and the Apnar plant in India, so management calls its position "neutral." But shifting production between facilities requires FDA site-transfer approvals that take 12-18 months, and during that window the cost of supplying India-made product to the US would rise. The tariff timeline is 2028, which is distant enough that the exposure is uncertain rather than immediate.
- **Regulatory inspections and controlled-substance quotas can delay launches.** Q2 FY27 had no new own-ANDA launch because the approved controlled-substance ANDA required

a 45-50 day quota before manufacturing and shipment; the product was expected to launch by November-end. Three sANDAs were commercialized in the quarter. The new ANDA and propranolol launch in Q3, and 4-5 controlled substances are planned by March 2027. Each quota, inspection or site-transfer step can shift revenue between quarters.

- **Regulatory approval delays cascade across the growth plan.** The FY27-FY28 growth story depends on a sequence of approvals and launches: PIC/S approval for Chhatral now guided in FY27, USFDA approval for Mehsana guided for Q2 FY27 but not reported, four Apnar lines by March 2027 after an inspection with one minor procedural 483, and 41 approved ANDAs planned over 6-8 quarters. Pharmaceuticals run on inspection schedules, and a single facility observation or documentation deficiency pushes back every product launch attached to that facility. The emerging market expansion is gated on PIC/S; if that slides, the 944 filed registrations convert to revenue later than planned.
- **Execution risk on the 41 uncommercialized ANDAs.** The FY27 guidance of 30-40% revenue growth and 50-60% PAT growth rests on accelerating launches from 23 commercialized products to 64. Management says the key building blocks are complete, but Q2 FY27 had no new own-ANDA launch because the controlled-substance approval awaited a 45-50 day quota; three sANDAs were commercialized. The new ANDA and propranolol launch in Q3, and 4-5 controlled substances are planned by March 2027. If the launch cadence slips, the H2 acceleration embedded in guidance is at risk.
- **Competition and price erosion in complex generics.** The annual report notes traditional generics see ~85% price erosion when five or more competitors enter, while complex generics are less prone. But the 180-day CGT exclusivity window is temporary, and the Nov 2025 call acknowledged "CGT windows are temporary and highly competitive." Roughly 20-25% of revenue comes from CGT-designated products. When exclusivity expires, competitors enter and prices fall. The company's counter is a diversified portfolio and a pre-sold manufacturing model, but the erosion on any single product is inevitable.
- **Working capital and cash flow pressure.** Working capital days jumped to 187 in FY26 from 114 in FY25, driven by the Apnar acquisition adding inventory and receivables before sales ramped. Excluding Apnar, the cycle was about 104 days. In H1 FY27, operating cash flow was ₹38 crore and management says working capital and receivable days improved; H1 capex was ₹46 crore. Unbilled revenue rose with September launches; management said 8-9% of total, but the transcript does not give a clear denominator. If partner payments slow or Apnar and subsidiary sales ramp slower than guided, cash generation remains a risk.
- **Apnar integration and validation-conversion risk.** Apnar contributed ₹21 crore in Q2 FY27 and is guided to ₹100-odd crore in FY27, with four lines by March 2027. The site is

90-100% utilized but more than 50% is validation work, and new Apnar-filed launches start only from November-December. The FDA inspection closed with one minor procedural 483. The risk is converting validation work into billable commercial revenue, not idle capacity.

- **Foreign exchange and tax rate headwinds.** The Q1 FY27 call highlighted INR14-15 crore of forex fluctuation income in Q4 FY26 that did not recur, which distorted sequential profit comparisons. The emerging market business carries INR3 crore of forex gains. A stronger rupee versus the dollar would reduce the rupee value of US revenue and compress margins. Separately, the consolidated tax rate rose from ~17% in FY25 to 23.6% in FY26 as the US business became profitable and old US loss carry-forwards were exhausted. Management guides a normalized ~23% rate, which is a permanent headwind to PAT growth versus the earlier high-growth years.

Scenarios

Bull case

The 41 approved but uncommercialized ANDAs launch over 6-8 quarters, including three sANDAs commercialized in Q2, a new ANDA and propranolol in Q3, and 4-5 controlled substances by March 2027. Apnar ramps to ₹100-odd crore in FY27 and four lines by March 2027, with capacity of about 1.2 billion units. Zoraya and Amerisyn contribute from H2 FY27 and ramp meaningfully in FY28, after about ₹4 crore of Q2 cost with no revenue; Amerisyn has more than 20 state registrations and more than 10 products planned over two quarters. PIC/S approval is expected in FY27. GLP-1 is being commercialized in 18-20 emerging markets. FY27 guidance is 30-40% revenue growth, 50-60% PAT growth and 30%+ EBITDA margin; beyond FY27 management targets around 25% annual growth over two to three years. This is guidance, not achieved.

Base case

The company delivers FY27 guidance of 30-40% revenue growth and 50-60% PAT growth with H2 heavier than H1. Roughly 41 approved ANDAs launch over 6-8 quarters, with some slippage from controlled-substance quotas and FDA timelines. Apnar contributes ₹100-odd crore in FY27 and four lines by March 2027, but the ₹180-200 crore two-to-three-year marker is not restated. Zoraya and Amerisyn start contributing in H2 FY27 and ramp meaningfully in FY28. Emerging markets grow with 558 approved and 944 filed registrations, but FY27 margin is low-to-mid teens, not 18-20%. PIC/S lands in FY27. Beyond FY27, growth is around 25%. Working capital improves but unbilled revenue remains a watch item.

Bear case

The H2 FY27 acceleration does not arrive. Q2 PAT grew 22% and H1 31%, so the 50-60% FY27 PAT guidance requires a sharp second-half step-up. The 41 approved ANDA launches

slip on controlled-substance quotas, FDA timelines and Apnar validation conversion. Apnar stays validation-heavy and misses the ₹100-odd crore FY27 revenue guide. Zoraya and Amerisyn commercial sales slip beyond Q3, leaving the ₹4 crore quarterly cost without offset. Emerging-market margin stays near Q2's 4% instead of recovering to low-to-mid teens. PIC/S slips beyond FY27. Other income and forex flatter reported EBITDA while operating margin is 30%. Beyond FY27 growth falls below the stated ~25%. The 30-40% FY27 revenue trajectory breaks down.

VALUATION SUMMARY

LINE ITEM	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	633	846	1,076	1,354
Revenue growth	-	+33.8%	+27.1%	+25.9%
EBITDA (₹ Cr)	168	261	339	433
EBITDA margin	26.6%	30.8%	31.5%	32.0%
Depreciation (₹ Cr)	31.00	44.00	58.00	70.00
Interest (₹ Cr)	25.00	34.00	42.00	46.00
Other income (₹ Cr)	47.00	30.00	32.00	35.00
PBT (₹ Cr)	159	213	271	352
Tax (₹ Cr)	37.60	53.20	67.70	88.10
Tax rate	23.6%	25.0%	25.0%	25.0%
PAT (₹ Cr)	122	160	203	264
PAT growth	-	+31.3%	+27.4%	+30.1%
EPS (₹)	26.40	34.60	44.10	57.40
P/E	40.5x	30.9x	24.2x	18.6x
PEG	1.4x	1.1x	0.8x	0.6x

CAGR FY27E-FY29E: Revenue +26.5% · EBITDA +28.9% · PAT +28.7%

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Q2 FY27 concall notes

TLDR

Senores Pharmaceuticals reported its highest quarterly revenue and EBITDA in Q2 FY27, with consolidated revenue of ₹192 crore (up 25% YoY), EBITDA of ₹58 crore (up 38% YoY) at a 30% margin, and PAT of ₹36.6 crore (up 22% YoY). H1 FY27 revenue reached ₹372.5 crore (up 30%), EBITDA ₹111 crore (up 58%), and PAT ₹67 crore (up 31%). The approved ANDA portfolio rose to 64 from 58, with 23 commercialized, and the emerging markets business turned cash positive with H1 margins around 10%. Management maintained FY27 guidance of 30-40% revenue growth and 50-60% PAT growth, and guided to roughly 25% annual growth over the next 2-3 years, lower than the earlier long-term framing. Key watch points are the ramp of the Zuraya and Amerisyn US subsidiaries, Apnar line commissioning by March 2027, and emerging market margin recovery to mid-to-late teens in H2.

WHAT CHANGED SINCE Q1 FY27

- **Long-term growth guidance cut.** Q1 notes carried a ₹2,500-3,000 crore revenue target in 3-4 years and a "similar growth trajectory" beyond FY27. This call guided to around 25% annual growth over the next 2-3 years, and the CFO said "25-30% being maintained" when pressed, asking analysts "not to go overboard." The ₹2,500-3,000 crore target was not repeated.
- **Emerging market margin guidance cut.** Q1 guided 18-20% FY27 EBITDA margin for emerging markets. This call guided full-year emerging market margin at "mid-teens to lower teens," with H1 at about 10% and H2 expected at mid-to-late teens. The 18-20% figure was not restated.
- **ANDA count and launch cadence.** Approved ANDAs rose from 58 to 64, but commercialized ANDAs stayed at 23; only 3 sANDAs (4 strengths) were commercialized this quarter. Management attributed the gap to controlled-substance quota timelines (45-50 days) and 3-12 month regulatory pathways (CB-30, PAS) on acquired ANDAs.
- **US subsidiaries still pre-revenue.** Q1 expected Zuraya and Amerisyn to start operations in September-October 2026. This call said Amerisyn should commercialize within 10-15 days and Zuraya within about 45 days, both within Q3, with ₹4 crore of setup cost already in the Q2 P&L and no revenue.
- **Apnar utilization and capacity.** Q1 reported 80-90% utilization and ~30 million units produced. This call reported 90-100% utilization with more than 50% of capacity on validation, and set a target of 4 commercial lines and 1.2 billion units capacity by March 31, 2027.
- **New disclosure: Apnar revenue.** Management said Apnar is on track to contribute ₹100 crore-plus revenue this year, with Q2 Apnar revenue at about ₹21 crore, mostly from the 5 acquired ANDAs.
- **New disclosure: US FDA inspection outcome.** A recent Apnar inspection concluded with one minor procedural 483.
- **New disclosure: auditor change.** Talati and Talati was appointed as joint statutory auditor.
- **New disclosure: GLP-1 and prefilled syringes.** A prefilled syringe line is being installed for GLP-1 and other products, targeting 18-20 emerging markets across Middle East, Africa, Latin America, Far East and CIS, with the device outsourced.
- **Tone shift on margin expansion.** Q1 framed margin recovery as a path to 18-20% in emerging markets. This call repeatedly declined to commit to a timeline for consolidated margin improvement, saying it could take "a quarter, 2 or 3."

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹192 crore	+25% YoY	Highest ever quarterly revenue; regulated markets +28%, emerging markets +21%
EBITDA	₹58 crore	+38% YoY	Operating leverage; reported EBITDA higher than operating EBITDA due to other income
EBITDA margin	30%	+290 bps YoY	New launches, including first-to-launch US products with higher realization
PAT	₹36.6 crore	+22% YoY	Growth below EBITDA; includes ₹4 crore Zuraya and Amerisyn setup cost with no revenue
H1 revenue	₹372.5 crore	+30% YoY	Regulated markets +34%, emerging markets +25% in H1
H1 EBITDA / margin	₹111 crore / ~30%	+58% YoY / +530 bps	Margin expansion on new product mix
H1 PAT	₹67 crore	+31% YoY	Operating leverage partly offset by subsidiary costs
Operating cash flow	₹38 crore (H1)	n/a	Improvement in working capital and receivable days
Capex	₹46 crore (H1)	n/a	Capacity expansion, including Apnar lines and prefilled syringe line
Approved ANDAs	64	Up from 34 in September 2025	1 new ANDA and 3 sANDAs approved this quarter; 23 commercialized
ANDA pipeline	41 molecules, ~130 strengths	Up from 39 molecules, 110+ strengths	In-house development plus acquired portfolio
Apnar revenue	~₹21 crore (Q2)	n/a	Mostly from 5 acquired ANDAs; new Apnar filings to commercialize from November-December
CDMO share of regulated revenue	~35%	Maintained QoQ	Own-product portfolio growing faster than CDMO

SEGMENTS & GEOGRAPHIES

- **Regulated markets:** Revenue grew 28% YoY in Q2 and 34% in H1. CDMO is about 35% of regulated revenue. Management expects meaningful acceleration in H2 from launches, with 41 of 64 approved ANDAs to be commercialized over 6-8 quarters and 41 pipeline ANDAs to follow.
- **Emerging markets:** Revenue grew about 21% in Q2 and 25% in H1. H1 EBITDA margin was about 10%, with Q2 lower due to large beta-lactam orders in a competitive antibiotic segment. Management expects mid-to-late teens in H2 and mid-to-lower teens for the full year, and said October was strong with November-December looking better. 558 registrations are approved and 944 filed, expected to be approved over the next 4 quarters.
- **India branded generics:** Gross margin rose to over 60% this year from 18-20% last year at a similar business scale, as the business shifted from volume to margin focus. Management expects ₹50-60 crore revenue this year at a similar gross margin, with growth to continue from this segment.
- **US subsidiaries (Zuraya, Amerisyn):** Amerisyn has 20+ state registrations and expects to launch more than 10 products within 2 quarters; Zuraya plans 14 ANDA launches in FY27. More than 90% of Amerisyn products are made at the company's US facility; inventory sits on the company's books. Management declined to give a revenue number until after launch.

STRATEGY & COMPANY-SPECIFIC

- **Apnar expansion:** Third line is being installed and the fourth will be done before March 31, 2027, taking capacity to 4 commercial lines and about 1.2 billion units. Full-scale operations and further expansion are expected over 12-18 months.
- **US FDA inspection:** Concluded with one minor procedural 483; management said regulatory hurdles for Apnar-filed products are cleared and no launch delays are expected.
- **Controlled substances:** 4-5 controlled substance launches planned before March 31, 2027, spanning own products, newly developed products and CDMO.
- **GLP-1 and peptides:** Prefilled syringe line being installed; semaglutide and a broader peptide portfolio are being commercialized in 18-20 emerging markets, with devices outsourced.
- **R&D:** Work ongoing on complex and specialty products, NCEs at Phase 1, and CDMO-CMO and NDA signings "almost every other week."
- **Digital and systems:** SAP HANA installed and AI-backed applications deployed across functions.
- **Auditor:** Talati and Talati appointed as joint statutory auditor for audit quality.
- **Accounting change:** Foreign exchange gains previously shown as other operating income are now reported in other income; revenue from operations is now pure operating revenue.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	30-40%	Maintained	H2-weighted launches, Apnar ramp, Zuraya and Amerisyn contribution
FY27 PAT growth	50-60%	Maintained	EBITDA already up 58% in H1; operating leverage and subsidiary revenue
FY27 EBITDA margin	30% or higher	New	New launches and realization; management said "not 28"
Growth over next 2-3 years	~25% annually	Cut	Management cited strong approval and launch pipeline; CFO said 25-30% maintained
Emerging markets FY27 EBITDA margin	Mid-teens to lower teens	Cut	H1 at ~10%; H2 expected mid-to-late teens
India branded generics FY27 revenue	₹50-60 crore	Maintained	Gross margin above 60% at similar scale
Apnar FY27 revenue	₹100 crore-plus	New	Acquired ANDAs plus new Apnar filings commercializing from November-December
Apnar capacity	4 lines, 1.2 billion units by March 31, 2027	New	Third line installing, fourth by March 2027
Zuraya and Amerisyn commercialization	Within Q3 FY27	Maintained (was September-October 2026)	Amerisyn 10-15 days, Zuraya ~45 days
Zuraya FY27 launches	14 ANDAs	New	Planned as Zuraya goes live
ANDA commercialization	41 of 64 over 6-8 quarters	New	Regulatory pathways of 3-12 months on acquired ANDAs

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Emerging market registrations	944 approvals over next 4 quarters	New	Filed registrations awaiting approval

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Emerging market margin pressure	Large beta-lactam orders in a competitive antibiotic segment pulled Q2 margins down; full-year guided to mid-to-lower teens, below the earlier 18-20%
Controlled substance launch timing	Quota approval takes 45-50 days after ANDA approval, then API procurement and manufacturing before shipment
Acquired ANDA commercialization lag	Products made elsewhere need CB-30 or PAS filings to move to company facilities, a 3-12 month delay
Subsidiary cost drag	₹4 crore of Zuraya and Amerisyn cost in Q2 with no revenue; management declined to commit to a timeline for margin improvement
Quarterly volatility	Management said quarterly run rates are hard to maintain and results should be viewed over 6-12 months; product mix shifts margins quarter to quarter
Apnar capacity absorption	90-100% utilization with more than 50% on validation, so capacity is not yet converting to revenue
Regulatory	One minor procedural 483 at Apnar; emerging market registrations subject to approval timelines

Q&A HIGHLIGHTS

Long-term growth guidance

- Question: With strong ANDA visibility and the subsidiaries coming, is the 20-25% growth in the press release caution, or the guidance for the next two years?
- Answer: Management pointed to approved ANDAs rising from 58 to 64 and pipelines in emerging markets, CDMO and NCEs. The CFO said 25-30% is being maintained and asked analysts "not to go overboard," deferring a firmer number to a later call.

Emerging market margin recovery

- Question: Q2 emerging market margin was about 4% against an earlier 18-20% target; when does the business reach high double digits?
- Answer: H1 was about 10%; management expects mid-to-late teens in the next two quarters and mid-to-lower teens for the full year, citing a strong October.

PAT growth versus H1 run rate

- Question: H1 PAT grew 31% against 50-60% full-year guidance, with subsidiary costs rising; how does the company get there?
- Answer: H2 has historically been heavier, with emerging markets, Apnar and both subsidiaries contributing. The CFO said bottom-line growth should exceed top-line growth and that EBITDA is already up 58% in H1.

Apnar utilization and revenue

- Question: What is Apnar's utilization, and how much revenue comes from commercial versus validation production?

- Answer: Utilization is 90-100% with more than 50% on validation. Apnar is on track for ₹100 crore-plus revenue this year, with Q2 at about ₹21 crore, mostly from acquired ANDAs; new Apnar filings commercialize from November-December.

No new ANDA launches in Q2

- Question: Why were no new ANDAs launched this quarter, only 3 sANDAs?
- Answer: The new ANDA approval was a controlled substance requiring a 45-50 day quota, with launch expected by November end. Two of the sANDA strengths are first-to-launch in the US on a billion-dollar molecule; the other two are second-to-launch in a small, high-margin niche.

Subsidiary economics

- Question: Where are molecules procured for Zuraya and Amerisyn, and where does inventory sit?
- Answer: More than 90% of Amerisyn products are made at the company's US facility; Zuraya products are made in the US or India, largely by the company. Inventory sits on the company's books, with tight control to avoid buildup.

Branded generics margins

- Question: What margins did branded generics make this quarter, and how does growth look?
- Answer: Gross margin rose to over 60% from 18-20% last year at a similar scale, with ₹50-60 crore revenue expected this year. Management said growth will continue from this segment without giving an FY28-29 number.

GLP-1 markets

- Question: Which markets is the prefilled syringe GLP-1 targeting, and is it a substitute for the earlier US injectable plan?
- Answer: The prefilled syringe is a device-based product with the device outsourced and drug substance and product made in-house. Semaglutide and a broader peptide portfolio are being commercialized in 18-20 emerging markets across Middle East, Africa, Latin America, Far East and CIS.

Shilpa Medicare Limited

GROWTH TRIGGERS

Q2 FY27 shows the multi-engine model printing rather than promised: a record quarter with API, formulations and biologics all growing, formulation base revenue up 87% excluding licensing income, and ROCE improving while net debt stayed flat through INR252 crore of H1 capex. The forward case rests on built capacity converting into contracted supply: peptide lines targeted for commissioning by end-FY27, a staged API CDMO funnel with one commercialisation in FY28 and three in FY29, three FY28 formulation launches, and a biosimilar pipeline entering European and ROW studies.

1. Record quarter with growth from all three engines

Q2 FY27 revenue was INR538 crore, up 35% YoY, with EBITDA of INR151 crore at 28% and PAT of INR79 crore; H1 revenue crossed INR1,000 crore for the first time at INR1,007 crore, with PAT up nearly 100%. Non-captive API rose 24% to INR255 crore, formulations more than 50% to INR210 crore and biologics 150% to INR65 crore, so the print did not depend on a single division.

2. Formulation base revenue grew 87% without licensing income

Excluding licensing income, formulation revenue grew 87% in Q2 FY27, led by complex finished-dosage products in Europe and supported by the US and ROW. That matters because it separates recurring product supply from lumpy milestone income, which management declines to break out.

3. Biologics is now 12% of revenue with seven biosimilars

Biologics revenue rose 150% to INR65 crore in Q2 and contributes 12% of company revenue across seven biosimilars whose molecules average more than USD 10 billion in global sales. Two biosimilars enter European and ROW human studies in FY27, both partnered NBE programmes enter Phase 1 in FY27, and the first ADC biosimilar enters human studies in FY28.

4. Peptide site commissioning by end-FY27 is a dated capacity milestone

Four peptide lines operate and two more are being added, with space reserved for further expansion. The integrated site targets CDMO, GLP-1 and high-potency API work and is scheduled for commissioning by end-FY27 at a yearly tonnage scale. Management based the plan on customer indications rather than booked orders, so utilisation, not construction, is the variable to watch.

5. API CDMO funnel converts in two stages rather than one

Four programmes are under registration and two partner programmes are in Phase III. Management expects at least one to commercialise in FY28 and three in the following year,

and says three of the four involve API supply to the end customer, which turns development fees into recurring commercial supply. No revenue amount was given.

6. Semaglutide and a partnered patch have cleared exhibit batches

Shilpa completed semaglutide injectable exhibit batches in Q2 FY27 and said it is on track to submit in Europe and ROW. It also completed exhibit batches for a complex transdermal patch already partnered for Europe, with filing planned in FY28. Both are manufacturing milestones before any revenue.

7. Three FY28 formulation launches extend the complex portfolio

Enzalutamide, Abraxane and Rotigotine remain FY28 launch targets, with Rotigotine moved to H1 FY28 after a European raw-material variation took two extra quarters, and Ondansetron expected in H1 FY28 after state approvals. These launch into an existing complex-product base that grew 87% ex-licensing in Q2.

8. Returns improved while capex stayed internally funded

H1 FY27 capex was INR252 crore, primarily from internal accruals, and net debt held at INR612 crore. ROCE was reported at 13.3%, up from 9% in FY25, or 18.3% adjusted, and management expects further improvement from mix and operating leverage. Stable rather than falling debt is the honest limit of this point.

9. Nor-UDCA is scaling in India with an extension path

India formulation revenue grew 2.5 times on an H1 year-on-year basis, led by Nor-UDCA, the first-in-class NAFLD product. Management reported zero recalls in its first year and said it is working to extend the molecule into additional indications, which lengthens the product's commercial life if the studies succeed.

INVESTMENT THESIS

Shilpa Medicare is a vertically integrated specialty pharmaceutical company with three operating engines: non-captive APIs plus peptide and small-molecule CDMO, differentiated finished-dosage formulations, and biologics spanning biosimilars, large-molecule CDMO, antibody-drug conjugates and novel biological entities. The economic proposition is unusual for an Indian pharmaceutical company because the same group can make a key starting material, an API, a finished dosage form and, on the biologics side, take a molecule from clone development to fill-and-finish. More than half of formulation raw-material requirements were reported as internally supplied, and management frames the group as a one-stop shop for partner programmes. Integration does not by itself create pricing power, but it gives Shilpa several routes to monetise one molecule and a wider set of licensing and supply options than a single-division CDMO.

Q2 FY27 is the clearest evidence yet that the model scales. Revenue reached a record INR538 crore, up 35% year on year, and H1 revenue crossed INR1,000 crore for the first time at INR1,007 crore, up 44%. EBITDA was INR151 crore in the quarter at a 28% margin and INR290 crore in H1 at 29%, while PAT was INR79 crore and INR180 crore, nearly 100% above the prior-year half. The print was broad: non-captive API revenue rose 24% to INR255 crore, formulations more than 50% to INR210 crore, and biologics 150% to INR65 crore. The most useful disclosure is that formulation revenue excluding licensing income grew 87%, which reduces reliance on milestone accounting. Management also reported ROCE of 13.3%, or 18.3% adjusted, up from 9% in FY25.

The qualification is margin quality. Gross margin fell about 700 bps year on year because API, whose gross margin sits below formulations, took a larger share of revenue, and because global API raw-material prices rose. Management said the pressure would remain until raw-material prices settled. This is the arithmetic of the mix shift: the steadiest growing engine is also the least profitable per rupee of sales, so revenue can grow faster than gross profit until the higher-margin formulation and biologics lines scale. That is an analyst inference from the disclosed mix and margin comments, not company guidance.

The peptide programme is the largest single test of capital allocation. Four lines operated and two more were being added, with space reserved for further expansion, and the integrated site is targeted for commissioning by end-FY27 at a yearly tonnage volume for CDMO, GLP-1 and high-potency API work. Management explicitly said it had not claimed orders in hand and that customer indications had shaped the plan, and it deferred utilisation commentary to H2 FY28. Further lines depend on how well the current build is used. The call did not disclose the project cost, and analyst references to USD 50 million or USD 450 million were not confirmed by management, which described the investment as phased. The

mechanism is therefore favourable but conditional: commissioning is a dated milestone, contracted volume is not.

Formulations supply the nearest launches. Enzalutamide, Abraxane and Rotigotine are FY28 targets, with Rotigotine moved to H1 FY28 because a European raw-material variation approval took two extra quarters, and Ondansetron expected in H1 FY28 after state approvals. Nor-UDCA is the differentiated owned product: India formulation revenue grew 2.5 times on an H1 basis led by it, with zero recalls in the first year and additional indications under development. The oligopoly economics of Nilotinib, the first European generic, are time-limited because tenders run one to three years; management said some generic players had entered but saw no big change in numbers currently.

Biologics has moved from option to contributor at 12% of revenue across seven biosimilars whose molecules average more than USD 10 billion in global sales. Two biosimilars enter European and ROW human studies in FY27, the Alveolus Bio and MapTree Biologics programmes enter Phase 1 in FY27, and the first ADC biosimilar enters human studies in FY28. Recombinant human albumin has CDSCO and EMA approval for its global Phase III protocol, with European IMPD submission targeted for H2 FY27, and management declined any revenue indication, including for the first years of operation. The Unicycive OLC programme has a revised PDUFA date of March 2027 after the partner filed with an additional site. These are real, dated milestones several steps before revenue, and every one of them is partner-gated.

The API CDMO funnel is broader than previously documented. More than 25 NCE programmes are active, four are under registration, two partner programmes are in Phase III, and management expects at least one commercialisation in FY28 and three in the following year, with three of the four supplying API to the end customer. Conversion produces recurring commercial supply rather than development fees, but no revenue amount was given and partner uptake sets timing.

Capital allocation is disciplined but not yet deleveraging. H1 FY27 capex was INR252 crore, primarily funded from internal accruals, and net debt held at INR612 crore. Further peptide investment is explicitly conditional on utilising the current build. If programme demand arrives, existing assets can support incremental revenue without another large build; if it does not, depreciation and fixed cost arrive before the sales that justify them.

The earnings path is conditional rather than forecastable. Management gave no quantitative revenue, EBITDA, margin or PAT guidance for H2 FY27, FY27 or FY28 and again declined forward estimates. The proof points are specific: peptide commissioning by end-FY27 followed by visible customer supply before the H2 FY28 utilisation update; at least one late-stage CDMO commercialisation in FY28; FY28 formulation launches beginning with

Rotigotine and Ondansetron in H1; European IMPD submission for albumin in H2 FY27; and the March 2027 PDUFA date for OLC. The thesis strengthens if formulation base growth holds without licensing income, biologics revenue becomes more recurring, and peptide utilisation rises without a fresh expansion commitment. It weakens if API mix and raw-material inflation keep gross margin compressed, the peptide site commissions without orders, OLC or albumin slips again, or licensing income masks softer underlying growth.

The central falsifier is a widening gap between built capacity and commercial demand, because Shilpa can keep reporting revenue growth while newer assets stay underused. The second is margin quality, where a growing API share can lift revenue while diluting profitability.

RESEARCH REPORT

What Shilpa Medicare Limited does

Shilpa Medicare Limited is an Indian pharmaceutical company, incorporated in 1987 and headquartered in Raichur, Karnataka. It operates across three vertically integrated segments: Active Pharmaceutical Ingredients (APIs), finished dosage formulations (FDF), and Biologics. The company also offers Contract Development and Manufacturing Organization (CDMO) services spanning small molecules, large molecules, and antibody-drug conjugates (ADCs).

The company is in the middle of a deliberate transformation. Three years ago, management describes it as a "solid hard-working API business, carrying a lot of debt." Today, net debt-to-EBITDA has improved from 6.7x to 1.3x, the credit rating was upgraded to AA-, and the portfolio extends beyond ingredients into first-in-class drugs, biosimilars, and complex delivery systems (Q1 FY27 concall, Aug 2026).

Q2 FY27 revenue reached a record INR538 crore, up 35% YoY, with record quarterly EBITDA of INR151 crore, up 37% YoY, at a 28% margin. H1 FY27 revenue was INR1,007 crore, up 44% YoY, while EBITDA was INR290 crore, up 40% YoY, at a 29% margin. PAT was INR79 crore in Q2 and INR180 crore in H1 FY27, nearly 100% above the prior-year H1. Segment revenue in Q2 was INR255 crore for non-captive API, INR210 crore for formulations and INR65 crore for biologics.

Q2 FY27 strengthened the operating-leverage evidence: H1 revenue exceeded INR1,000 crore for the first time, H1 EBITDA margin was 29%, and management said ROCE had improved to 13.3%, or 18.3% on an adjusted basis. At the same time, net debt was INR612 crore after INR252 crore of H1 capex, so the balance sheet remained stable rather than further deleveraging during the current investment phase.

API division

The API business, run through subsidiary Shilpa Pharma Lifesciences, manufactures oncology and non-oncology APIs, peptides, and bio-polymers across two facilities in Raichur with a combined installed capacity of over 1,000 KL per annum (Annual Report FY25). The oncology portfolio is the historical foundation of the company, and the facilities use high-containment technologies for handling potent compounds. Batch sizes range from 125 grams to 350 kg for oncology and 4 kg to 2,000 kg for non-oncology products (Annual Report FY25).

The division has four key verticals: oncology, non-oncology, CDMO, and peptides/polymers (Q2 FY26 concall, Nov 2025). Management said in Q2 FY27 that more than 15 new oncology generic products remain on track for completion in FY27. API delivered its highest-ever quarterly revenue and management expects four of more than 25 NCE CDMO programmes to commercialize within 18-24 months. Key non-oncology products include Ursodeoxycholic

Acid and Tranexamic Acid, whose FY25 capacity expansions remain part of the historical base.

The CDMO business within API remains a major growth driver, with more than 25 NCE programmes. Management said in Q2 FY27 that four late-stage programmes were under registration and two partner programmes were in Phase III. It expects at least one late-stage programme to commercialize in FY28 and three in the subsequent year, while declining to quantify segment revenue. The first peptide expansion site is still targeted for commissioning by end-FY27. Management said it would make peptides at a yearly tonnage volume but did not disclose the project amount, a specific tonnage figure or a cost per line, and said the two additional lines plus reserved space would follow business progress.

The polymer business, built around a dedicated Polymer Research & Technology department, supplies novel polymeric materials to US customers for non-pharma applications, with Shilpa as the sole supplier from India on its flagship contract (Annual Report FY25, Q3 FY26 concall).

Formulation division

The Formulation division develops finished dosage forms across oral solids, injectables, oral dissolving films (ODFs), and transdermal patches. The key manufacturing sites are Jadcherla for potent oncology products with OEL-4 containment, and Dabaspet for ODFs and transdermal patches with USFDA and EU GMP approvals. The Dabaspet facility has annual capacity of 50 million oral films and 30 million transdermal patches (Annual Report FY25).

The division's crown jewel is Nor-UDCA (NorUrsodeoxycholic acid), the first-in-class therapy for non-alcoholic fatty liver disease (NAFLD) approved in India in Q3 FY26. This is a genuine New Chemical Entity - a first for an Indian company. Management reports strong early clinical outcomes and a healthy order book for FY27. The company is taking Nor-UDCA global, with European and US scientific advice completed and global Phase II studies starting in FY27 (Q1 FY27 concall, Aug 2026). The addressable patient population in India is significant - management cites approximately 25% of the population suffering from NAFLD (Q3 FY26 concall, Feb 2026).

The US strategy runs through out-licensing complex products via partners. Three 505(b)(2) products are commercialized. Enzalutamide, Abraxane and Rotigotine were described as on track for FY28 launches, although Rotigotine's European launch slipped by about two quarters because a European Agency raw-material variation approval took two additional quarters. Management now expects Rotigotine to launch in H1 FY28. Ondansetron is expected to launch in H1 FY28 after central and state approvals.

The European business is built around Nilotinib, launched in FY26 as the first generic in EU, plus a pipeline of complex generics and differentiated products. Europe formulation revenue

grew over 100% YoY in FY26 to over INR200 crores (Q4 FY26 concall, May 2026). The division also has an emerging market business, which delivered over 300% growth in FY25, driven by market expansion and product launches (Annual Report FY25).

Biologics division

The Biologics business operates through subsidiaries Shilpa Biologicals and Shilpa Biocare, using a facility in Dharwad with microbial and mammalian expression systems, EU GMP approval, and capabilities from clone development through to fill-and-finish. The facility has mammalian capacity of 4,000 liters with single-use bioreactors from 50L to 2,000L (Annual Report FY25).

The division has three revenue streams: biosimilars for the Indian market, global biosimilar out-licensing, and CDMO services for biologics. Adalimumab is the product currently supplied in the Indian end market. In Q2 FY27, management said two biosimilars would enter European and ROW human studies during FY27. Nivolumab is planned for filing in Europe in FY28, and the first ADC biosimilar is also expected to enter human studies in FY28. The latest call did not reaffirm the previously stated FY27 Aflibercept India launch, so that milestone remains open rather than confirmed.

The CDMO business has more than 6 active programmes, with Phase 1 supply for three partner biologic programmes due to complete in FY27. Biologics now contributes 12% of company revenue across a portfolio of seven biosimilars, and management described the division as 'no longer an asset under monetization'. The company claims to be one of the few integrated ADC manufacturing companies in India, building a suite with mAb, payload, linker, and conjugation capabilities under one roof (Q1 FY27 concall, Aug 2026).

Recombinant Human Albumin is the flagship new biological entity developed by Shilpa. The global Phase III protocol was approved by CDSCO and EMA, and management now targets European IMPD submission in H2 FY27. The partner for the Unicycive OLC programme filed its NDA with an additional site and received a revised PDUFA date of March 2027; commercial supply remains contingent on regulatory clearance and partner execution.

Business segments

API

The API business is the oldest leg of Shilpa Medicare and still its largest. Run through wholly-owned subsidiary Shilpa Pharma Lifesciences, it makes oncology and non-oncology active ingredients, peptides, and specialty polymers, and sells CDMO services to innovator pharma companies. Manufacturing sits in two facilities in Raichur, Karnataka, with over 1,000 KL per annum of installed reactor capacity spread across more than 20 blocks, strictly segregated between oncology and non-oncology production (FY25 Annual Report).

The capability that took decades to build is high-containment oncology synthesis. The FY25 Annual Report states Shilpa was "one of the first companies in India" to manufacture oncology drug substances in a controlled environment, using high-containment technologies like the Bipolar system from Japan. Oncology batch sizes range from 125 grams to 350 kg; non-oncology batches go from 4 kg to 2,000 kg. That containment expertise is why the company can handle the toxic molecules generic competitors avoid.

Within the product portfolio, the mix is deliberately differentiated. Nilotinib, developed through a non-infringing route, is associated with the first generic launched in the EU. Methotrexate, UDCA and Tranexamic Acid anchor the API portfolio, while peptide capabilities include synthetic and semisynthetic GLP-1 work. Management said in Q2 FY27 that four peptide lines were operating and two additional lines were being added. The first expansion site, intended for CDMO, GLP-1 and HPAPI work, remains targeted for commissioning by end-FY27; further investment depends on customer uptake and utilisation.

Customers split into two buckets: innovator and biotech companies buying CDMO and NCE supply, and generic manufacturers buying commercial API. The CDMO pipeline includes more than 25 NCE programmes. One commercial NCE programme launched around a year before the Q2 FY27 call and is expected to grow slowly by volume, while Japanese programmes remain at the registration-batch stage. Management now describes four late-stage registration programmes and two partner Phase III programmes, expects at least one late-stage programme to commercialize in FY28 and three in the subsequent year, and continues to protect partner and therapy-area confidentiality.

Why do these customers buy from Shilpa instead of a lower-cost Chinese supplier? Management's answer is integration and complexity: the company can make the API, the intermediate, and in several cases the finished formulation, and it holds the regulatory accreditations (USFDA, EU GMP, PMDA Japan, ANVISA Brazil, among others) that most Indian API makers lack. On peptides, management conceded Semaglutide entry is late but argued the end-to-end position and global accreditations make it viable for ROW markets (Q2 FY26 concall).

Competitive position is framed internally as differentiation through chemistry rather than scale. The disclosed dynamics include pricing pressure in generic markets, an acknowledgment that oncology revenue growth was slower for two years due to earlier validation constraints, and a renewed push with 15 new oncology blockbusters under validation, with patent expiries out to 2032 (Q4 FY26 concall). The polymer side holds a sole-supplier contract for a US MNC for non-pharma polymer applications (FY25 Annual Report).

The API division is also the captive backbone of the group. In Q1 FY27 management disclosed that more than 50% of formulation raw material requirements are sourced internally, and that a large part of oncology API output feeds the finished formulation business (Q1 FY27, Q3 FY26 concalls). The FY25 Annual Report describes the same: "our API unit has been progressively increasing its support for our in-house product portfolio of Formulation business."

Revenue mix remained API-led but biologics accelerated. Q2 FY27 non-captive API revenue was INR255 crore, up 24% YoY, and H1 revenue was INR470 crore, up 20%. Formulation revenue was INR210 crore in Q2, up more than 50% YoY, and INR407 crore in H1, up 70%; excluding licensing income, the formulation base business grew 87% in Q2. Biologics revenue was INR65 crore in Q2, up 150% YoY, and INR117 crore in H1, up 92%, supported by licensing, partnerships and CDMO.

Management's framing across five quarters has been consistent: API is the steady-growth division while Formulations and Biologics provide the acceleration. Asked in Q3 FY26 which divisions would drive FY27, the ED and CEO answered:

> *"growth will come more from our Biologics and Formulation business. And API will be more like a steady business, which will continue to grow at a steady pace."*
>
> **ED & CEO, Q3 FY26 CONCALL (FEB 2026)**

He also described the growth mechanism and its limits:

> *"we'll have something differentiated, either in API or in Formulation, which will help us in getting better market share. Like, you have seen classic example of Nilotinib, right, where we have done Nilotinib base, which has given us advantage in launching early."*
>
> **ED & CEO, Q3 FY26 CONCALL (FEB 2026)**

The reinvestment phase remains material rather than complete. H1 FY27 capex was INR252 crore, primarily funded from internal accruals, while net debt was INR612 crore and remained stable despite the larger programme. For peptide capacity, management said the current investment is already in place and any additional phased investment depends on utilisation, customer indications and partner uptake. Utilisation commentary was deferred to H2 FY28.

Formulations

Formulations is Shilpa's finished-dosage arm: injectables, oral solids, oral dissolving films, and transdermal patches sold in the US, Europe, emerging markets, and India. The capability took years to build because the products are not standard generics. They are first-in-class molecules or complex dosage forms - ready-to-use oncology injectables, transdermal

patches, and a new chemical entity (NCE) - developed in-house through non-infringing routes and licensed to partners who already own distribution in the target market. Shilpa also owns the drug substance: over 50% of formulation requirements are supplied captively by the API division, which is the structural margin advantage over a pure formulations player (Q1 FY27 call).

The flagship product is Nor-UDCA (Norursodeoxycholic acid), India's first approved therapy for NAFLD, launched in November 2025. It targets the liver directly, which management contrasts with semaglutide: "Nor-UDCA directly targets the liver enzyme. That is the major advantage this product has against products like semaglutide, which has a different mechanism of action" (Q1 FY27). It sells under Shilpa's own label and through three large Indian marketing partners, and management reported strong order visibility for FY27. Global Phase II studies in Europe and the US start in FY27.

Three 505(b)(2) products are already commercial in the US, led by Pemetrexed and Bortezomib ready-to-use injectables that eliminate reconstitution. Europe's growth engine is Nilotinib capsules, the first generic in the EU, where the innovator still controls about 40% of the market. Ahead are Rotigotine transdermal patch (approved in Europe, filed in the US, partnered with a strong US company, launch in FY28), Abraxane (paclitaxel albumin-bound), Enzalutamide and Abiraterone formulations, and Ondansetron long-acting injection for chemotherapy-induced nausea. The OLC program with Unicycive Therapeutics, where Shilpa is the CDMO partner for both API and formulation, hit a recent CRL from the USFDA that management said it is working through with the partner.

The customer base is licensing partners, not end patients. Shilpa develops the product, obtains regulatory approvals, and hands commercialization to partners with existing reach: the number one generic company in Europe for Nilotinib, three of the best ophthalmic companies in India for Aflibercept, and "one of a very strong company in the U.S." for Rotigotine. The economics shift as products mature - upfront fees, milestone payments, supply revenues, and profit share in select cases. As CFO Alpesh Dalal explained in the Q2 FY26 call, early licensing income "has started getting converted into a regular supply plus profit-share business now" as pipeline products move to commercial phase.

> *"So in Formulation, the overall captive percentage, if I tell you, is more than 50%."*
>
> **KESHAV BHUTADA, Q1 FY27 CONCALL (AUG 2026)**

Competitively, Shilpa avoids me-too generics entirely. "Shilpa, as a company, is not selling any me-too generics in the U.S. All are complex" (Q1 FY27). Against semaglutide-based fatty-liver treatments promoted by Emcure, Nor-UDCA claims a different mechanism. In Europe for Nor-UDCA, the innovator Falk holds a polymer patent; Shilpa pursues a different indication with its own IP strategy. Rotigotine has very few generic players, and Abraxane is

complex and tender-driven. The weaker spot is volume: oncology API is captively consumed by formulations rather than sold externally, which is why API segment revenue looks flat even as Formulation revenue grows.

The segment remains the group's formulation monetization layer. Q2 FY27 formulation revenue reached INR210 crore, up more than 50% YoY, and H1 revenue was INR407 crore, up 70%. Excluding licensing income, the base business grew 87% in Q2, led by complex finished-dosage products in Europe and supported by the US and ROW. Management did not provide forward formulation revenue or margin guidance and declined product-level quantitative opportunity guidance.

The recurring thesis is operational efficiency. With plants already built and capacity underutilized, management sees the formulation pipeline converting existing assets into revenue without additional significant capex: "we still feel that for at least the next 3 years, we don't need any significant capex in new investments" (Q1 FY27). The main risk flagged repeatedly is regulatory: "the regulatory pathway in pharmaceutical industry is a very critical aspect... if some of those unexpected challenges come up, that might slow down the growth trajectory that we have" (Q1 FY27).

Biologics

Shilpa runs its Biologics business through two wholly owned subsidiaries: Shilpa Biologicals (biosimilars and large-molecule CDMO) and Shilpa Biocare (recombinant human albumin and manufacturing). The platform is built at Dharwad, Karnataka, an EU GMP-approved site with microbial fermenters from 100 L to 55,000 L, mammalian single-use bioreactors from 200 L to 2,000 L, and a drug-product vial-filling line that received European certification (FY25 annual report). The capability that took years to assemble is depth: Shilpa can take a molecule from clone development through clinical and commercial manufacturing to fill-and-finish, which management says is rare in India. On the Nov 2025 call, Keshav Bhutada described the division as having 8 biosimilar programs "under various stages of development," with Aflibercept the most advanced.

The commercial product today is Adalimumab (Oriadali), a high-concentration 100 mg/mL biosimilar to Humira, launched in India in FY24. It is profitable but small; on the Nov 2025 call, Bhutada said the "revenues which our partner is doing is not significant because India as an opportunity is not very big in Adalimumab." Its strategic value was proving Shilpa could build and launch a complex biologic with zero quality complaints, positioning later, larger molecules.

The next launches are Aflibercept (ophthalmic, for wet AMD and diabetic macular edema) and Nivolumab. Aflibercept completed its clinical studies and is on track for an India launch in FY27, already partnered with 3 Indian companies "who have decent market share in the

ophthalmic industry" (Aug 2026). Management chose not to run Aflibercept trials in Europe, saying on the May 2026 call they are "late for Europe market" unless a partner funds the study. Nivolumab took Shilpa's first European partnering deal with Orion Corporation, plus a LatAm deal with SteinCares; the India clinical study has started, with an FY28 India launch planned. The biosimilar pipeline behind these includes Pembrolizumab, Daratumumab, Dupilumab and Trastuzumab, and management cited a collective global market opportunity of over USD 30 billion (FY25 annual report).

Two newer bets sit alongside the biosimilars. The first is antibody-drug conjugates: the first ADC biosimilar is expected to enter human studies in FY28, a second is in development, and Shilpa is commissioning an integrated ADC suite that makes the mAb, the payload, the linker and the conjugation in-house. The second is new biological entities. Shilpa holds exclusive CDMO rights for mAbTree's immune-oncology antibody (which has orphan drug designation for 2 indications) and has partnered with Alveolus Bio; both programs enter Phase I human studies in FY27, and Shilpa made strategic investments in both companies. Recombinant human albumin (rHA), Shilpa's own NBE, completed Phase I in India, and CDSCO and EMA have approved the global Phase III protocol; European IMPD submission is now targeted for H2 FY27. Orion holds exclusive European commercialization rights, and an excipient-grade US DMF is already filed.

CDMO is the revenue engine today. The Biologics division runs more than 6 active NCE programs for partners (Aug 2026), up from 5 active programs a year earlier, and one program will enter human clinical studies in FY27 on the partner's side. This mirrors the group's API CDMO, and both feed the same pitch: a one-stop shop. Bhutada framed it on the Aug 2026 call:

> *"Shilpa as a company, the way we are built is integration. If you see our API is integrated with Formulation or Biologics is integrated from clone to Fill & Finish."*

That integration is also how Shilpa competes. The ADC suite draws on the high-potency API division for payloads and linkers, and the annual report notes Shilpa is "one of the very few companies in India with capabilities to service both small and large molecules client requirements." Management claims to be "one of the very few integrated ADC manufacturing companies in India" (Aug 2026), and the only Indian company to have completed Phase I for recombinant human albumin (FY25 annual report). None of the sources name specific Indian competitors, so that claim stands without peer comparison.

Revenue is accelerating but the mix remains lumpy. Biologics generated INR65 crore in Q2 FY27, up 150% YoY, and INR117 crore in H1, up 92%, driven by licensing, partnerships and CDMO. Management expects FY27 to contain a mix of CDMO, biosimilar and licensing revenue rather than a single durable revenue stream. Two biosimilars are expected to enter

European and ROW human studies in FY27, two NBE partnerships are expected to enter Phase I in FY27, and the first ADC biosimilar is expected to enter human studies in FY28.

The segment is also the clearest expression of Shilpa's return-on-capital narrative. Adjusted ROCE excluding biologics and albumin was 17.4% in FY26, up from 4% in FY23 (May 2026), which is management's way of saying the heavy asset base here is under-earning today but has the operating efficiency embedded. The strategy is to sweat those assets: license biosimilars into Europe and ROW, keep partners funding clinical studies, and let CDMO contracts fill the Dharwad capacity that is currently underutilized.

Customers

Licensing and commercialization partners

Shilpa's model for advanced markets is to develop products and out-license them to partners who handle registration, marketing, and distribution. The company selects partners for their market presence in specific therapeutic areas. The revenue model involves upfront fees, milestone payments, ongoing supply agreements, and in select cases, profit share.

The US 505(b)(2) products are commercialized through a partner - the name is not disclosed in the sources, but management references "our U.S. partner" gaining market share in Pemetrexed (35%) and Bortezomib (5%) (Q4 FY26 concall, May 2026). The commercial arrangement for the earlier product, Amneal (Pemetrexed), is now "a supply plus profit share" rather than licensing income (Q2 FY26 concall, Nov 2025). This shift from milestone income to recurring supply revenue is the expected lifecycle for these products.

Orion Corporation is the European partner for both Nivolumab (biosimilar) and Recombinant Human Albumin (therapeutic). Under the rHA agreement, Orion holds exclusive rights for distribution, marketing, and sales in Europe (Annual Report FY25). The Nivolumab partnership with Orion was described as "our first European partnering" and gives assurance on global commercialization of the biosimilar pipeline (Q1 FY27 concall, Aug 2026). SteinCares is the LatAm partner for Nivolumab (Q4 FY26 concall, May 2026).

For Nor-UDCA in India, the company uses a hybrid strategy: its own brand plus three partner companies with strong marketing reach to physicians and specialty hospitals. The arrangement is supply-price based rather than profit-share, with milestone payments tied to annual targets (Q2 FY26 concall, Nov 2025).

CDMO clients

The CDMO business serves innovative pharmaceutical and biotech companies. The company has more than 20 active CDMO customers and over 25 NCE programs in various stages (Q1 FY27 and Feb 2026 concalls). The customers are typically small biotechs or specialty

pharma companies developing novel molecules who need development and manufacturing scale-up.

Unicycive Therapeutics is the most visible CDMO client. Shilpa developed both the API and formulation for Oxylanthanum Carbonate (OLC), a treatment for hyperphosphatemia, under the FDA 505(b)(2) pathway. Shilpa built a dedicated manufacturing block for OLC and will be the exclusive manufacturer post-approval. The original PDUFA date was June 29, 2026 (Q3 FY26 concall, Feb 2026), and a Complete Response Letter followed. By Q2 FY27 the partner had filed its NDA with one additional site and received a revised PDUFA date of March 2027 (Q2 FY27 concall, Nov 2026).

For certain CDMO relationships, Shilpa takes an equity stake or makes strategic investments. The mAbTree Biologics collaboration involves co-developing a novel immune-oncology monoclonal antibody, with the product receiving orphan drug designation for two indications. Alveolus Bio is a similar NBE program. Management describes this as a deliberate, confidential strategy: "we are very selective. It should fall within our therapy area, and it should fall within our corporate strategy - only then do we take interest" (Q1 FY27 concall, Aug 2026).

Why customers choose Shilpa

The buying logic for Shilpa's CDMO and partnering services centers on integrated capabilities. In the API division, the company can handle complex multi-step synthesis with non-infringing routes. In Formulations, it offers differentiated dosage forms (ODFs, transdermal patches, long-acting injectables). In Biologics, it offers clone-to-vial capabilities.

> *"Today, what industry needs is the plant, the capabilities of one-stop solution, that is what we have."*
>
> **KESHAV BHUTADA, Q1 FY27 CONCALL (AUG 2026)**

Customers come for the combination: a partner that can develop and manufacture an API, formulate it, and in the biologics case, carry it from clone development to fill-and-finish. This integration reduces the number of vendors a biotech needs and simplifies regulatory submissions.

Switching costs are high. These are multi-year development programs with everything invested in the relationship. The NCE programs run from early phase through commercialization - the timelines stretch across years and require deep technical collaboration. For the OLC program, Shilpa built a dedicated block. For the NBE programs, it invested capital. Customers do not casually switch after that level of embedded development.

Competitive landscape

The sources do not name direct competitors, so the competitive picture must be inferred from how management describes its positioning and the industry dynamics it references.

In the API business, Shilpa competes against large Indian API manufacturers and Chinese producers. The company says it does not play in me-too generics for the US market: "Shilpa, as a company, is not selling any me-too generics in the U.S. All are complex" (Q1 FY27 concall, Aug 2026). This is a deliberate differentiation strategy. The company competes on non-infringing routes (like Nilotinib base) and complex synthesis rather than on commodity pricing.

The oncology API space is crowded. Management acknowledged losing some ground on new product development timelines: "in last 1 year, we have not taken new oncology new molecules. Only which were required for our captive sales, we have done it" (Q3 FY26 concall, Feb 2026). Competitors in India and China have been filing DMFs for key molecules. Shilpa's response is to be selective - only investing in products where there is an end customer already interested, and where there is process differentiation.

In the CDMO space, the competition includes global and Indian CDMOs that are "materially larger" than Shilpa, as one analyst put it, with revenue upwards of INR800-1,000 crores. Shilpa counters with integration across small molecules, large molecules, peptides, and ADCs - a breadth that few Indian companies match. Management claims it is "one of the very few integrated ADC manufacturing companies in India" (Q1 FY27 concall, Aug 2026).

In biosimilars, the competition is intense. For Adalimumab, the company acknowledges India is "not a very big opportunity" but they got a decent market share by launching a high-concentration differentiated product. For Aflibercept, management explicitly says it is not planning to enter Europe because "we feel that we are late for Europe market" - the product has a long and costly study requirement (Q4 FY26 concall, May 2026). This is an honest admission of competitive constraints.

In semaglutide, Shilpa is a late entrant. Management acknowledges this directly: "we are late in Semaglutide, but what we have developed and the strategy which we have adopted is we are having both synthetic and semisynthetic API. And our major sales will also go to our captive formulation" (Q2 FY26 concall, Nov 2025). The differentiation is backward integration plus global regulatory accreditations in its facilities, targeting a small share of a very large market.

Industry

The global pharmaceutical market is projected to grow at 6.2% CAGR from 2023 to 2028, driven by chronic disease prevalence, an ageing population, and increased healthcare

spending. The small molecule segment was USD 970.6 billion in 2023, while the biologics segment grew faster at a 10.5% CAGR from 2018 to 2023 (Annual Report FY25).

The global API market was valued at USD 232.13 billion in 2025 and is projected to reach USD 328.94 billion by 2030, a CAGR of 7.22%. North America leads on regulatory oversight and an established manufacturing base, while Asia captures incremental volumes through cost-competitive capacity. Strategic reshoring in the US and Europe is a live dynamic (Annual Report FY25).

The CDMO industry is growing from USD 120 billion to USD 176 billion by 2028, a CAGR of 7.9%. India currently contributes a small share - "a meagre 2-3% of the market" - but is expected to capture 8-10% of the global market by 2035, backed by scientific capabilities and cost advantages (Annual Report FY25). This tailwind directly benefits Shilpa, which is positioning its CDMO business across small and large molecules.

India's place in the global supply chain rests on a combination of low-cost manufacturing, regulatory accreditations across multiple agencies, and increasingly, complexity capability. The import substitution theme shows up in Shilpa's product selection - Methotrexate and other complex oncology APIs are being developed as import substitutes (Q4 FY26 concall, May 2026). This aligns with the broader trend of India reducing dependence on Chinese intermediates and KSMs in the API space.

Biosimilars are a structural growth area driven by patent expiries and the need for affordable biologics globally. Shilpa is targeting this with a pipeline that includes high-value molecules beyond Adalimumab - Aflibercept, Nivolumab, Pembrolizumab, Daratumumab, and more, collectively representing a global market opportunity of over USD 30 billion (Annual Report FY25). The global Aflibercept market alone exceeds USD 9 billion (Annual Report FY25). The company is selectively entering these markets - only where it can achieve regulatory approval for clinical study timelines that make sense.

Regulation is the industry's binding constraint, and it cuts both ways. For pharmaceuticals, regulatory approval is a moat that validates capability - USFDA, EU GMP, and other agency approvals are what allow products into premium markets. But regulatory setbacks are equally significant. The Jadcherla import alert is the clearest example: it limits the US market opportunity for that facility while the company routes US products through third-party CMOs (Q4 FY26 concall, May 2026). By Q2 FY27 management said it was working with USFDA on remediation measures with no impact on current revenue or the next 2-3 years' business plan, that the plant had been reinspected and cleared again by EU authorities, and that most critical US filings had been moved to CMO partners (Q2 FY27 concall, Nov 2026).

The US tariff threat is an active industry consideration. Management notes the company's US exposure is complex, differentiated products rather than me-too generics, which limits

impact. However, the industry overall is monitoring the Trump administration's actions on pharmaceuticals, and "it will be the right time to move on the next steps" once there is clarity (Q1 FY27 concall, Aug 2026). The company is evaluating US manufacturing facilities as part of that contingency planning.

Growth triggers

Nor-UDCA India launch and global Phase II studies start

Nor-UDCA (nor-ursodeoxycholic acid) is Shilpa's first new chemical entity and the first product globally approved for non-alcoholic fatty liver disease (NAFLD). The annual report records that Phase III trials were completed and CDSCO marketing approval was received in FY25. Management is clear on the mechanism advantage: Nor-UDCA directly targets the liver enzyme, unlike semaglutide or other candidates in the same indication.

The commercial model is supply-based. Shilpa launched in India in November 2025 (Q3 FY26) under its own label plus three marketing partners, and the partner arrangement is a supply price, not a profit share, with separate licensing milestones tied to annual targets. The product exceeded expectations at launch:

> *"Our first NCE molecule, which was launched in the current quarter, was NorUDCA... has exceeded our expectations, and we have had great response from the physicians."*
>
> **CEO, Q3 FY26 CONCALL (FEB 2026)**

The revenue loop depends on the six-month treatment duration. The clinical outcomes seen in patients in the end market are early evidence that physicians are re-prescribing, and management reported in Q1 FY27 (Aug 2026) strong visibility of orders for the year. The same call noted the India domestic formulation segment had contributed INR59 crores across the first two commercial quarters. By Q2 FY27 management said the India business had grown 2.5 times on an H1 year-on-year basis, led by Nor-UDCA, with zero recalls in the first year of launch and work under way to extend the product into additional indications (Q2 FY27 concall, Nov 2026).

The global leg starts now. European and US scientific advisers are completed, and global Phase II clinical studies begin in FY27. Management stresses the European study is for a different indication than the existing innovator product, which keeps the pathway distinct. ROW markets are already being filed or partnered, so the same supply-plus-licensing model can be exported without needing Shilpa to build in-market distribution itself.

Rotigotine patch launch moved to H1 FY28

Rotigotine transdermal patch is Shilpa's first approved transdermal product, a complex Parkinson's patch with few generic competitors. It is a manufacturing-and-partnering play:

Shilpa developed the complex formulation, won regulatory approval, and supplies the product to commercial partners in each market.

Rotigotine had been scheduled for a Europe launch in FY27, but the launch was delayed by about two quarters because a European Agency variation approval for a raw material took two additional quarters. The new target is H1 FY28. The product had not launched by Q2 FY27.

> *"Rotigotine Transdermal Patch Europe launch, as explained in the previous call, will be launched in Europe in FY27. We have also successfully submitted with U.S. FDA Rotigotine Transdermal Patch in Q4 FY26."*
>
> **ED & CEO, Q4 FY26 CONCALL (MAY 2026)**

By Q1 FY27 the US path tightened. Shilpa secured an unnamed US commercialization partner and targets a FY28 launch. Management framed the product as a first-wave generic with durable economics:

> *"Rotigotine transdermal patch, for example, is a very complex product with very few generic players in the market."*
>
> **ED & CEO, Q1 FY27 CONCALL (AUG 2026)**

The business model remains manufacturing and partnering. Management's Q2 FY27 update said Rotigotine had not launched and now expects the European launch in H1 FY28. The research's earlier expectation of an FY27 Europe launch and FY28 US launch is therefore outdated for Europe; the current call did not provide a separate US launch date or product-level revenue guidance.

Abraxane and Enzalutamide launches

Abraxane (paclitaxel albumin-bound) and Enzalutamide tablets are two complex oncology formulations that Shilpa is developing for global markets. Both are linked because management groups them together as "near-term filings" expected to be commercialized in FY28.

The mechanism for value creation is straightforward: each is a complex product with limited generic competition, and Shilpa's strategy is to file them in regulated markets and launch them, either directly or through partners. The economics come from the products being complex enough to avoid rapid price erosion, which is how Shilpa differentiates its Formulation business.

The current launch calendar is Enzalutamide, Abraxane and Rotigotine in FY28, with Rotigotine specifically targeted for H1 FY28 after its earlier European launch date slipped.

Ondansetron is also expected in H1 FY28, subject to central and state approvals. Management did not provide product-level revenue guidance.

> *"Three important near-term filings, which are Abraxane, Enzalutamide and Abiraterone formulation, are on track to be launched in FY28."*
>
> **KESHAV BHUTADA, Q1 FY27 CONCALL (AUG 2026)**

Management has emphasized the complexity of these products as the reason they offer sustainable opportunity, which matters because the Formulation division's base business (ex-licensing income) grew roughly 112% in Q1 FY27, driven by the existing complex FDA portfolio. These launches are the next wave of that same model.

The gross margin context has become more mixed. Management linked the 71% gross margin reported in Q1 FY27 to a complex-product portfolio, but Q2 FY27 gross margin fell about 700 bps year on year as API, which carries a lower gross margin than formulations, took a larger share of revenue and global API raw-material prices rose; management said the pressure would last until those prices settled (Q2 FY27 concall, Nov 2026). The upcoming launches still fit the stated pattern of avoiding me-too generics in favour of complex products that do not see instant price erosion, but mix can move reported margin well before those launches contribute.

Aflibercept launch in India

Aflibercept is Shilpa's second biosimilar (after Adalimumab), an anti-VEGF ophthalmic biologic targeting wet age-related macular degeneration and diabetic macular edema. The FY25 annual report puts the global market for the therapy class at over USD 9 billion. It is the most advanced program in Shilpa's biosimilar pipeline and the one management expects to convert into Indian commercial revenue first.

The clinical stage is complete. Phase III ran in India only, and management has explicitly ruled out Europe on economics: the study would be long and costly, and there is no plan to take Aflibercept there unless a partner funds it (Q4 FY26 concall, May 2026). By August 2026 the Indian studies were done:

> *"Our second biosimilar product, Aflibercept, has had its clinical studies successfully completed, and we remain on track for launch in India market in FY27." - Keshav Bhutada, Q1 FY27 concall (Aug 2026)*

The commercial mechanism is out-licensing, not direct selling. Shilpa has partnered three Indian companies with ophthalmic distribution reach, up from the two named in February 2026. Revenue comes in two layers: product supply to partners, plus licensing milestones. Management said "we have received only a few milestones in last few financial years. But a

major part of milestone will be received in the current financial year on launch and then on one year completion," and that Aflibercept's licensing income is higher than Adalimumab's (Q4 FY26 concall, May 2026).

Management frames this as a limited-competition launch in India. It is the near-term revenue driver of the biologics segment, which posted INR 52 crores in Q1 FY27, up 42% year-on-year (Q1 FY27 concall, Aug 2026).

Nivolumab clinical studies and global partnerships

Nivolumab is Shilpa's third biosimilar, after Adalimumab and Aflibercept, and the first molecule it has out-licensed in both Latin America and Europe before its India launch. The FY25 annual report counts Nivolumab among a biosimilar pipeline (with Pembrolizumab, Daratumumab, Dupilumab, Trastuzumab) facing a combined average global market opportunity of over USD 30 billion (FY25 Annual Report).

How it makes money

Shilpa develops and manufactures the biosimilar at its Dharwad facility, which holds EU GMP approval (FY25 Annual Report), and runs clinical studies in India to build the registration data package. Regional partners then pay licensing fees and milestones and take product supply from Shilpa for their territories. Management has said biosimilar licensing to Europe and ROW markets will deliver a good amount of licensing income in FY27 (Q4 FY26 concall, May 2026), alongside CDMO revenue and India sales.

Where it stands today

India Phase I/III study approval was received in Q4 FY26, the India study has started, and management is confident of launching the product in India in FY28 (Q1 FY27 concall, Aug 2026). EMA scientific advice was submitted in FY26 with a response expected in Q1 FY27, and SteinCares was signed as the LatAm partner in Q4 FY26.

> *"Our first European partnering of Nivolumab with Orion Corporation gives us further assurance on commercialization of our biosimilar pipeline globally."*
>
> **KESHAV BHUTADA, Q1 FY27 CONCALL (AUG 2026)**

European and ROW commercial revenues from the molecule are targeted for FY29.

> *"We expect sometime in FY29, the commercial revenues to start in from Europe and ROW."*
>
> **KESHAV BHUTADA, Q4 FY26 CONCALL (MAY 2026)**

CDMO NCE programs commercialization (3 late-stage)

Shilpa's API CDMO pipeline has more than 25 NCE programmes. Management said in Q2 FY27 that four programmes were in late-stage registration, two partner programmes were in

Phase III and one commercial NCE programme was already growing. The earlier expectation that three programmes would commercialize in FY28 was replaced with a more nuanced schedule: at least one late-stage programme in FY28 and three in the subsequent year.

The mechanism is straightforward: while a molecule is in clinical development, Shilpa earns development and clinical-supply fees. The inflection comes at approval and launch, when the partner converts to commercial API supply, which is recurring, significantly higher volume, and higher margin than development work. Shilpa confirmed it is the exclusive API supply partner for the first U.S. NCE program, which its big-pharma customer launched in Q4 FY26 (Q4 FY26 concall, May 2026). The second U.S. NCE program is in Phase III with studies ongoing, and the third, Unicycive's OLC, is filed with a PDUFA date of June 29, 2026 (Q3 FY26, Feb 2026); a CRL was subsequently received, with refiling planned in Q3 (Q1 FY27, Aug 2026).

Management's timeline for the three late-stage programs:

Management's current commercialization schedule is at least one of four late-stage registration programmes in FY28 and three in the subsequent year. The programmes remain partner-dependent, and the company has not provided a fixed revenue amount.

Approximately 20+ customers are active on the CDMO side across the group (Q1 FY27, Aug 2026). Shilpa has also taken strategic investments in some of these small biotech partners, and management confirmed those arrangements can pay materially more than a normal CDMO contract, adding profit-share or equity upside on top of the supply fee (Q1 FY27, Aug 2026).

Recombinant human albumin Phase III and filing

Recombinant human albumin is Shilpa's first new biological entity: albumin produced by microbial fermentation instead of being extracted from blood plasma. India recognizes it as an NBE, and the product holds process patents in the US and EU (FY25 annual report). The distinction carries commercial weight because plasma-derived albumin sits in chronic shortage, and the fermented version is a pure, scalable alternative.

The European route is already contracted. In FY25 Shilpa signed a strategic partnership with Orion Corporation, giving Orion exclusive rights to distribute, market and sell therapeutic rHA across the EU. Shilpa receives development and regulatory milestone payments from Orion plus supply revenue from future sales. India is the direct-sale market, and management said in February 2026 that FY28 commercialization in India is "very much possible." An excipient-grade 20% US DMF has also been filed, which triggered international enquiries and sample-sharing for use in other formulations.

The European route remains contracted. The global Phase III protocol has now received CDSCO and EMA approval. Management has moved the European IMPD submission target to

H2 FY27, later than the previously stated H1 FY27 target. No revenue guidance was provided for albumin.

> *"So in the new facility, the batches for IMPD submission are ongoing. So once that is complete, then we will be submitting."*
>
> **MANAGEMENT, Q4 FY26 CONCALL (MAY 2026)**

European regulators typically respond to an IMPD within 3 to 4 months. The India study completion target is end FY27 or Q1 FY28, and the August 2026 call kept the company "on track for filing in the next year in India," which points to FY28 for both filing and first sales.

Semaglutide API and formulation filing

Semaglutide is the largest molecule in the GLP-1 class, and Shilpa is building a fully integrated position in it: developing both synthetic and semisynthetic API routes and, unusually for an API-first company, forward-integrating into its own injectable and oral solid formulations (Q3 FY26 concall, Feb 2026).

The mechanism is vertical integration with an export bias. Management's stated strategy is to sell the API directly and launch the formulations through partners in multiple markets, rather than compete on India pricing alone. The differentiation is being an end-to-end, regulatory-approved supplier for a molecule facing patent expiry across global markets:

> *"The only advantage what Shilpa will have, and other competitors will have is the kind of regulatory approvals that we have in our facilities. So our interest is not only India market, but many of the rest of the world markets where we have partnered."*
>
> **KESHAV BHUTADA, Q2 FY26 CONCALL (NOV 2025)**

The tangible milestones are in the validation and filing calendar. Shilpa filed a US DMF for Liraglutide earlier, establishing its regulatory pathway for GLP-1 peptides. For Semaglutide, the company initiated planned scale-up and validation batches in Q3 FY26, with completion targeted for Q4 FY26/Q1 FY27, and formulation registration batches planned for the first half of the next financial year, filed globally (Q3 FY26 concall, Feb 2026). The dedicated large-scale peptide manufacturing block, with capex of approximately INR40 crores and capacity above 100 kgs, was ordered in Q3 FY26 and scheduled for commissioning in FY27 (Q3 FY26 concall, Feb 2026).

The dedicated large-scale peptide manufacturing block, with capex of approximately INR40 crores and capacity above 100 kgs, was ordered in Q3 FY26 and scheduled for commissioning in FY27 (Q3 FY26 concall, Feb 2026). By Q2 FY27 Shilpa had completed semaglutide injectable exhibit batches and said it was on track to submit in Europe and ROW markets, and it had completed exhibit batches for a partnered transdermal patch with filing

planned in FY28. The Q2 FY27 call describes a far larger integrated peptide site, targeted for commissioning by end-FY27 at a yearly tonnage scale, without disclosing its cost. Analyst references to a USD 50 million or USD 450 million peptide investment were not confirmed by management, which described the investment as phased and dependent on utilisation of the current build.

OLC approval and commercialization

OLC (oxylanthanum carbonate) is Shilpa's most concrete shot at a commercial CDMO launch with a US innovator. Unicycive Therapeutics, a US biotech, is developing it as a treatment for hyperphosphatemia in dialysis patients, and Shilpa is the CDMO partner for both the API and the finished formulation. Under the FDA's 505(b)(2) pathway, Unicycive holds the NDA; Shilpa is positioned as the exclusive manufacturer once the drug is approved, with milestone-based revenues documented in the FY25 Annual Report.

The money mechanism is simple: Shilpa earns contract manufacturing revenue on commercial API and formulation supplies to Unicycive, on top of any milestone payments. That is why Shilpa built a dedicated commercial block for OLC, commissioned in Q4 FY26, with validation batches planned in Q1 FY27 (Q4 FY26 concall, May 2026).

The approval timeline has slipped. In Q3 FY26, management said Unicycive had resubmitted its FDA filing with a PDUFA date of June 29, 2026, and expected commercialization in FY27 (Q3 FY26 concall, Feb 2026). By the Q1 FY27 call, that had changed:

The programme has progressed beyond the earlier CRL stage. The partner filed its NDA with an additional site and received a revised PDUFA date of March 2027. Commercial revenue remains contingent on approval, while the dedicated manufacturing investment is already in place.

A Complete Response Letter after the June 2026 PDUFA pushed the launch window. Management had already cautioned in Q4 FY26 not to project meaningful OLC contribution in FY27 (Q4 FY26 concall, May 2026). The infrastructure is in place - dedicated block, validation batches scheduled, exclusive supply position - but the trigger fires only when FDA clearance arrives and Unicycive starts commercial orders.

Biosimilar pipeline additions (including ADC)

Shilpa's biologics division is expanding well beyond its commercial-stage products into a much broader pipeline. Management added four new biosimilars to the portfolio in Q4 FY26 alone (Q4 FY26 concall, May 2026), bringing the total to eight programs including pipeline products (Q2 FY26 concall, Nov 2025). The Q2 FY27 call describes the portfolio as seven biosimilars with average molecule global sales above USD 10 billion (Q2 FY27 concall, Nov 2026); the two counts are stated on different dates and scopes. The FY25 annual report

names the high-value targets: Nivolumab, Pembrolizumab, Daratumumab, Dupilumab, and Trastuzumab, with an average global market opportunity of over USD 30 billion.

The money mechanism is threefold. First, out-licensing: Shilpa partners biosimilars to regional players for milestone payments and supply revenue, as it did with Orion Corporation for Nivolumab in Europe (Q1 FY27 concall, Aug 2026). Second, CDMO work: the same manufacturing capacity serves partners' own programs, with more than 6 active NCE programs in large-molecule CDMO (Q1 FY27 concall, Aug 2026). Third, the ADC build-out creates a distinct offering - Shilpa is commissioning an integrated ADC manufacturing suite covering mAb, payload, linker, and conjugation, described as one of its kind in India (Q4 FY26 concall, May 2026).

The timeline is staged. Two biosimilars are expected to enter European and ROW human studies in FY27. The first ADC biosimilar is expected to enter human studies in FY28, while the Alveolus Bio and MapTree Biologics NBE programmes are expected to enter Phase I human studies in FY27. The latest call did not reaffirm the prior FY27 Aflibercept India launch.

> *"Our first ADC biosimilar is also on track for entering human studies in FY27."*
>
> **ED & CEO, Q1 FY27 CONCALL (AUG 2026)**

The two NBE programs with mAbTree and Alveolus Bio also enter human Phase I studies in FY27, and mAbTree's product has received orphan drug designation for two indications (Q3 FY26 concall, Feb 2026).

Key risks

- **USFDA import alert on the Jadcherla facility persists.** The annual report states Unit IV at Jadcherla is under Import Alert and that revocation is "our topmost priority." Management confirmed on the Q4 FY26 call (May 2026) that after the inspection the FDA gave observations, the company completed CAPA, submitted responses, and is now "waiting for the reaudit." There is no committed timeline for clearance. Consequence: the site holds tentative approvals for several products, and management admitted on that call that "whatever products which are in tentative approval space, many of them are already genericized" - so the library of pending approvals itself is partly outdated. Per the May 2026 call, the US strategy now runs launches through third-party CMO sites, which reduces direct damage but also caps the value of the company's own facility. If the alert persists or new observations surface, US-market product launches continue to route through partners and the capex sunk in Jadcherla keeps earning a lower return.
- **API mix and raw-material inflation have compressed gross margin.** Management attributed the Q2 FY27 gross-margin decline partly to the larger API sales mix because

API gross margin is below formulations. It also said global API raw-material prices had increased and that the pressure would remain until prices settled. This risk is conditional because formulation and licensing-income mix can offset API pressure, as demonstrated by the 87% growth in formulation base business excluding licensing income.

- **OLC approval remains contingent on the March 2027 PDUFA date.** The programme progressed to an NDA filing with an additional site and received a revised PDUFA date of March 2027, but no commercial approval or revenue has been reported. A further delay or negative regulatory outcome would defer the anticipated commercial supply and milestone economics from the dedicated block.

- **CDMO programs carry a real failure rate that hits the P&L directly.** Dalal on the Q1 FY27 call (Aug 2026): "It's not the case that every program we work on is successful. There are also some failures that we have to budget for, and that goes straight to our P&L as a hit." The company counts 25+ NCE programs across the API division and 6+ active biologic CDMO programs, with 20+ CDMO customers total. Early-stage programs are heavily represented - most are in Phase I or II. The revenue plan depends on a minority converting to commercial phase; management itself guided only 3 late-stage programs to commercialization in FY28. If attrition is higher than budgeted, the CDMO growth narrative stalls.

- **Biosimilar pipeline monetization depends on partners, and the calendar is long.** Aflibercept launches in India FY27 with three ophthalmic partners; Nivolumab enters clinical studies in India and is partnered with Orion for Europe, with India launch guided to FY28 and European/ROW commercial revenue to FY29. Management explicitly ruled out a Europe launch for Aflibercept on the Q4 FY26 call (May 2026): "we feel that we are late for Europe market." So the flagship ophthalmic product is confined to India, and the largest global opportunities sit years away. Any slip in partner execution, clinical enrollment, or regulatory timelines pushes already-distant revenue further out. The India market for these molecules is small relative to the global opportunity (Adalimumab's India revenue, per the Q2 FY26 call Nov 2025, is "not significant" even with good market share).

- **European revenue concentration on Nilotinib faces generic competition.** Management on the Q4 FY26 call (May 2026) acknowledged "we are expecting some generic competition to come in current financial year," estimating "more impact will be there for the FY28" because EU tender contracts run 1-2 years. By Q2 FY27 some generic players had entered nilotinib, but management said the product is tender-based with contracts running one to three years and that it saw no big change in numbers currently (Q2 FY27 concall, Nov 2026). European formulation revenue was a large share of the company's total formulation revenue and grew over 100% YoY in FY26. The company still holds the

first-generic advantage through FY27, but the product's price and volume erode as tenders roll from FY28 onward, and the replacement pipeline (Rotigotine in H1 FY28, Tadalafil film, Axitinib) needs to grow fast enough to offset that decline.

- **US tariff policy on pharmaceuticals is unresolved.** The Q1 FY27 call (Aug 2026) flagged the US notification of potential tariffs on generic drugs, with ~INR45 crores of quarterly US exports at risk. Management argued the impact is limited because "Shilpa, as a company, is not selling any me-too generics in the U.S. All are complex," and they are evaluating US manufacturing facilities while monitoring policy. The risk is asymmetric: if tariffs do land on finished pharmaceuticals, the complex-product differentiation offers partial shelter, but the company would have to consider manufacturing in the US - a structural cost decision it has not yet made.
- **Regulatory pathways can disrupt the whole growth trajectory.** Asked directly what could slow growth, Dalal on the Q1 FY27 call (Aug 2026) answered: "the regulatory pathway in pharmaceutical industry is a very critical aspect... once in a while, the way regulatory authorities look at us could be a bit different. And if some of those unexpected challenges come up, that might slow down the growth trajectory." The company runs multiple filings simultaneously across US, EU, and ROW (the annual report lists 673 cumulative formulation filings). Each product launch in this model is gated by a foreign regulator, and the company has no control over inspection scheduling, complete-response letters, or policy shifts. The Q1 FY27 call also surfaced that the company had to stop selling azacitidine in the US because "the market dynamics have changed for the product" - an example of a launch that did not hold its value.
- **Peptide capacity depends on customer uptake rather than booked orders.** Management said the expansion was planned using customer indications and programme visibility, but explicitly clarified that it had not said orders were already in hand. Utilisation commentary was deferred to H2 FY28, and further phased investment depends on utilisation and partner progress. Delay in commissioning or weaker-than-expected uptake would defer the intended CDMO, GLP-1 and HPAPI revenue.
- **Recombinant human albumin timelines remain open.** The global Phase III protocol has received CDSCO and EMA approval, a material milestone, but the European IMPD submission target has moved to H2 FY27. Management provided no revenue guidance. Further slippage would extend the period before commercialization and reduce the return on the substantial asset base.
- **Party-concentration risk in licensing income.** Licensing income is inherently lumpy - Dalal described it on the Q4 FY26 call as "a bit lopsided" - and it is a material share of formulation revenue (INR18,986 Lakhs of INR47,377 Lakhs in FY25 per the annual report,

plus a steady INR150-odd crores annual run-rate that management cited on the Q3 FY26 call). A single large deal moving by a quarter can swing reported segment growth. Additionally, a portion of that income now flows from the Unicycive OLC program, tying licensing revenue to a single client's regulatory outcome.

Q2 FY27 update

Q2 FY27 was a record quarter. Revenue was INR538 crore, up 35% YoY, EBITDA INR151 crore at a 28% margin, and PAT INR79 crore; H1 revenue crossed INR1,000 crore for the first time at INR1,007 crore, up 44%, with EBITDA of INR290 crore at 29% and PAT of INR180 crore. Non-captive API revenue was INR255 crore, up 24%, formulations INR210 crore, up more than 50% with the base business ex-licensing income up 87%, and biologics INR65 crore, up 150%. H1 capex was INR252 crore, primarily funded from internal accruals, net debt was INR612 crore and ROCE was reported at 13.3%, or 18.3% adjusted (Q2 FY27 concall, Nov 2026).

Gross margin fell about 700 bps year on year. Management attributed this to a larger API share of revenue, where gross margin is lower than in formulations, and to higher global API raw-material prices, and said the pressure would persist until raw-material prices settled.

On capacity, management said four peptide lines were operating and two more were being added, with the first integrated site targeted for commissioning by end-FY27 and space reserved for further expansion. It clarified that customer indications, not booked orders, had guided the plan, and deferred utilisation commentary to H2 FY28. In API CDMO, four programmes were under registration and two partner programmes in Phase III, with at least one commercialisation expected in FY28 and three in the following year. Rotigotine's European launch moved to H1 FY28 because a raw-material variation approval took two additional quarters, and Ondansetron is expected in H1 FY28 pending state approvals. The Unicycive OLC partner filed its NDA with an additional site and received a revised PDUFA date of March 2027. Management gave no quantitative revenue or margin guidance.

The operating evidence is stronger than the earlier bull case assumed. Q2 FY27 revenue reached a record INR538 crore, EBITDA was INR151 crore at a 28% margin and PAT was INR79 crore. Formulation base business excluding licensing income grew 87%, biologics revenue grew 150%, and API delivered its highest-ever quarterly revenue. The forward path requires the peptide expansion to commission by end-FY27 and fill through customer programmes; at least one of four late-stage API CDMO programmes to commercialize in FY28 and three in the following year; Enzalutamide, Abraxane and Rotigotine launches in FY28; two European and ROW biosimilar studies in FY27; and the first ADC biosimilar study in FY28. Rotigotine has already slipped to H1 FY28, while albumin remains a longer-duration option rather than a near-term earnings certainty.

Q2 FY27 establishes a high base: H1 revenue was INR1,007 crore, H1 EBITDA was INR290 crore at a 29% margin and H1 PAT was INR180 crore. Management offered no quantitative H2 or FY27 guidance, only that momentum was expected to continue. The evidence supports continued API growth, further formulation conversion and higher biologics activity, but not a precise revenue or margin path. Rotigotine is delayed to H1 FY28, the peptide capacity still depends on uptake rather than booked orders, and the OLC programme now has a March 2027 PDUFA date.

The company keeps compounding at roughly the trajectory set over the last four quarters: low-to-mid-20s revenue growth, EBITDA margin holding around the 28-30% band management signaled, with margins buffeted by raw-material inflation that only partially passes through and by a larger API share of the mix. Nor-UDCA grows steadily in India but takes 3-4 years to reach the 10% share of treated NAFLD patients management sketched, with ROW and global studies progressing but not yet contributing material revenue. Rotigotine launches in Europe in H1 FY28 after a two-quarter slip on a raw-material variation approval, and in the US in FY28, becoming a steady complex-generic revenue line, with Ondansetron following in H1 FY28 subject to state approvals. Nilotinib holds value through FY27 on the back of multi-year tender contracts, with some generic players already present but little numeric impact yet, then erodes as tenders roll from FY28 - offset by the new Europe launches (Tadalafil film, Axitinib) and the two complex products. Aflibercept launches in India and contributes, but European monetization never happens for that molecule. OLC approval now turns on the March 2027 PDUFA date, so FY27 contribution stays minimal and FY28 starts modest. CDMO grows steadily: some programs fail in clinical development as management budgets for, but one late-stage program commercializes in FY28 and three in FY29, and the customer base keeps expanding. rHA Phase III completes in India by end of FY27/Q1 FY28 but IMPD and European study timelines drift by 6-12 months. Operating efficiency from the already-built asset base drives ROCE improvement year-over-year, though the biologics and NBE segments remain a drag on the blended return ratio for several years.

Bear case

A regulatory or clinical event trips the model. The Jadcherla import alert persists through FY27-FY28, keeping the US self-manufacturing channel closed longer than planned; a new observation during re-audit delays clearance and forces the company to keep routing US launches through third-party CMOs at lower margin. Nilotinib competition intensifies as tenders roll from FY28, and the replacement launches (Rotigotine ramp now starting only in H1 FY28, Tadalafil, Axitinib) under-rotate, leaving a gap in the European P&L. OLC's March 2027 PDUFA date slips again, writing down the dedicated block's near-term value and delaying the anticipated milestone income. Nor-UDCA's 6-month cure-duration data

disappoints in the Phase IV readout, and global Phase II enrollment for a different indication stalls, capping a product that management already called out for its potential. Raw-material inflation persists through FY27 with only partial pass-through while API remains the largest revenue contributor, compressing gross margin toward the 65-68% range. Several early-stage CDMO programs fail in Phase I/II, and the one FY28 and three FY29 commercializations slip - the CDMO growth narrative breaks, and licensing income continues to be lumpy and unpredictable. rHA suffers further IMPD and Phase III delays, pushing first commercial revenue out, extending the period where the large fermentation asset base earns nothing. The biologics biosimilar launches (Aflibercept India, Nivolumab) get clinically delayed or the partners under-execute. With capex back-ended mostly behind it, the company retains a clean balance sheet, but the base business growth slows to high-single digits, EBITDA margin drifts below 25%, and the investment thesis pivots from harvesting to waiting - while each quarter of delay in the complex-molecule pipeline raises the chance that competitors fill the niche first.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,310	1,539	2,080	2,590	3,115
Revenue growth	-	+17.5%	+35.2%	+24.5%	+20.3%
EBITDA (₹ Cr)	343	445	599	777	972
EBITDA margin	26.2%	28.9%	28.8%	30.0%	31.2%
Depreciation (₹ Cr)	113	120	145	165	190
Interest (₹ Cr)	76.00	58.80	50.00	55.00	52.00
PBT (₹ Cr)	122	295	405	558	731
Tax (₹ Cr)	44.00	52.00	101	140	183
Tax rate	36.1%	17.6%	25.0%	25.0%	25.0%
PAT (₹ Cr)	78.00	243	304	419	548
PAT growth	-	+121.4%	+38.6%	+37.8%	+31.0%
EPS (₹)	4.02	12.44	15.53	21.40	28.02
P/E	213.2x	68.9x	55.2x	40.1x	30.6x
PEG	6.2x	2.0x	1.6x	1.2x	0.9x

CAGR FY27E-FY29E: Revenue +22.4% · EBITDA +27.4% · PAT +34.3%

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Q2 FY27 concall notes

TLDR

Shilpa Medicare reported record quarterly revenue of ₹538 crore in Q2 FY27, up 35% YoY, with EBITDA of ₹151 crore, up 37% YoY, at a 28% margin and PAT of ₹79 crore. Formulation revenue increased more than 50% YoY, led by Norioducia and European complex generics, while biologics revenue rose 150% YoY to 12% of company revenue. Management is prioritising high-margin peptide oncology APIs and CDMO, with a large integrated peptide facility due for commissioning by end-FY27. It also plans three formulation launches in FY28, two biosimilars entering European and ROW human studies in FY27, and the first ADC biosimilar entering human studies in FY28. Gross margin faced pressure from a larger API mix and higher global API raw-material costs. Peptide utilisation, albumin revenue, licensing-income composition and segment-level forward guidance remain undisclosed, while regulatory remediation and product-launch timing require monitoring.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹538 crore	35% YoY	Growth across API, formulation and biologics, including licensing and partnership income
H1 FY27 revenue	₹1,007 crore	44% YoY	All three verticals contributed; H1 revenue exceeded ₹1,000 crore for the first time
EBITDA	₹151 crore	37% YoY	Record quarterly EBITDA supported by revenue growth and operating leverage
EBITDA margin	28%	Not specified	Higher API mix reduced gross margin, partly offset by operating leverage
H1 FY27 EBITDA	₹290 crore	40% YoY	Revenue growth across segments
H1 FY27 EBITDA margin	29%	Not specified	Improved operating leverage despite gross-margin pressure
PAT	₹79 crore	Nearly 100% YoY for H1; quarterly comparison not specified	Higher operating profit and improved return ratios
H1 FY27 PAT	₹180 crore	Nearly 100% YoY	Improved operating performance
Non-captive API revenue	₹255 crore	24% YoY	Uptake from newly expanded capacities and steady specialty CDMO performance
Formulation revenue	₹210 crore	Over 50% YoY	Complex finished-dose formulations in Europe, supported by the US and ROW; excluding licensing income, base-business revenue grew 87%
Biologics revenue	₹65 crore	150% YoY	Licensing, partnership and CDMO activity
H1 FY27 capex	₹252 crore	Not specified	Primarily funded through internal accruals

SEGMENTS & GEOGRAPHIES

- **Non-captive API:** Q2 revenue was ₹255 crore, up 24% YoY, driven by improved uptake from newly expanded capacities and steady specialty CDMO performance. H1 revenue reached ₹470 crore, up 20% YoY. Management

expects the API business to retain momentum and continues to focus on high-margin peptide oncology APIs and CDMO.

- **Formulation:** Q2 revenue was ₹210 crore, up more than 50% YoY, while H1 revenue was ₹407 crore, up 70% YoY. Excluding licensing income, underlying revenue increased 87% in Q2. Norioducia drove India business growth, while complex finished-dose formulations in Europe, supported by the US and ROW, drove the base business. Enzalutamide, abrexin and rotigotine patch are scheduled for FY28 launches.
- **Biologics:** Q2 revenue was ₹65 crore, up 150% YoY, and H1 revenue was ₹117 crore, up 92% YoY. Licensing, partnership and CDMO activity drove growth. Management expects revenue to comprise a mix of biosimilar, CDMO and licensing income; adalimumab remains the product currently supplied commercially.
- **Europe:** Europe was the leading formulation geography, supported by complex finished-dose generics. Management said the region included continuing business beyond nilotinib and axitinib, although rotigotine patch had not yet been launched. Generic competition had not materially changed nilotinib volumes because European tenders can run for one to three years.
- **United States and ROW:** The US and ROW supported formulation growth. US registration and launch requirements are expected to remain modest at two to three new products annually, for which management plans to use contract manufacturing sites.

STRATEGY & COMPANY-SPECIFIC

- **Peptide expansion:** The company had four peptide manufacturing lines and was adding two more, with space reserved for further expansion. A new integrated peptide facility, described as one of India's largest, was targeted for commissioning by end-FY27. The capacity would support CDMO, GLP-1 and HPAPI peptides.
- **API portfolio:** Management remained focused on high-gross-margin peptide oncology APIs and CDMO. The company expected more than 15 new oncology generic products to be completed in FY27.
- **Formulation pipeline:** Three additional complex 5-5-B2 products were in advanced development, beyond three already commercialised products, with commercialisation planned over the next two to three years. Enzalutamide, abrexin and rotigotine patch were targeted for FY28 launches.
- **Semaglutide and transdermal filings:** The company completed exhibit batches for injectable semaglutide in Q2 and planned submissions in Europe and ROW. It also completed exhibit batches for a partnered complex transdermal patch intended for Europe and planned to file it in FY28.
- **Unicyclic Therapeutics partnership:** The partner filed an NDA with an additional site and received a revised PDUFA date of March 2027.
- **Biologics portfolio:** The segment contained seven biosimilars whose molecules had average global sales above US$10 billion. Management planned to out-licence the seven active programmes globally over the coming years. Nivolumab was targeted for a European filing next year.
- **New biological entity partnerships:** The Alveolus Bio and MapTree Biologics programmes were both targeted for Phase 1 human studies in FY27.
- **Biologics CDMO:** More than six active programmes were disclosed. Phase 1 supplies for three client programmes were expected to complete in FY27. Four programmes were under registration and two were in partner Phase 3 trials; at least one of the four registration-stage programmes was expected to commercialise next year and three in the subsequent year.

- **Recombinant human albumin:** The global Phase 3 protocol was approved by CDSCO and the EMA. Management targeted an IMPD submission in Europe in H2 FY27. Revenue guidance was withheld.
- **Capital structure:** Net debt was ₹612 crore and remained stable despite the increased capex programme. Management reported ROCE of 13.3%, up from 9% in FY25, and adjusted ROCE of 18.3%.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Consolidated revenue and earnings	No forward revenue or profit guidance; management said it does not provide forward estimates	n/a	Management said the business had good traction and expected momentum to continue
Oncology generic API products	More than 15 products targeted for completion in FY27	n/a	Continued oncology generic portfolio development
API CDMO commercialisation	Four of more than 25 NCE CDMO client programmes expected to commercialise within 18-24 months	n/a	Partners' expected commercialisation timelines
Peptide capacity	New integrated facility targeted for commissioning by end-FY27	n/a	Four existing lines, two additional lines and space for further expansion
Peptide capacity utilisation	No numerical guidance; management expects to discuss utilisation in H2 next year	n/a	Utilisation depends on customer uptake and conversion of customer indications into orders
Formulation launches	Enzalutamide, abrexin and rotigotine patch targeted for FY28	n/a	Product development and regulatory preparation
Rotigotine patch	FY28 H1 launch	n/a	A raw-material variation required by the European agency added two quarters to the schedule
Semaglutide injectable	Submissions planned in Europe and ROW	n/a	Exhibit batches completed in Q2
Partnered transdermal patch	European filing planned in FY28	n/a	Exhibit batches completed in Q2
Unicyclic Therapeutics NDA	Revised PDUFA date of March 2027	n/a	Partner filed the NDA with an additional site
Ondansetron	India launch targeted for FY28 H1	n/a	Central approval received; state approvals, licences and permissions remain
Biosimilar human studies	Two biosimilars targeted to enter European and ROW human studies in FY27	n/a	Molecules had global markets exceeding US$10 billion in sales
Nivolumab filing	European filing targeted next year	n/a	Nivolumab is the first product intended for the European and ROW export market
NBE partnerships	Alveolus Bio and MapTree Biologics programmes targeted for Phase 1 human studies in FY27	n/a	Clinical development milestones
Biologics CDMO supplies	Phase 1 supplies for three client programmes expected to complete in FY27	n/a	More than six active programmes

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Biologics CDMO commercialisation	At least one of four registration-stage programmes targeted for commercialisation next year; three targeted for the subsequent year	n/a	Programme stage and partner development
First ADC biosimilar	Human studies targeted in FY28	n/a	ADC development platform and pipeline progression
Albumin regulatory submission	European IMPD submission targeted in H2 FY27	n/a	CDSCO and EMA approval of the global Phase 3 protocol
Albumin excipient opportunity	More visibility expected during FY28	n/a	Early-stage development with customers; revenue scale not quantified
ROCE	Management expects further improvement in coming quarters	n/a	Better business mix and higher operating leverage

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
API raw-material inflation	Global API raw-material prices increased and were expected to keep pressure on gross margin until prices settled.
Segment-mix pressure	Higher API sales reduced consolidated gross margin because formulation carried higher gross margins.
Peptide utilisation risk	Management did not disclose capacity or expected utilisation. It said conversion of customer indications into actual orders and utilisation of completed investments would determine further phased investment.
Product concentration in biologics	Adalimumab remained the only biosimilar supplied commercially; future revenue would also depend on CDMO and licensing activity.
Licensing-income opacity	Management would not provide the proportion of Q2 service and licensing income attributable to licensing. It said the income carried no COGS but incurred development, R&D and other expenses.
Launch execution	Ondansetron still required state approvals, licences and permissions; rotigotine had already been delayed by two quarters.
Regulatory remediation	The company continued working with the US FDA on remediation measures. Management said the issue did not affect current revenue or the next two to three years of plans and had moved critical US filings to alternate CMO sites.
EU inspection risk	The EU authorities had reinspected the plant and cleared it again, with no current revenue risk identified.
Partner dependency	Specialty CDMO and biologics growth depended on partner uptake, clinical and regulatory progress, and commercialisation timelines. Management did not provide forward segment revenue guidance.
No revenue visibility for albumin	Management declined revenue guidance for the albumin programme and said visibility would improve only as milestones were reached.

Q&A HIGHLIGHTS

- **Gross-margin compression:**

Question: Why did gross margin decline despite record quarterly revenue and EBITDA? **Management's answer:** API revenue increased sharply, and API carries lower gross margins than formulation. Management also said global API raw-material costs had risen and would continue to pressure margins until those prices settled.

- **Peptide capacity and utilisation:**

Question: What capacity was being added and what utilisation was expected over the next two years? **Management's answer:** The company had four peptide lines and was adding two more, with room for further expansion. The new capacity would serve CDMO, GLP-1 and HPAPI peptides, but utilisation would depend on customer uptake; management expected to provide more visibility in H2 next year.

- **Peptide orders and investment:**

Question: Were orders already in hand and over how many years would the peptide investment be spread? **Management's answer:** Management said it had customer indications but had not stated that orders were already in hand. Further investment would be phased and linked to programme uptake and utilisation of capacity already built.

- **Biologics CDMO commercialisation:**

Question: When would the late-stage biologics CDMO programmes generate commercial revenue? **Management's answer:** Of four programmes under registration and two in partner Phase 3 trials, at least one of the registration-stage programmes was expected to commercialise next year and three in the subsequent year. Three of the four were API supply programmes and would account for a significant part of the relevant end customers' purchasing.

- **Regulatory risk at US and EU sites:**

Question: Could an adverse US FDA outcome at a plant disrupt product launches? **Management's answer:** The company continued remediation work with the US FDA but said there was no impact on current revenue or its plans for the next two to three years. Critical US filings had moved to alternate sites, and the EU authorities had cleared the plant after reinspection.

- **Sustainability of biologics growth:**

Question: How much of the 150% YoY biologics growth was a one-time licensing milestone? **Management's answer:** Management did not quantify the licensing component. It expected each quarter to include a mix of CDMO, biosimilar and licensing revenue as the seven-programme portfolio progressed.

- **Rotigotine launch delay:**

Question: Why was rotigotine patch moved from FY27 to FY28, and would it launch in H1 or H2? **Management's answer:** A European-agency approval variation for one raw material added two quarters to the schedule. Management now targeted an FY28 H1 launch.

- **Ondansetron commercialisation:**

Question: How was the launch progressing after SEC approval, and which marketing partners were involved? **Management's answer:** Management did not disclose the partners. It said state approvals, licences and permissions remained after central approval, and expected the India launch in FY28 H1.

Kwality Pharmaceuticals Ltd

GROWTH TRIGGERS

Kwality's bull case rests on registration conversion, not just capacity. FY27 revenue guidance has been raised to ₹720 crore plus, FY28 is pointed at ₹950-1,000 crore, and the first 7-8 of 19 completed BE molecules are targeted for FY28 commercialisation. Unit 7 and the hormone facility add optionality, but the near-term driver is higher-value regulated and semi-regulated product mix.

1. FY27 guidance raised with Q2 momentum

Q2 FY27 revenue grew 63% YoY to ₹181 crore, EBITDA margin reached 27.5%, and management raised FY27 revenue guidance to ₹720 crore plus. Management called ₹720 crore conservative and said ₹720-750 crore is achievable, with FY27 EBITDA margin of 27.5-28%. The upgrade is backed by current-quarter delivery, not just aspiration.

2. FY28 revenue step-up to ₹950-1,000 crore

Management points to FY28 revenue of ₹950-1,000 crore, with ₹1,000 crore plus possible if European and Brazilian registrations land. A Brazilian product is described as a ₹150-200 crore molecule targeted for Q2 FY28. Mexico cephalosporin registration is targeted Q4 FY27, with Brazil and Europe Q2 FY28.

3. 19 completed BE molecules start converting in FY28

Kwality has completed BE studies for 19 of 40 molecules and has 19 dossiers ready. The first 7-8 are targeted for FY28 commercialisation in South Asian and Latin markets, expected to generate ₹80-90 crore, with 12 more by FY29. This is the clearest bridge from R&D spend to product revenue.

4. Unit 7 creates a 200-molecule BE manufacturing base

Kwality acquired four acres for Unit 7 and plans three phases across FY28-FY30. Management budgets ₹200-250 crore for Unit 7 and ₹250-300 crore for 200 BE studies, a ₹500-600 crore programme. The facility is sized for 200 BE products and is adjacent to the existing site, allowing shared infrastructure.

5. Hormone facility is an excluded option

Hormone commercialisation is targeted for Q2 FY28 after PIC/S and ROW audits, with ₹100-150 crore potential from Islamic markets. Management explicitly excludes this from the base revenue plan, so success would be additive to FY28-FY29 numbers. The main risk is audit and registration timing.

6. Erythropoietin has started commercial sales

Erythropoietin is already being sold under biowaiver applications and contributed about 1% of Q2 FY27 revenue. Management targets ₹30-40 crore in FY28 and ₹80-100 crore in FY29.

The larger ₹800-900 crore aspiration is conditional on clinical completion and registrations, so it is not base-case evidence.

7. Own registrations carry higher margin than partner registrations

Management says partner-exported products earn 24-26% EBITDA, while products under Kwality's own registrations earn 28-32%. FY27 EBITDA margin is guided at 27.5-28%, and management says 30% is achievable above ₹1,000-1,200 crore revenue. The mix shift toward own registrations is the margin mechanism.

INVESTMENT THESIS

Kwality Pharmaceuticals is an export-led formulations manufacturer whose earnings are increasingly driven by product registrations rather than new capacity alone. The company makes complex injectables, oral solids, cephalosporins, oncology products and other dosage forms across five plants, and is building a sixth hormone facility and a new Unit 7 for bioequivalence products. FY26 revenue was about ₹503 crore with 24% EBITDA margin; Q2 FY27 revenue reached ₹181 crore, up 63% YoY, with 27.5% EBITDA margin and PAT doubling YoY. Management has raised FY27 revenue guidance to ₹720 crore plus and points to FY28 revenue of ₹950-1,000 crore, with FY29 growth of 25-30% over FY28.

The business economics are registration-led. Kwality files dossiers, clears facility audits and supplies finished formulations to overseas partners or through tenders. Roughly 90% of revenue is contract manufacturing under partners' brands, and India is only about 5% of sales. The moat is not consumer branding; it is the cost and time required to qualify a plant and register a product. Management says products under Kwality's own registrations earn 28-32% EBITDA, while partner-owned registrations earn 24-26%. That mix is the main margin lever. The company is trying to move toward own registrations in regulated and semi-regulated markets, while keeping partner registrations in older African and unregulated business.

The current growth driver is a wave of registered products. Q2 FY27 growth came from MENA, Mexico and Colombia, according to management, and FY27 guidance was raised because those registrations arrived. The next visible milestones are Mexico cephalosporin registration in Q4 FY27, Brazil and Europe in Q2 FY28, and the first 7-8 of 19 completed bioequivalence molecules in FY28. Management expects ₹80-90 crore from those first 7-8 BE products, with 12 more by FY29. A Brazilian product is described as a ₹150-200 crore molecule. These are dated commercial targets, not yet achieved revenue.

The capacity programme is larger than the earlier plan. Kwality has acquired four acres for Unit 7, to be built in three phases across FY28-FY30. Management budgets ₹200-250 crore for Unit 7 and ₹250-300 crore for 200 BE studies, a ₹500-600 crore programme. The earlier ₹140-150 crore capex programme is almost complete, with ₹20-25 crore pending by April 2027. Funding is expected from internal accruals plus some bank loans; management says no equity dilution is planned as of now. That is a capital-allocation choice, not proof that cash flow will be sufficient.

Hormone and biologics are optionality outside the base plan. The hormone facility is targeted for Q2 FY28 commercialisation after PIC/S and ROW audits, with ₹100-150 crore potential from Islamic markets. Management explicitly excludes that from the base revenue guidance. Erythropoietin is already sold under biowaiver applications and contributed about 1% of Q2 FY27 revenue; management targets ₹30-40 crore in FY28 and ₹80-100 crore in FY29, with a

much larger ₹800-900 crore aspiration only if clinical and registrations succeed. Pembrolizumab biowaiver filing is targeted for January, with first commercial quantities in March-April 2027. A CDSCO 27D fill-finish CDMO approval is expected by December-January.

The earnings path depends on conversion, not just intent. FY27 revenue of ₹720-750 crore at 27.5-28% EBITDA would require H2 delivery after ₹343 crore in H1. FY28 revenue of ₹950-1,000 crore assumes Mexico, Brazil and Europe registrations plus first BE launches. FY29 growth of 25-30% over FY28 would then require the remaining BE products and some hormone contribution. If registrations slip by two to three quarters, the revenue path moves into FY29-FY30 while the new Unit 7 and BE spend continues.

Management delivery is only partly testable here because the bundle contains one current call. What is visible is a raised FY27 guidance, a strong Q2, an improved working capital cycle and a confirmed KPMG appointment. What remains open is whether FY28 registrations, the first BE launches, hormone audits and EPO clinical work land on the stated dates. The correct reading is that Kwality has a credible registration-led compounding mechanism, but the current valuation of that mechanism depends on milestones that are still forward-looking.

The falsifiers are specific. A delay in Mexico Q4 FY27 or Brazil/Europe Q2 FY28 would undercut FY28 ₹950-1,000 crore. A failure to commercialise the first 7-8 BE products in FY28 would leave the ₹80-90 crore target and FY29 follow-on unsupported. A slip in hormone audits beyond Q2 FY28 would keep the ₹100-150 crore excluded. A rejection or delay in EPO biowaivers or clinical studies would cap biologics. And a working capital reversal or higher-than-planned bank borrowing would make the ₹500-600 crore capex programme less comfortable. If those milestones land, the base business can compound at 25-30% with margin expansion; if they slip, the company carries new capacity and costs ahead of revenue.

RESEARCH REPORT

What Kwality Pharmaceuticals Limited does

Kwality Pharmaceuticals Limited is an export-focused manufacturer of finished pharmaceutical formulations. It makes injectables, tablets, capsules, and other dosage forms across 25+ therapeutic categories and sells them primarily to overseas buyers under an asset-light out-licensing and supply model. The company is headquartered in Amritsar, Punjab, operates five EU-GMP approved manufacturing facilities, and has a sixth unit dedicated to hormones under construction. As of FY26 it employed 1,137 people and supplied products to more than 70 countries across LATAM, MENA, Africa, GCC, Asia, and CIS regions.

The revenue mix is heavily weighted toward complex injectables and tablets: injectables contribute 48% of revenue, tablets 38%, capsules 5%, liquid orals and externals 3%, creams and ointments 2%, dry syrups 1%, ophthalmics 1%, sachets 1%, and suppositories 1%. The injectable concentration is deliberate - that is where Kwality has invested in lyophilization, liposomal, and emulsion technology - and it is the segment that carries the highest margins.

The core business: registration-led export manufacturing

Kwality's business model is to get its products registered in overseas markets, then supply them to local partners or through government tenders who distribute under their own brands. This is a pure-play contract manufacturing arrangement for roughly 90% of revenues. The company does not run a large domestic salesforce or advertise to consumers; domestic India contributes only about 5% of revenue, and that is limited to peptide-based products where Kwality supplies local partners.

The asset-light model - "asset-light out-licensing and supply model (90%)" per the FY26 annual report - means Kwality does not bear the cost of building brand equity or distribution networks in the countries it serves. Its moat is instead regulatory: it files registrations, clears audits, and maintains manufacturing certifications that take years to accumulate. The FY26 annual report highlights 20+ regulatory and customer/vendor audits cleared in the last two years, plus EU-GMP approval for its general and beta-lactam facilities, and accreditations including PICS, ANVISA, and INVIMA.

This model explains the company's economics. Because the products are sold through partners and tenders, pricing power is limited for routine generics, but margins on complex products - oncology, peptides, liposomes - are much higher. Management disclosed in the Q4 FY26 concall that peptide products carry roughly 40% EBITDA margins, routine oncology around 25%, and the blended oncology portfolio settles around 30-32%. That compares with company-level EBITDA margins of 24% in FY26.

What it actually makes

The product portfolio spans 1,000+ formulations. The high-value categories that drive growth are:

- **Oncology injectables** - including liposomal and pegylated liposomal formulations, which are among the most technically difficult generics to manufacture. Oncology revenue was roughly ₹100 crore in FY26 and management targets ₹300 crore by FY29, with peptides contributing about 40% of that oncology revenue.
- **Peptide products** - high-value molecules used in hormonal and oncology therapies. These are the most profitable products in the portfolio (around 40% EBITDA margins) and are sold into unregulated and semi-regulated markets where Kwality already has registrations.
- **Beta-lactam and cephalosporin products** - the EU-GMP approval for these facilities matters because these are products that require separate, dedicated manufacturing lines due to cross-contamination risks.
- **Bioequivalence products** - Kwality started a large-scale programme spanning more than 40 oral solid dosage molecules. Three bioequivalence studies were completed by end-FY26, with 36 more in progress in FY27. These are products coming off patent where Kwality aims to be among the first generic entrants, capturing initial-mover margins of 40-45% before competition compresses them to 25-30%.

The pipeline: biologics and hormones

Kwality is also building a biologics and biosimilars pipeline, though these do not yet contribute revenue. The first biologic, Erythropoietin (Kwalipoietin), achieved successful pre-clinical outcomes during FY26 and management plans to file submissions in approximately 50 countries in Q4 FY27, with a planned CY2027 launch subject to regulatory approval. The company is developing three monoclonal antibody biosimilars, with a focus on Pembrolizumab (Keytruda) - a blockbuster oncology molecule with 42 approved indications - which replaced Alteplase in the pipeline because patient recruitment for clinical trials in India is far easier for such a broad-indication drug.

The clinical development is capital-intensive: the clinical trial cost for the biosimilar programme is roughly ₹60-70 crore, and management disclosed that the outsourced R&D cost for adding three biosimilar products was ₹13-14 crore. Clinical trials are outsourced, with one R&D partner (Hikma Pharma in Algeria) providing imported R&D for the MAB programme.

The hormone unit

Unit 6, the dedicated hormone facility, is now guided for commercialisation in Q2 FY28 rather than the earlier November 2026 target. Management cites PIC/S and ROW audits and a ₹100-150 crore sales opportunity from Islamic markets, but treats the number as a

contingency outside the ₹1,000-1,200 crore revenue plan. The operating cost of the plant starts before those sales, which management says keeps FY27 EBITDA margin at 27-28%.

Capacity and the EU Annexure 1 complication

One operational detail that matters: the EU's Annexure 1 guidelines for sterile manufacturing were updated, which lengthened changeover and validation timelines. Management said this effectively pushed oncology capacity utilization from 30-35% to 65%, because the longer changeovers meant less downtime between campaigns was actually being used. That sounds counterintuitive but the management explanation was that the new rules require more validation steps and time between product changes, so the facility reaches full utilization sooner with less product changeover slack. The response is a roughly ₹50 crore expansion adding a new line with three new lyophilizers, which will increase oncology capacity further.

Summary of the business in numbers

The FY26 financial picture: revenue from operations of ₹503 crore (up ~36% from ₹370 crore in FY25), EBITDA of ₹118 crore (24% margin, up from 22%), profit after tax of ₹67 crore (13.4% margin, up from 10.8%). Consolidated figures are nearly identical to standalone because the only subsidiary, Kwality Pharmaceuticals Africa Limitada in Mozambique (51% owned), is small. Q2 FY27 consolidated revenue was ₹181 crore, up 63% YoY, with 27.5% EBITDA margin and PAT doubling YoY; H1 FY27 revenue was ₹343 crore. FY27 guidance is now ₹720 crore plus, with ₹750 crore described as achievable and EBITDA margin of 27.5-28%. Management points to FY28 revenue of ₹950-1,000 crore, with ₹1,000 crore plus possible if European and Brazilian registrations land, and FY29 growth of 25-30% over FY28. The earlier FY28 ₹800-850 crore and FY29 ₹1,000 crore targets are superseded.

The core of the business is simple: manufacture complex injectables and other formulations, get them registered in overseas markets, supply through partners, and reinvest the cash in the next wave of registrations and capacity. The engineering challenge is the manufacturing technology; the commercial challenge is the regulatory pipeline.

Business segments

Pharmaceutical Formulations

Kwality Pharmaceuticals is a single-segment company. The entire business is pharmaceutical formulations: developing, manufacturing, and selling finished drug products for injection, oral, and topical use. Revenue from this segment is 100% of the company. The portfolio spans 1,000+ formulations across 25+ therapeutic categories, and the dosage mix is lopsided: injectables 48%, tablets 38%, capsules 5%, liquid orals and externals 3%, creams and ointments 2%, and dry syrups, ophthalmics, sachets, and suppositories at 1% each. Injectables plus tablets drive 86% of revenue, per the FY26 annual report.

The capability that took four decades to build is certified manufacturing of complex injectables. Four of five operational units carry EU-GMP approval, alongside accreditations including PICS, ANVISA, INVIMA, and WHO-GMP, and the company cleared 20+ regulatory and customer audits in the last two years. The annual report's tech focus list shows what is hard about the plant: liposomal pegylated injectables, emulsion technology, lyophilised injectables, long-acting injectables, and niche biological injectables. A clean, validated facility is the barrier for these products, not price.

The products fall into three tiers. The repeat base is emulsions, liposomes, and peptides sold in unregulated and semi-regulated markets for years. Management said 35% of FY26 revenue, about INR150-160 crores, came from the same molecules in the portfolio since 2024. Oncology is the growth tier: roughly INR100 crores in FY26, planned to reach INR300 crores by FY29, with peptide products carrying about 40% EBITDA margins versus 25% for routine oncology. The pipeline tier adds Erythropoietin (Kwalipoietin), which completed pre-clinical studies in FY26 with a planned CY2027 launch, three monoclonal antibodies under development, and a bioequivalence programme spanning 40+ oral solid molecules.

The customers are export partners, not end consumers. The annual report labels the model "asset-light out-licensing and supply model (90%)": Kwality manufactures, and partners register, distribute, and sell in their home markets. Products reach 70+ countries across LatAm, MENA, Africa, GCC, Asia, and CIS, and the FY29 aspiration breaks down as LATAM around 30% of revenue, Algeria 15-16%, French West Africa 10%, GCC 10-15%, Russia 5-7%, and the rest Southeast Asia and Eurasia. The biggest single market is Algeria, where FY26 revenue ran about INR80-90 crores. Domestic India is small, roughly INR40-50 crores of peptide sales, because Kwality does not advertise or run its own sales force.

Why do buyers stick? The economics are volume plus certification, not price. In the mature markets the selling price stayed flat for three years and volume grew because the plant kept passing audits. The counterweight is cash: MENA and GCC buyers are largely government tenders on 100% credit, which is why the cash conversion cycle ran 208 days before improving to 170 days in FY26, with about INR60-70 crores of delayed Middle East receivables, 40% already realized by May 2026 and the rest expected by June-July.

> *"35% of the products are still the same what were there in 2024, that includes again the emulsions, the liposomes, the peptide products. They still contribute roughly around INR150 crores to INR160 crores of sales and those completely are from the unregulated and semi-regulated markets."*
>
> **ADITYA ARORA, DIRECTOR AND CFO, Q4 FY26 CONCALL (MAY 2026)**

The moat is registration lead-time. FY26 produced 55 submissions and about 10 registrations, with 6 more expected in Q1-Q2 FY27 and 25-30 further submissions planned.

Germany is the first high-regulated market, with four registration certificates expected by end of May or June 2026. The margin uptick comes from fresh registrations in regulated markets, which the concall puts at roughly 40% EBITDA versus 20-25% in the GCC.

> *"the margins in those products are roughly around 40% EBITDA margins and those are fresh registrations, not site variations."*
>
> **ADITYA ARORA, Q4 FY26 CONCALL (MAY 2026)**

Management does not name direct competitors in the formulations business in the sources; the annual report's threat section flags "intense competition from domestic and multinational pharmaceutical companies". The only named competitive context is in biologics, where the concall notes that Dr. Reddy's and Samsung partnered with Keytruda for R&D procurement, which is why Kwality will import its biosimilar R&D from Hikma Pharma of Algeria instead. In formulations, the differentiation is complex-injectable capability plus the registration pipeline, not scale in commodity generics.

Since this is the only segment, fit is vertical: the formulations platform is the base for the hormone and biologics initiatives. Unit 6, the hormone facility, involved about INR65 crores of capex, half spent in FY26, and targets INR150 crores of revenue before FY29. Both hormone and biologic revenue are excluded from the INR1,000-crore FY29 guidance, treated as upside through the same export channels.

Management guidance has moved up. In Q2 FY27, FY27 revenue guidance was raised to ₹720 crore plus from ₹700 crore, with ₹750 crore described as achievable and EBITDA margin guided at 27.5-28%. Management points to FY28 revenue of ₹950-1,000 crore, with ₹1,000 crore plus possible if European and Brazilian registrations land, and frames FY29 as 25-30% growth over FY28. The ₹100-150 crore hormone opportunity and biologics are not included in the base plan. Q1 FY27 was expected to match Q4 FY26 at ₹150-160 crore; the older Q4 FY27 ₹200 crore quarterly target is not repeated in the latest call. FY26 delivered revenue of ₹503 crore, EBITDA of ₹118 crore (24% margin) and PAT of ₹67 crore.

Customers

(Not disclosed in the sources.)

Competitive landscape

(Not disclosed in the sources.)

Industry

(Not disclosed in the sources.)

Growth triggers

EU GMP certification received for cephalosporin and oncology; Mexico registration targeted Q4 FY27, Brazil and Europe Q2 FY28

Kwality received European GMP certification from Hungary for its cephalosporin and oncology facilities, a facility-level approval rather than a product registration. Product registrations are now sequenced: Mexico, the least profitable cephalosporin market, is targeted for Q4 FY27; Brazil and Europe are targeted for Q2 FY28. Management also expects one Brazilian product, described as a ₹150-200 crore molecule, to commercialise in Q2 FY28. The earlier expectation of German certificates by May-June 2026 is superseded by this Hungary certification and later product-registration timetable.

The mechanism is margin. Kwality's existing registrations in unregulated and semi-regulated markets have seen flat selling prices for three years (Q4 FY26 concall), which is why gross profit for FY26 stayed around 49% despite growth. Regulated-market products price differently: management put EBITDA margins on those registrations at roughly 40%, against the 24% company EBITDA margin for FY26, because they are fresh registrations, not site variations. At the INR1,000 crore FY29 target, management expects regulated-market products to contribute "almost 10%" of revenue.

These filings sit on facility-level approvals Kwality already holds. The new evidence is the Hungary EU-GMP certification for cephalosporin and oncology, plus 19 of 40 BE molecules completed. Management raised FY27 guidance to ₹720 crore plus and now points to FY28 revenue of ₹950-1,000 crore. Regulated-market products carry higher margins: own-registration products are guided at 28-32% EBITDA versus 24-26% for partner-owned registrations.

> *"we have almost got four registrations now, major registration in European countries. However, the certificate is yet to be announced so that we have not made it public, but probably by end of May or June, we'll get the registration."*
>
> **ADITYA ARORA, DIRECTOR & CFO, Q4 FY26 CONCALL (MAY 2026)**

> *"So, now we are slowly moving towards the regulated markets and we expect at least seven, eight registrations before end of calendar year 2027."*
>
> **ADITYA ARORA, DIRECTOR & CFO, Q4 FY26 CONCALL (MAY 2026)**

Oncology revenue to grow from ~₹100 crore in FY26 to ₹300 crore by FY29

Kwality's oncology business is the single largest revenue lever within its ₹1,000 crore FY29 target. In FY26, oncology contributed roughly ₹100 crore out of total revenue of ₹503 crore, or about 20% of the mix. Management projects this segment alone to triple to ₹300 crore by FY29.

> *"the revenue was roughly close to INR100 crores in FY26 for oncology. So, this number we are projecting to increase by up to INR300 crores by FY29."*
>
> **ADITYA ARORA, DIRECTOR & CFO, Q4 FY26 CONCALL (MAY 2026)**

The margin math is what makes this growth valuable. Oncology products carry EBITDA margins of roughly 30% to 32%, well above the company-level 24% in FY26. Within that, peptide-based oncology products generate around 40% EBITDA margins versus 25% for routine oncology, and peptides are expected to make up 40% of the oncology sales mix. As oncology scales from 20% toward 30% of total revenue by FY29, it drags the blended company EBITDA margin toward management's 30% FY29 target.

The blocker today is physical capacity, not demand. Management attributes the low utilization to a change in the European Annexure 1 guidelines, which lengthened changeover, validation, and manufacturing timelines and pushed effective capacity utilization to about 65% (Q4 FY26 concall, May 2026). To unlock the ₹300 crore target, the company is spending roughly ₹50 crore to add one new production line with three lyophilizers featuring total automation, part of the broader ₹260-270 crore capex programme spanning oncology expansion, hormones, biologics clinical trials, and R&D. The FY26 annual report's Managing Director's desk confirms this direction: "Capital expenditure continued alongside this work, including a dedicated hormone manufacturing facility and capacity enhancement in oncology and biologics using more advanced automation" (FY26 Annual Report). The expansion is the mechanism that converts existing demand into oncology revenue growth by FY29.

Hormone unit commercialisation guided for Q2 FY28; ₹100-150 crore opportunity excluded from base plan

Unit 6's timeline has moved. Management now targets Q2 FY28 commercialisation after PIC/S and ROW audits, versus the earlier November 2026 WHO-GMP target. The ₹100-150 crore sales opportunity from Islamic markets is described as a contingency and is not included in the ₹1,000-1,200 crore revenue plan. The plant's operating cost starts before sales, so FY27 EBITDA margin is guided at 27.5-28% rather than higher.

Once audits clear, Kwality plans to commercialise in ROW markets through existing partners rather than waiting for regulated approvals. Management says the first push could generate ₹100-150 crore, subject to PIC/S and country audits. The revenue is treated as an add-on or contingency, not part of the core FY28-FY29 base.

> *"we believe that before November, we'll try to get the WHO GMP and do the commercialization in the ROW market."*
>
> **DIRECTOR & CFO, Q4 FY26 CONCALL (MAY 2026)**

Management's stated ambition is ₹100-150 crore from hormone products, with Q2 FY28 commercialisation cited. That figure is not in the ₹950-1,000 crore FY28 or the FY29 growth plan; it is upside if audits and registrations land. The earlier ₹150 crore before FY29 ambition is therefore replaced by a lower, later and explicitly excluded range.

The strategic point remains that hormone revenue is excluded from the base revenue guidance, now described against ₹1,000-1,200 crore rather than only the old ₹1,000 crore FY29 target.

> *"So, as of now we have not considered hormone sales revenue and biologics sale revenue in INR1,000 crores."*
>
> **DIRECTOR & CFO, Q4 FY26 CONCALL (MAY 2026)**

That makes Unit 6 an additional layer on top of the base plan, or a fallback if other growth lines slip. The FY26 annual report lists Unit 6 (Hormones) as under construction, the clearest written confirmation that the capital has been committed and the building is advancing towards the November milestone.

Bioequivalence programme - 19 of 40 molecules complete; first 7-8 targeted for FY28

Kwality has completed BE studies for 19 of 40 targeted molecules and says 19 dossiers are ready. The first 7-8 molecules are targeted for commercialisation in FY28 in South Asian and Latin markets and are expected to generate ₹80-90 crore. The next 12 are targeted by FY29. Management continues to describe 200 BE studies as the longer-term pipeline, supported by the planned Unit 7.

The economics work through timing and substitution. Each completed BE study is capitalised as an intangible asset and amortised over five years - ₹433.89 lakhs was booked in FY26 for the "Bioequivalence Study" asset - and because the molecules are freshly off-patent, the first filer captures a margin premium. Management put initial EBITDA on these products at 40-45%, settling to 25-30% as competition arrives by 2028-2029, with new BE products added each year to refresh the mix (Q4 FY26 concall).

The clearest monetisation path is replacing existing product lines in markets Kwality already serves. In the GCC, that substitution is planned over the next two to three quarters:

> *"we are going to reduce the current sales revenues in those GCC countries, and we are going to replace it with the bioequivalence product first, wherein, the margins and EBITDAs are roughly around 35%. Currently the margins in the GCC region is between 20% to 25%."*
>
> **ADITYA ARORA, Q4 FY26 CONCALL (MAY 2026)**

The same BE products are the entry tool for new geographies - the Baltic European and Russian/Eurasian markets. The annual report adds that 16 generic formulations' BE studies

were nearing completion and being prepared for registration in multiple countries, including India.

Erythropoietin sold under biowaiver; FY28 target ₹30-40 crore, FY29 ₹80-100 crore

Erythropoietin is already contributing: management says about 1% of Q2 FY27 revenue came from EPO, with more expected in Q3, using biowaiver applications where accepted, including Egypt. Clinical studies continue for full registration. Management targets ₹30-40 crore from EPO in FY28 and ₹80-100 crore in FY29; the much larger ₹800-900 crore aspiration is explicitly subject to registrations and clinical completion.

The registration window is set for the next eight months. Management said clinical data will be submitted around October - November 2026, with approval expected either at the end of CY2026 or in Q1 CY2027:

> *"Probably by end of this calendar year or Q1 of next -- Q4 of the next calendar year, we'll be able to get the registration of Erythropoietin."*
>
> **ADITYA ARORA, DIRECTOR AND CFO, Q4 FY26 CONCALL (MAY 2026)**

The model is a mix of biowaiver-led temporary supply and eventual clinical registration. Kwality says its characterisation and dossier data meet biowaiver guidelines; full product registration still depends on clinical studies. The Algerian partner structure remains part of the fill-finish plan.

Where biowaivers are accepted, Kwality can make immediate supplies without waiting for full registration; full registrations follow clinical studies. Management expects EPO revenue to build from the current base, with FY28 and FY29 targets above.

Management excludes EPO and other biologics from the base revenue plan; any sales are incremental to the ₹950-1,000 crore FY28 and FY29 growth guidance.

Pembrolizumab biowaiver application targeted for January; first supplies March-April 2027

Kwality's first monoclonal antibody biosimilar targets pembrolizumab, the molecule behind Merck's Keytruda. Management dropped Alteplase from the biologics pipeline and replaced it with pembrolizumab because stroke-patient enrolment in India was impractical, whereas pembrolizumab covers 42 indications, making patient recruitment for trials far simpler (Q4 FY26 concall, May 2026).

The sequence has firmed. Pembrolizumab biowaiver application is targeted for January, preclinical completion by February, and some commercial quantities in March or April 2027. Full product registration still requires clinical studies. Nivolumab and pertuzumab are the other two named biosimilars.

> *"So probably for the first MAB which we have mentioned in the presentation, we'll be, you know, submitting the data in October month for getting the pre-clinical approval."*
>
> **CFO ADITYA ARORA, Q4 FY26 CONCALL (MAY 2026)**

The R&D is not developed in-house. Kwality will import the pembrolizumab R&D from its partner Hikma Pharma in Algeria, which also helps fund the clinical work. Management estimates the clinical process for pembrolizumab at roughly ₹40 crore. The three-MAB programme is presented at ₹60 crore but actually costs ₹110-120 crore, so partners invest the remainder (Q4 FY26 concall, May 2026).

The commercial structure remains partner-led: Kwality manufactures drug substance, partners do fill-finish, and initial supplies use biowaiver routes where accepted. Management expects the three named biosimilars to commercialise only from FY30, with EPO earlier; none is in the base revenue guidance.

Key risks

- **Growth is a queue of regulatory filings, and approvals have a habit of sliding.** EU GMP certification from Hungary is a facility approval, not product registration. Mexico cephalosporin registration is targeted Q4 FY27; Brazil and Europe Q2 FY28. The first 7-8 BE products are targeted FY28. If these slip, FY28 ₹950-1,000 crore guidance shifts. Erythropoietin clinical timelines and the first BE launches also gate biologics and specialty revenue.
- **Working capital is hostage to geopolitics.** Management says working capital cycle fell to 130 days from 170 days in FY26 and debtor days to 178 from 208. Middle East receivables that were stuck have been realised in Q1 and Q2 FY27, though the company now sells less to those markets. The earlier 150-160 day target is not repeated. A new disruption in the region would reset the cycle and re-stress the balance sheet.
- **Algeria concentration with 100% credit government tenders.** Algeria contributed roughly INR80-90 crore in FY26 and is projected to be 15-16% of the FY29 revenue plan (Q4 FY26 concall). That business is registered-tender government supply on full credit with inherently long payment cycles. A procurement delay or policy shift in Algeria hits revenue and receivables simultaneously, and there is limited recourse because the margin is earned on volume.
- **Operating cash flow is thin relative to a heavy capex plan.** FY26 net cash from operating activities was about ₹17 crore against ₹67 crore of profit, because trade receivables rose by roughly ₹125 crore during the year. The old ₹90 crore FY27 and ₹90-100 crore FY28 plan is superseded. Management says the prior ₹140-150 crore capex programme is almost complete, with ₹20-25 crore pending by April 2027. New Unit 7 and BE

infrastructure require ₹500-600 crore over three years: ₹200-250 crore for Unit 7 and ₹250-300 crore for 200 BE studies. Funding is internal accruals plus bank loans; no equity dilution is planned as of now.

- **EU Annexure 1 has turned oncology capacity into a constrained resource.** Changes to EU Annexure 1 guidelines lengthened changeover and validation timelines, pushing oncology utilization from 30-35% to roughly 65% on the same installed capacity (Q4 FY26 concall). That means the facility is effectively closer to full than the headline number implies, and the ₹50 crore expansion (one additional line plus three lyophilizers) is needed just to hold planned volumes. If construction or qualification slips, the oncology trajectory - from ~₹100 crore in FY26 to ₹300 crore by FY29 - stalls.
- **The biosimilar programme is outsourced and partner-funded.** In-house R&D only covers oncology, general injectables, cephalosporin, beta-lactam and upcoming hormones. Biosimilar development is outsourced at ₹13-14 crore per product, with clinical trials of ₹60-70 crore ahead. The three-molecule MAB programme costs ₹110-120 crore in total, of which the company carries ₹60 crore and a partner funds the balance (Q4 FY26 concall). They already dropped Alteplase for lack of available patients in India and replaced it with Pembrolizumab. If the Algerian partner slows, or CDSCO is slow to clear clinical trial approvals, the entire biologics timeline floats.
- **Foreign-exchange exposure is described as limited, but input costs still matter.** About 85% of raw materials are sourced in India and 10-15% from China; management says a 4-5% API price increase was absorbed by new higher-price registrations. Export prices are set in USD but referenced to INR, so currency moves are largely passed through. Gross margin is targeted at 54-55% as R&D spend rises from FY28.
- **GST litigation is an unresolved overhang.** The FY26 audit report discloses a show cause notice for alleged wrongful Input Tax Credit of ₹30.26 crore (demand plus proposed penalty) for FY2017-18 to FY2022-23, currently stayed by the Punjab & Haryana High Court; a separate order for ₹6.30 crore (tax plus penalty) that was dismissed on appeal and is now subject to a civil writ petition; and smaller demands for FY2019-20 and FY2020-21 (FY26 annual report, Auditors' Report). All are disclosed as pending and none are provided for. An adverse outcome in any of these would hit cash flow directly.
- **The franchise rests on a registration-led model in markets with aggressive entrants.** The peptide, liposome and emulsion products that anchor the current ~₹150-160 crore base are concentrated in unregulated and semi-regulated markets. As those markets mature and attract competition - the call itself named Dr. Reddy's and Samsung as having Keytruda partnerships - the first-mover margins on these products compress, and

biosimilar prices in India are expected to crash toward a tenth of current levels, turning what looks like a premium biologic into a commodity business.

Scenarios

Bull case

Bull case: FY27 revenue lands above ₹720 crore toward ₹750 crore at 27.5-28% EBITDA margin. FY28 reaches ₹950-1,000 crore, with Brazil/Europe registrations adding a ₹150-200 crore product, and 19 BE molecules start converting: ₹80-90 crore from first 7-8 in FY28 and 12 more by FY29. Unit 7 is built over FY28-30 with a ₹500-600 crore total programme, funded internally and through bank loans. Hormone adds ₹100-150 crore from Q2 FY28 outside the base. EPO contributes ₹30-40 crore in FY28 and ₹80-100 crore in FY29. Working capital stays near 130 days.

Base case

Base case: FY27 revenue ₹720-750 crore at 27.5-28% EBITDA, FY28 ₹950-1,000 crore, and FY29 grows 25-30% over FY28. Mexico registration is targeted Q4 FY27, Brazil/Europe Q2 FY28, first 7-8 BE products FY28 and remaining 12 by FY29. Hormone commercialises Q2 FY28 but its ₹100-150 crore is excluded. Unit 7 capex is ₹200-250 crore plus ₹250-300 crore BE spend over FY28-30. EPO is targeted at ₹30-40 crore in FY28 and ₹80-100 crore in FY29. Working capital stays near 130 days.

Bear case

Bear case: Mexico, Brazil or Europe registrations slip past Q4 FY27/Q2 FY28, pushing FY28 below ₹950 crore. First 7-8 BE products fail to commercialise in FY28, so the ₹80-90 crore and FY29 contribution move out. Hormone audits slip beyond Q2 FY28 and its ₹100-150 crore remains excluded. EPO biowaiver sales stay at 1% of revenue and clinical registration delays the ₹80-100 crore FY29 target. New ₹500-600 crore capex over FY28-30 is funded with more bank debt than planned, while working capital stays near 130 days but not better. Unit 7 phases slip, leaving capacity without revenue.

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Q2 FY27 concall notes

TLDR

Kwality Pharmaceuticals reported Q2 FY27 consolidated revenue of ₹181 crore, up 63% YoY from ₹111 crore, with EBITDA margin at 27.5% and PAT doubling to ₹50 crore; H1 FY27 revenue was ₹343 crore. Management raised FY27 revenue guidance to ₹720 crore plus from ₹700 crore plus, calling ₹720-750 crore achievable, and guided FY28 to ₹950-1,000 crore with 30-35% growth. European GMP certification from Hungary was received for the cephalosporin and oncology facilities, bioequivalence studies were completed for 19 of 40 molecules, and 4 acres were acquired for a proposed Unit 7. Debtor days fell to 178 from 208 and working capital days to 130 from 170. KPMG has been appointed as auditor. Watch points: hormone plant operating costs starting without sales, Middle East and Iran/Iraq/Saudi registrations moving slowly, and biosimilar commercialization dependent on biowaiver acceptances and clinical trials.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue guidance raised to ₹720 crore plus from ₹700-720 crore; management said ₹720-750 crore is achievable but kept the stated number conservative, citing KPMG standards and December holidays with international markets shut until 15 January.
- FY28 revenue guidance raised to ₹950-1,000 crore with 30-35% growth, from the prior 25-30% growth (minimum 25%). Management said the number could cross ₹1,000 crore if European registrations and one Brazilian registration come through.
- FY27 EBITDA margin guidance narrowed to 27-28% (27.5-28% indicated) from 26-27%, with the hormone plant's running cost starting before any sales.
- Debtor days target missed against the prior 165-170 day exit guide: reported at 178 days, down from 208 in FY26. Working capital days reduced to 130 from 170.
- KPMG appointment delivered: previously slated for Q3-Q4 FY27 pending software migration; now appointed, disclosed alongside the secretarial auditor's resignation.
- Oncology registration timing slipped again: previously expected by Q4 FY27; now no oncology registration date given, with the European GMP certificate from Hungary for oncology and cephalosporin facilities as the new milestone.
- BE program numbers restated: 19 of 40 molecules completed (prior call had 6-7 from Q3 FY26 and 2-3 from Q4 FY26 done, ~32 remaining by Nov-Dec 2026). FY28 BE revenue guided at ₹80-90 crore from the first 7-8 molecules, and FY29 at about ₹300 crore from 19 products, versus the prior ₹80-100 crore FY28 and ₹400-500 crore FY29.
- Hormone facility timeline moved: manufacturing license was expected November 2026 and GMP June-July 2027; now commercialization guided for Q2 FY28 after PIC/S and ROW audits, with ₹100-150 crore flagged as a contingency or add-on outside the ₹1,000-1,200 crore base.
- Erythropoietin commercialized earlier than planned: prior call had Indian launch before end-CY27 and clinical trials starting Nov-Dec 2026; now 1% of Q2 revenue came from erythropoietin under biowaiver in Egypt, with ₹25-30 crore expected by Q4 FY27 and ₹30-40 crore in FY28.
- New disclosures: Unit 7 land acquisition (4 acres), a US ANDA CDMO arrangement for cephalosporin and beta-lactam molecules, a 27D application with CDSCO for biological fill-finish, and a Brazilian product guided at ₹150-200 crore.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹181 crore	+63% YoY (vs ₹111 crore)	New registrations in MENA (Algeria, Morocco, Tunisia) and Mexico/Colombia
H1 FY27 revenue	₹343 crore	n/a	Not explained beyond Q2 momentum
EBITDA margin	27.5%	n/a	Improved operating leverage and product mix, per management
PAT	₹50 crore	Doubled YoY	Operating leverage and mix
Debtor days	178 days	Down from 208 in FY26	₹60-70 crore of Middle East debtors stuck in Q4 FY26 realized in Q1 and Q2
Working capital days	130 days	Down from 170 in FY26	Not explained
BE studies completed	19 of 40 molecules	Up from 6-7 plus 2-3 in prior quarters	Dossiers ready for global filing
Erythropoietin revenue share	~1% of Q2 revenue	Up from ~1% in Q1 (registration-stage only)	Biowaiver application accepted in Egypt
EBITDA margin, partner-owned registrations	24-26%	n/a	Partner exports
EBITDA margin, Kwality-owned registrations	28-32%	n/a	First/second generic portfolio

SEGMENTS & GEOGRAPHIES

- **MENA (Algeria, Morocco, Tunisia)**: the main driver of Q2's 63% growth, from new registrations. Iran, Iraq and Saudi Arabia registrations are slow moving and not a focus area for future registrations.
- **Mexico and Colombia**: the second growth driver, from new registrations. Mexico registration takes 14-18 months; other LATAM countries 12-14 months.
- **Cephalosporin facility**: European GMP certification received from Hungary. Mexico registration expected Q4 FY27 (described as the least profitable market for cephalosporin), Brazil by Q2 FY28, Europe around the same time.
- **Brazil**: one product expected to commercialize by Q2 FY28, described as a ₹150-200 crore molecule.
- **Canada, Singapore, Australia**: CDMO agreements signed for Canada with variations started, commercialization guided for Q3-Q4 FY28. One registration held for the same product as Brazil; awaiting tenders in Malaysia and Singapore.
- **Europe**: management expects more registrations from the European market to support FY28 growth.
- **Hormone (Unit 6)**: commercialization guided for Q2 FY28 after PIC/S and 5-6 ROW country audits; ₹100-150 crore possible in FY29, or ₹200 crore by FY29-FY30 with 5-6 bioequivalences and dossiers.
- **Biologics (Unit 5)**: erythropoietin generating revenue under biowaiver; pembrolizumab, nivolumab and pertuzumab in development with biowaiver applications planned.

STRATEGY & COMPANY-SPECIFIC

- **Unit 7**: 4 acres acquired adjacent to the existing facility for a proposed manufacturing unit to be built in three phases across FY28, FY29 and FY30, sized for 200 BE studies. Capex of ₹200-250 crore guided, with revenue expected from FY29.

- **Capex**: of the ₹140-150 crore planned before end-FY27, ₹20-25 crore remains, to be completed by April 2027. Total capex of ₹500-600 crore guided over three years, including ₹250-300 crore for 200 new bioequivalences, plus ₹60-80 crore additional working capital. Funding from retained earnings with some bank loans; no equity dilution planned as of now.
- **US ANDA**: CDMO arrangement with a US-based company for 2 cephalosporin and 2 beta-lactam molecules, starting with one from each side. Process validations completed; awaiting stability studies before filing. Visibility expected Q1 FY28; not included in guidance.
- **27D application**: filed with CDSCO to make biological finished formulations without the drug substance; audit completed, approval expected December or January, after which biological fill-finish CDMO work can start. Capacity for 6-7 CDMO projects.
- **Biosimilar clinical funding**: ₹150-200 crore of clinical studies for 3 molecules to be funded by external exclusivity partners and excluded from the capex presentation.
- **KPMG**: appointed as auditor, disclosed on the same day the secretarial auditor resigned.
- **R&D**: spend to rise from 2.5% of revenue toward 5-6%, with the increase starting Q1 FY28 after hormone and oncology expansion costs are done.
- **Capital returns**: no plan for split, bonus or dividend; earnings to be used for expansion.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue	₹720 crore plus; ₹720-750 crore achievable	Raised	New registrations; kept conservative for KPMG standards and December holidays
FY27 PAT	₹122 crore plus	New	Implied by margin and revenue guidance as presented by management
FY27 EBITDA margin	27-28% (27.5-28% indicated)	Narrowed from 26-27%	Hormone plant running cost starting without sales
FY28 revenue	₹950-1,000 crore; 30-35% growth; above ₹1,000 crore if European and Brazilian registrations come	Raised from 25-30% growth	Registration pipeline
FY29 revenue growth	25-30% over FY28	Maintained	If FY28 reaches ₹1,000 crore
FY29 EBITDA margin	29-30% at ₹1,000 crore plus revenue	Maintained (~30% at ₹1,000 crore)	Operating cost not rising with revenue
Gross margin	54-55% (gross cost 44-46%)	Raised from ~47% steady state	Mix shift to registered products
BE program FY28	₹80-90 crore from first 7-8 molecules	Revised from ₹80-100 crore	South Asian and Latin markets
BE program FY29	~₹300 crore from 19 products	Cut from ₹400-500 crore	Next 12 products commercialized by FY29
Erythropoietin FY27 (to Q4)	₹25-30 crore	New	Biowaiver sales

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Erythropoietin FY28	₹30-40 crore; ₹80-90 crore called conservative	Revised from ₹80-100 crore	Biowaiver applications
Erythropoietin FY29	₹80-100 crore	Maintained	10% of potential commercialized
Erythropoietin long-term potential	₹800-900 crore, subject to registrations and clinical trials	New	Management's stated vision, not guidance
Hormone FY29	₹100-150 crore; ₹200 crore by FY29-FY30	Revised from ₹150-200 crore FY29	5-6 bioequivalences and dossiers
Hormone FY28	₹100-150 crore possible, outside base guidance	Revised from ₹70-80 crore	Fast-track permits in Islamic countries, subject to audits
Unit 7 capex	₹200-250 crore	New	Three phases FY28-FY30
Total capex FY28-FY30	₹500-600 crore plus ₹60-80 crore working capital	New	Unit 7 and 200 bioequivalences
Pembrolizumab	Biowaiver application ready by January; preclinical by February; some commercialization March or April 2027	New	Biowaiver route
US ANDA commercialization	1-2 cephalosporin products in FY30	New	Subject to US FDA audit and ANDA acceptance

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Hormone plant cost without sales	Running cost of the hormone plant will increase without commercialization, which is why FY27 margin guidance is 27-28%
Middle East receivables	₹60-70 crore of debtors were stuck in the Middle East in Q4 FY26 and realized in Q1 and Q2; current exposure is low as sales to these countries are not large
Slow-moving markets	Registrations in Iran, Iraq and Saudi Arabia are slow moving and not a focus area
US ANDA uncertainty	Management is not certain US FDA will clear the audit or that the ANDA will be accepted; visibility expected Q1 FY28
Biosimilar dependence on approvals	Erythropoietin's ₹800-900 crore potential is subject to regulatory teams, partner registrations and clinical trial timing, which management called external forces
API cost	Indian API prices up 4-5%, absorbed without raising finished prices because higher-priced registered products replaced low-margin unregistered sales
Currency	Prices are set in USD based on the INR rate, so currency moves do not affect costing; 98% of the next BE and peptide products are Indian-sourced
Governance	Secretarial auditor resigned on the day results were announced; management attributed the change to KPMG's appointment

Q&A HIGHLIGHTS

FY28 guidance and conservatism Question: Given the growth momentum, is the FY29 ₹1,000 crore projection overly conservative? Answer: FY28 could close at ₹950-1,000 crore or above, and 30-35% growth is achievable with more European registrations and one Brazilian registration, which would take FY28 past ₹1,000 crore.

BE program revenue restatement Question: With 19 BE studies complete, should the prior ₹80-100 crore FY28 and ~₹500 crore FY29 estimates be upgraded? Answer: FY28 should see ₹80-90 crore from the first 7-8 molecules in South Asia and Latin America, with the next 12 commercialized by FY29, taking the 19-product number to about ₹300 crore.

Partner versus own registrations Question: Who holds registrations where domestic billing is to partners who export, and are margins different? Answer: At ₹1,000 crore revenue, ₹200 crore would remain with partner-owned MAs, mostly Africa and unregulated markets, and ₹800 crore from Kwality-held registrations. Partner exports earn 24-26% EBITDA; Kwality registrations earn 28-32%.

Hormone plant timing Question: When does the hormone plant commercialize and what is the product profile? Answer: PIC/S and 5-6 ROW audits are targeted for next year, with commercialization in Q2 FY28 and ₹100-150 crore possible, treated as a contingency or add-on outside the ₹1,000-1,200 crore base.

Biowaiver versus clinical studies Question: How can products be sold without human clinical trials? Answer: A biowaiver requires preclinical work in at least two species and cell-line characterization; it permits temporary supplies, while product registration still requires clinical studies. Erythropoietin has been commercialized this way in Egypt.

Erythropoietin potential Question: Does ₹80-100 crore in FY29 represent 10% of potential? Answer: Management put erythropoietin's conservative potential at ₹1,000 crore and said ₹800-900 crore is achievable if registrations and clinical trials complete, subject to external factors.

Unit 7 scale Question: What is the revenue potential of Unit 7 at full utilization? Answer: The facility is sized for 200 BE studies, each generating ₹20-30 crore across 20-30 countries on a conservative basis; management said this could exceed ₹2,000-3,000 crore but would not give a firm number.

Capex funding Question: How will the next two years of capex and working capital be funded, and is dilution possible? Answer: ₹500-600 crore capex over three years plus ₹60-80 crore working capital, funded from retained earnings (₹150-160 crore a year at ₹1,000 crore revenue) and some bank loans; no equity dilution planned as of now.

Sakar Healthcare Limited

GROWTH TRIGGERS

Sakar can re-rate if it converts its 22 oncology marketing authorisations and 33 technology-transfer projects into commercial supply, lifts oncology from about half of revenue to 60% in a couple of years, and uses its API-integrated EU-GMP facility to move EBITDA margin from 28% toward 34-35%.

1. Oncology has reached about half of revenue with a stated 60% mix target

Oncology contributed about ₹50 crore of Q2 FY27 revenue, roughly half, with domestic about ₹43 crore and exports ₹8.2 crore. Management expects oncology to cross 50% of revenue next year and 60% in a couple of years as more products commercialise.

2. FY28 oncology revenue of about ₹300 crore is called achievable

Management guides oncology revenue growth of 35%+ in FY27 and FY28 and, asked directly, says about ₹300 crore oncology revenue is achievable in FY28. It expects full-year contribution from MAs and site variations by end-FY28.

3. Margin has already expanded to 28%, with a near-term ~30% and 34-35% API path

Q2 FY27 EBITDA margin was 28%, up from 20%, as oncology mix and operating leverage improved. Management guides around 30% near term and 34-35% after API integration over a couple of years.

4. 22 MAs and 191 submissions create a conversion queue

Sakar holds 22 oncology MAs, with about 6 commercialised and 16 remaining. It has shared 351 dossiers and submitted 191, giving a queue of registrations to convert into partner supplies and own-MA launches.

5. 33 technology-transfer projects and 33 site variations provide near-term commercial hooks

Sakar has 33 technology-transfer projects across four partners and 33 site variations covering 18 cytotoxic molecules, with 11 products approved in the EU/UK. Accord has 8 of 11 molecules approved at Sakar's site.

6. External API sales are material but will shift to captive use to lift blended margin

External oncology API sales were ₹36-37 crore in H1 FY27, equal to the prior year, and management expects FY27 annual sales to be double or more H1. In FY28 more API output is intended for captive consumption to improve blended profit rather than third-party sales.

7. The API-integrated EU-GMP facility has started commercial supply at 26% utilisation

Commercial supply has commenced in domestic and international markets from the API-integrated EU GMP-approved oncology formulation facility. The new oncology plant was at about 26% utilisation in Q2 FY27, leaving operating leverage if volumes rise.

8. Accord-Intas portfolio has 11 products and ₹50-150 crore potential

The Accord-Intas portfolio covers 11 oncology products with potential of ₹50-150 crore, and management uses about ₹100 crore as an average. Accord has multiple procurement sites, and proximity to Intas helps monitoring and supply chain.

9. First own MA and EU GMP certificate are near-term validation points

Sakar received its first own marketing authorisation this quarter, with commercial supplies expected very soon. The EU GMP certificate for the oncology facility is expected within this quarter, possibly earlier.

INVESTMENT THESIS

Sakar Healthcare is a pharmaceutical manufacturer converting a non-oncology CDMO base into an oncology-led, API-integrated export business. Q2 FY27 is the clearest evidence yet that the model is producing commercial outcomes: revenue rose 52% to ₹87.4 crore, EBITDA margin reached 28%, PAT rose 149% to ₹11.3 crore, and oncology contributed about ₹50 crore, roughly half of revenue. The investment question is no longer whether the oncology facility can make approved products. It is whether 22 marketing authorisations and 33 technology-transfer projects can be converted into repeat export supply fast enough to fill a plant running at 26% utilisation and lift margins from 28% toward 34-35%.

The business has two segments. Oncology is the growth engine and the strategic asset: an EU-GMP approved, API-integrated facility at Bavla making high-potency cytotoxic APIs, oral solids, injectables and oral liquids. Non-oncology at Changodar provides CDMO services, own-brand exports and loan-licensed generics, with Q2 FY27 revenue of about ₹36 crore. The oncology model is built on regulatory depth. Sakar has shared 351 oncology dossiers, submitted 191 and received 22 MAs, of which about 6 are commercialised. It has 21 oncology APIs in-house, 16 with written confirmations, and 8 commercialised. That API-to-formulation integration is the source of the margin opportunity: management says the current model runs around 28-30% EBITDA and that 34-35% requires 15-20 key APIs to be integrated over a couple of years.

The near-term earnings path is visible but not yet fully proven. Q2 FY27 oncology revenue was about ₹50 crore, with exports of ₹8.2 crore and domestic revenue of about ₹43 crore. H1 oncology revenue was about ₹85 crore, including ₹36-37 crore of external API sales. Management guides oncology revenue growth of 35%+ in FY27 and FY28 and says about ₹300 crore oncology revenue is achievable in FY28, with full-year contribution from MAs and site variations expected by end-FY28. That is management guidance, not an analyst forecast. The inference is that H2 FY27 and FY28 must show a steady rise in export dispatches from the 16 MAs still to be commercialised and from the 191 submitted dossiers where approvals land.

The strongest operating mechanism is the technology-transfer base. Sakar has 33 projects across four partners, and 33 site variations covering 18 cytotoxic molecules, with 11 products approved in the EU/UK. Accord has 8 of 11 molecules approved at Sakar's site, and the Accord-Intas portfolio comprises 11 products with potential of ₹50-150 crore, using about ₹100 crore as an average. These are not binding forecasts, but they are commercial hooks: the partner already holds the marketing authorisation, so Sakar's revenue begins when the site variation is approved and purchase orders are placed. The second mechanism is own-MA exports. The first own MA was received this quarter, and commercial supplies are expected very soon. That is early, but it is the first step in building a direct registration-

backed export stream. Management also said some domestic principal contracts run for 3-5 years, which gives a measure of continuity while site-variation products ramp.

The margin mechanism is separate from the revenue mechanism. Q2 FY27 EBITDA margin was 28%, up from 20%, as oncology mix and operating leverage improved. Management guides toward 30% near term. The next step to 34-35% depends on captive API integration, not simply on more volume. External API sales were ₹36-37 crore in H1 FY27, and management expects FY27 annual API sales to be double or more than H1. In FY28, more API output is intended for captive use to improve blended profit. That is a sensible margin path, but it is slower than the earlier research implied: only 2 of 7 CEP applications are approved, and 15-20 key APIs still need integration.

Capital allocation is not the constraint. No new company-funded capex was disclosed in the Q2 FY27 call, and the existing EU-GMP oncology plant is running at about 26% utilisation. The prior plan of supporting ₹800-1,000 crore revenue at optimal utilisation without major incremental capex therefore remains the relevant operating leverage framework, but it is a capacity statement, not a revenue forecast. The absence of a new capex programme means the near-term earnings path depends on utilisation and mix, not on new assets. Changodar ran at 36-37% in H1, so the non-oncology base still has spare capacity as well.

Management delivery is mixed. The Q2 FY27 call contains hard receipts: 22 MAs, 6 commercialised, commercial supply from the API-integrated facility, 69 oncology contracts, 33 technology-transfer projects and 35%+ oncology growth guidance. But 16 MAs remain uncommercialised, 191 submissions are still in the queue, the first own MA is only starting commercial supply, and the 34-35% margin target has moved to a couple of years. Existing research also records earlier export slippage and guidance reframing; those older transcripts are not in the supplied bundle, so that history is context rather than independently re-verified evidence.

The falsifiers are specific. First, the 16 uncommercialised MAs and the submitted dossiers do not convert into export dispatches through FY27 and FY28, leaving the about ₹300 crore FY28 oncology target out of reach. Second, technology-transfer partners delay launches or qualify second sources, weakening the Accord-Intas and four-partner concentration. Third, API integration of 15-20 key molecules slips, keeping EBITDA margin near 28-30% rather than 34-35%. Fourth, new oncology plant utilisation stays near 26%, so fixed costs absorb the benefit of revenue growth. Fifth, platinum raw-material inflation, with platinum products at 8-10% of the business, pressures costs more than contracts pass through. The thesis is operating leverage with a regulatory conversion queue; it is not yet a demonstrated export franchise.

RESEARCH REPORT

What Sakar Healthcare Limited does

Sakar Healthcare is a pharmaceutical manufacturer based in Ahmedabad, Gujarat, founded in 2004 by Mr. Sanjay Shah. It started as a contract manufacturer and has evolved into a vertically integrated company with two distinct businesses: oncology and non-oncology. The company operates two main facilities - the EU GMP approved integrated oncology plant at Bavla and the non-oncology plant at Changodar. In FY25, revenue stood at INR 1,789 million with an EBITDA margin of ~29%, and the workforce was 342 employees.

The company's strategic direction is to become an oncology-led export franchise. Oncology contributed 38% of total revenue in FY26, up from 21% in the prior year, and about half of Q2 FY27 revenue at roughly ₹50 crore. Management expects oncology to cross 60% of revenue in a couple of years. The Bavla facility is designed to support revenues of INR 800-1,000 crores at optimal utilization over the next 4-5 years without major incremental capex. The non-oncology business at Changodar provides stability through CDMO services and branded formulations.

Oncology

The oncology division manufactures high-potency cytotoxic products across oral solids, injectables, and oral liquids, with integrated API and finished formulation capabilities. The Bavla facility is EU GMP approved for both oral and injection manufacturing blocks. It has an annual production capacity of 97 million tablets, 29 million capsules, and 13 million injection vials operating on single shift. The API block adds 12.3 metric tons of annual high-potent API production, supported by containment systems up to OEL level for safe cytotoxic handling. The facility also has lyophilizers that can manufacture 22,000 and 10,000 vials of lyophilized products of 10 ml each per cycle.

Sakar has developed 55 oncology molecules in-house and shared 351 oncology dossiers globally, of which 191 are submitted and 22 marketing authorisations have been granted. The portfolio spans oral solids and injectables, including molecules like Imatinib, Abiraterone, Capecitabine, Gemcitabine, Carboplatin, Irinotecan, Docetaxel, and Tamoxifen. The company has developed 21 high-potent APIs in-house, including 16 with written confirmation; 8 APIs are commercialised and 2 of 7 CEP applications have been approved. Management expects products with backward-integrated APIs to carry EBITDA margins of 35% or more, but now says this will take a couple of years.

The oncology business operates through multiple models: CMO/tech transfer for Indian multinationals, out-licensing dossiers to overseas partners, and own marketing authorisations. As of Q2 FY27, Sakar had 33 oncology technology-transfer projects across four partners, had executed 69 oncology product contracts, and was pursuing 45 additional

opportunities. It had 33 site variations covering 18 cytotoxic molecules, with approvals for 11 products in the EU/UK; Accord has 8 of 11 molecules approved. The Accord-Intas portfolio comprises 11 oncology products with potential of ₹50-150 crore and an average of about ₹100 crore.

Oncology revenue was about ₹50 crore in Q2 FY27, of which domestic revenue was about ₹43 crore and exports ₹8.2 crore. H1 FY27 oncology revenue was about ₹85 crore, including ₹36-37 crore of external API sales. Management guides oncology revenue growth of 35%+ in FY27 and FY28, says about ₹300 crore oncology revenue is achievable in FY28, and expects full-year contribution from MAs and site variations by end-FY28. Six of 22 MAs are commercialised, 16 remain, and the first own MA was received this quarter with commercial supplies expected soon. Non-oncology revenue was about ₹36 crore in Q2.

Non-oncology

The non-oncology business at Changodar manufactures oral liquids, tablets, injectables, dry powder formulations, and inhalers across a broad therapeutic range. The product portfolio includes cephalosporins, heparin-based formulations, and other generics. This business operates as CDMO/CMO services, loan licensing, and own brand exports. It contributed 62% of total revenue in FY26.

The non-oncology business provides the stable cash flows that fund the oncology build-out. Management has said the non-oncology EBITDA margin runs around 25%, lower than oncology's potential. In Q2 FY27, non-oncology revenue was about ₹36 crore, with exports of ₹29 crore and domestic sales of ₹7.37 crore. The Changodar facility operated at about 36-37% utilisation in H1 FY27, lower than the roughly 70% previously cited in the research.

The own brand export business across APAC, Latin America, CIS, and Africa contributes over 70% of total revenue. The company has 292 product registrations across more than 60 countries and 75 international partners. The Ethiopian Pharmaceutical Supply Services recognized Sakar as one of its best suppliers for 2024-2025.

Business segments

Oncology

Sakar Healthcare's oncology division is a vertically integrated business: it manufactures high-potency cytotoxic APIs and finished dosage forms at a single EU-GMP approved facility in Bavla, Gujarat. The facility can produce 97 million tablets, 29 million capsules, and 13 million injection vials per year on single shift, plus 12.3 metric tons of high-potent API annually. In Q2 FY27, the new oncology plant was running at about 26% utilisation.

The product portfolio spans 55 oncology molecules developed in-house, with 32 CTD dossiers ready to register globally. Named products include Imatinib, Abiraterone,

Capecitabine, Gemcitabine, Carboplatin, Irinotecan, Docetaxel, and Tamoxifen. The division also holds a suite of 10-12 oncology oral liquid products, a niche format that management says few Indian competitors match. More complex liposomal products like nab-paclitaxel and liposomal doxorubicin are developed in-house and under commercial evaluation.

Customers fall into two buckets. The first is global pharma companies that out-license tech transfers: Accord-Intas, Torrent, Emcure, Glenmark, and Zydus are the named partners. The Accord-Intas portfolio alone, covering 11 oncology products, has potential of ₹50-150 crore and management uses about ₹100 crore as an average. The second bucket is regional Indian players and API buyers. External API sales were ₹36-37 crore in H1 FY27, equal to the prior year, and management expects FY27 annual API sales to be double or more than H1.

The reason customers buy from Sakar is regulatory. The Bavla facility holds EU GMP approval for both oral and injection manufacturing blocks, and the company has been accumulating marketing authorizations: 22 received as of Q2 FY27, with 351 dossiers shared globally, 191 submitted, and 6 of the 22 MAs commercialised. That regulatory depth is the moat.

Competition is fragmented. Management acknowledges multinational competitors as well as Indian players in the European market, particularly on tyrosine kinase inhibitors. The stated edge is the full portfolio. The 21 APIs developed in-house, with 16 backed by written confirmations and 8 commercialised, allow backward integration; 2 of 7 CEP applications are approved and the rest are progressing. Management says the 35% margin benefit will take a couple of years.

Oncology is the growth engine of the group. In FY26 it contributed around 38% of total revenue, up from 21% the previous year, and in Q2 FY27 it contributed about half at roughly ₹50 crore. The non-oncology business at Changodar provides stability and cash flow, but management expects oncology to cross 60% of revenue in a couple of years. The Bavla plant was running at about 26% utilisation in Q2 FY27, leaving substantial operating leverage if volumes rise.

The economics are the clearest signal of where this is headed. Management guided that the facility can support INR800 crores to INR1,000 crores of revenue at optimal utilization over the next 4-5 years without major incremental capex. Q2 FY27 EBITDA margin was 28%, and management guides toward 30% near term, with API integration targeted to push margins to 34-35% over a couple of years.

> *"The Bavla oncology facility has been designed with significant growth potential and we believe it can support revenues of INR800 crores to INR1,000 crores at optimal utilization over the next 4 to 5 years without requiring any major incremental capital expenditure."*
>
> **VP STRATEGY AND BUSINESS DEVELOPMENT, Q1 FY27 CONCALL (JUL 2026)**

The export mix is still early. In Q2 FY27, oncology revenue was about ₹50 crore, of which ₹8.2 crore was exports and about ₹43 crore domestic. Six of the 22 MAs have been commercialised, while 16 remain. The thesis rests on those exports scaling as dossiers convert into marketing authorisations and technology-transfer partners ramp up purchase orders.

Non-oncology

The non-oncology segment is the original Sakar Healthcare business, built since the company's founding in 2004 as a contract manufacturer. It operates out of the Changodar facility in Ahmedabad district and covers CDMO/CMO services, own-brand exports, loan licensing, and contract development for general formulations. The core capability here is breadth across dosage forms - the facility produces oral liquids, tablets, capsules, dry syrups, dry powder injections, liquid and lyophilized small-volume parenterals, and antibiotics. That multi-format capability took two decades to assemble, and it is what lets Sakar serve as a single manufacturing partner for a range of products rather than a single-product supplier.

The product portfolio inside non-oncology spans 24 therapeutic categories, including anti-infectives, analgesics, antihistamines, anti-malarials, vitamins, antifungals, diuretics, and proton pump inhibitors. The segment also includes cephalosporins, which are a distinct manufacturing line, and specialty products like sakarin, heparin-based formulations, and dry powder inhalers. The FY25 annual report lists the dosage forms as oral liquids, antibiotic solids (tablets, capsules, dry syrups), antibiotic dry powder injections, and small-volume parenterals in liquid and lyophilized forms. The customers are pharmaceutical companies that outsource manufacturing plus distributors in emerging markets that buy Sakar-branded generics.

The customer list is concentrated among Indian pharmaceutical companies. The May 2026 concall names Zydus, Emcure, Glenmark, Cipla, Ipca, and Abbott as companies Sakar manufactures for across oral liquids, tablets, injectables, dry powder formulations, and inhalers. The FY25 annual report adds that the top five clients contribute 45.40% of sales and that relationships have lasted over five years on average. The export side reaches more than 60 countries through 75 international partners, with 292 product registrations as of the November 2025 call. The geographic focus is APAC, Latin America, CIS, Africa, and selected European markets. The Ethiopian Pharmaceutical Supply Services recognized Sakar as one of its best suppliers for 2024-2025, which management cited in both the May 2026 and August 2026 calls as evidence of credibility in international institutional procurement.

The competitive position within non-oncology is that of a diversified mid-sized Indian generics manufacturer competing against similar CDMO and branded-generic exporters. Management does not claim category leadership in this segment. The competitive pressure

is price erosion in emerging-market generics, which is why management frames non-oncology as a stable cash generator rather than a growth engine. The August 2026 call projects non-oncology growth at 7-8% per year, matching the general generics market trend, and states the EBITDA margin for the segment has been around 25% for the past few years.

The strategic fit is deliberately subordinate to oncology. The company has publicly stated its direction is to become a predominantly oncology-led export franchise, and the August 2026 call describes the Changodar facility as providing stability through CDMO services, injectables, oral solids, and branded formulations. The non-oncology cash flows fund the oncology build-out, and the two segments share the same customers - Zydus, Emcure, Glenmark, and the others buy both oncology and non-oncology products from Sakar. The regulatory infrastructure, EU GMP certification, and emerging-market registration know-how built for non-oncology transfers directly to the oncology operation.

The revenue mix is disclosed. In the May 2026 call, management stated that for financial year 2026, non-oncology contributed around 62% of total revenues, with oncology at 38%. This is a shift from FY25, when oncology contributed roughly 21%. The segment is still the majority of the business, but the trajectory is clear: the company is deliberately letting non-oncology shrink as a share of the mix while oncology expands.

Management's guidance for this segment is explicit about its role. Asked directly about non-oncology growth prospects in the August 2026 call, Bikramjit Ghosh, Vice President of Strategy and Business Development, positioned it as a market-rate business:

> *"the non-oncology portion where we will be expecting a growth what pharmaceutical industries are right now having around 7% to 8%. So, that is up to there with have - we have more than 270 odd marketing authorizations there and well spread in terms of our product portfolio what we have with the emerging market as the focus."*

The same answer addressed the margin differential, stating non-oncology EBITDA has run around 25% while oncology carries the potential to reach 30% or higher. That margin gap is the stated reason the company is concentrating investment in oncology. The non-oncology segment is not being neglected, but it is being managed as a mature business whose primary job is to provide stable revenue, cash flow, and customer relationships while the oncology platform scales.

Customers

Sakar's customer base splits into two groups: Indian multinationals who transfer technology to Sakar and sell under their own brands, and overseas partners who register and commercialize Sakar's dossiers in their territories. The most important relationships are with Accord Healthcare (Accord-Intas), Torrent Pharmaceuticals (including Heumann in Germany

and Torrent UK), Emcure Pharmaceuticals (including Tillomed in the UK), Glenmark, and Zydus Lifesciences. Beyond these five, Sakar works with 15-plus regional domestic players in oncology and over 75 international partners.

The buying decision for tech transfer partners is driven by regulatory validation and manufacturing capability, not price alone. Accord's approval of Sakar as a manufacturing source for Imatinib for supply into Europe was a validation of Sakar's quality systems. By Q2 FY27, Sakar had 33 site variations covering 18 molecules, with approvals for 11 products in the EU/UK and 8 of 11 Accord molecules approved.

The economics of these relationships vary by model. In Q2 FY27, blended EBITDA margin was 28%. Management guides toward 30% near term and 34-35% after API integration over a couple of years. For own marketing authorisations with backward-integrated API, margins can reach 35% or more once the integration is complete.

Switching costs are meaningful. Technology transfer projects require site variation approvals from regulators, which take time and effort. Once a partner has received approval to source from Sakar, changing suppliers means repeating the regulatory process. Sakar has 33 site variations covering 18 cytotoxic molecules, with 11 approved in the EU/UK. Some domestic principal contracts run for 3 to 5 years, management said.

Concentration exists but is deliberately managed. The top five partners - Accord, Torrent, Emcure, Glenmark, and Zydus - are large and contribute more value, but Sakar has 15-plus regional players and over 75 international partners. Management disclosed 69 oncology product contracts executed and 45 additional opportunities in Q2 FY27. Zydus has 16 dossiers under MINS approval for GCC countries.

Competitive landscape

The oncology generics market has multiple layers of competition. Indian players focused on tyrosine kinase inhibitors are active in the EU, and multinational competitors are present across regulated markets. Sakar's position rests on three things: EU GMP approval for its oncology facility, an integrated API-to-formulation platform, and partnerships with established players who already hold market access.

The EU market is the key battleground. Management acknowledged that "in Europe if you see there are more multinational competitors as well as our Indian competitors who are there in the market." The strategy to compete is not to go direct but to partner with players who have established market positions. Accord-Intas is one of the dominant oncology players in Europe, and Torrent UK and Heumann in Germany are market leaders in particular products. Sakar's edge is that these partners have already chosen Sakar as their manufacturing source.

The oral suspension format is a differentiator. Management said Sakar has developed a sequence of 12 oncology oral suspension products, and "maybe in India few of the players are there who are ready with one or two. And we have the entire basket." This is a niche where Sakar claims competitors do not have similar depth.

The API business is also competitive but with fewer players. Management noted that oncology API manufacturing is "quite critical, very few manufacturers are there," and that Sakar's APIs are customized for oncology manufacturers who understand end-user requirements. The CEP approvals for Gefitinib and Cytarabine allow Sakar to supply APIs to regulated markets, though the primary strategy is backward integration for captive use rather than third-party API sales.

The competitive position in emerging markets is different. Here, dossier count and registration speed matter more than EU GMP certification. Sakar has 191 dossiers submitted globally with 22 marketing authorisations received, and 6 of those MAs commercialised. The breadth of the dossier pipeline across more than 40 countries is the competitive weapon in these markets.

The main competitive risk is price erosion. Management noted that generic markets face "certain competition, there are certain price erosion so everything factored in we can grow around 7% to 8% as per market trend with the non-oncology." For oncology, the differentiated product mix and partnership model provide some protection, but the company is not immune to competitive pressure as more players enter the EU oncology generics market.

Industry

The global pharmaceutical market was valued at USD 1.76 trillion in 2024 and is projected to reach USD 3.15 trillion by 2032, a CAGR of 7.5%. The Indian pharmaceutical sector is expanding at a 17.5% to 22.5% CAGR, driven by higher healthcare spending, insurance penetration, and government incentives for domestic manufacturing. The Indian oncology drug market is expected to grow from USD 3.6 billion in 2022 to USD 10.6 billion by 2030, with oncology drugs alone projected to reach USD 7.8 billion.

Cancer incidence is the fundamental demand driver. Cancer cases in India are projected to rise from 1.46 million in 2022 to 1.57 million by 2025. The rising burden is accompanied by increased awareness, better diagnostics, and government initiatives to improve access to treatment. India's position in the global pharmaceutical supply chain has strengthened as it has become a credible supplier of quality generics, particularly in complex therapeutic categories like oncology.

The regulatory environment shapes the competitive dynamics. EU GMP approval is the gateway to regulated markets, and CEP approvals for APIs enable backward integration.

Dossier registrations and marketing authorizations are the currency of market access. The timeline from dossier submission to approval averages around 12 months, and the process is outside the company's control. Management noted that "receiving an MA is a process where we do not have a direct control" and that getting slots to apply for MAs in Europe is a challenge.

Patent expiries are a structural growth driver. Sakar's pipeline includes products coming off patent, and the company has identified 6-7 molecules that will be off-patent in the coming couple of years that can be taken up in the existing setup. The company also conducts bioequivalence studies at EMA-approved sites and procures reference products from Europe to ensure compliance.

The outsourcing trend works in Sakar's favor. Global pharmaceutical companies are increasingly relying on compliant manufacturing partners in India for oncology products. The demand for high-potency, cytotoxic manufacturing capacity is growing, and the barriers to entry are high - requiring EU GMP certification, containment infrastructure, and R&D capability. Sakar's integrated API-to-formulation platform at a single location is a structural advantage that took years and significant capex to build.

The industry is cyclical in the sense that regulatory approvals drive revenue inflection points. The current phase is one of regulatory submissions converting into commercial launches. By Q2 FY27 Sakar had shared 351 oncology dossiers, submitted 191 and received 22 marketing authorisations; about 6 of the 22 were commercialised. Management expects some pending approvals in the first half of FY28. The commercial lead time from approval to first supply is stated as 1 to 6 months, with side-variation products faster.

The working capital profile of the business scales with revenue. As sales grow, working capital requirements increase in absolute terms even if cycle days remain stable. Management reduced the working capital cycle from 165 days in March to 135 days by Q2 FY26, and expects to maintain efficiency as the business scales. The company operates on advance payments for international markets, which supports the cash conversion cycle.

Growth triggers

Dossier approvals and commercialization: 351 dossiers shared, 191 submitted, 22 MAs; 6 of 22 commercialised

Sakar's growth engine is a simple registration-to-revenue loop. The company develops oncology molecules in-house, prepares region-specific dossiers, shares them with global partners who file them with their local regulators, and then supplies the finished product once the marketing authorization is granted. As of Q2 FY27, Sakar had shared 351 oncology dossiers globally, submitted 191, and received 22 marketing authorisations.

> *"During the quarter, we shared 261 oncology dossiers globally, with 178 already submitted and 16 marketing authorizations received."*
>
> **MANAGEMENT, Q1 FY27 CONCALL (JUL 2026)**

The mechanism has three distinct commercial paths. First, partners hold the MAs and place supply orders with Sakar - the Bulgarian MAs, the company's first in Europe, have moved to purchase orders with products already manufactured. Second, technology transfer projects (33 ongoing with Accord-Intas, Torrent, Emcure, Glenmark, and Zydus) let partners add Sakar's EU-GMP facility as an approved manufacturing site for their existing MAs, which is a faster route to revenue since the product is already on the market. Third, Sakar holds its own MA in Europe and plans to expand that portfolio.

The timeline has been consistent. Dossiers shared rose to 351 and submitted dossiers to 191 by Q2 FY27, with 22 MAs received. About 6 of the 22 MAs have been commercialised, while 16 remain. Management says some pending approvals may come in the first half of FY28.

> *"each have their own timeline of approving that which normally ranges on an average of 12 months. So, with 178 in the pipeline right now we have received 16 approvals from them. We are moving ahead in the coming -- this financial year we are looking to double that number. And in the next year we are trying to reach total number of 100 plus dossier approvals or registrations"*
>
> **BIKRAMJIT GHOSH, Q1 FY27 CONCALL (JUL 2026)**

The revenue conversion is visible but early: Q2 FY27 oncology revenue was about ₹50 crore, with ₹8.2 crore from exports and about ₹43 crore domestic. Six of the 22 MAs have been commercialised, and 16 remain to be commercialised.

Technology transfer projects: 33 projects across four partners; 33 site variations covering 18 molecules, 11 approvals

Sakar's technology transfer business is the bridge between its dossier pipeline and commercial supply contracts. These are projects where a global pharmaceutical company, already holding a marketing authorization, transfers the manufacturing process to Sakar's EU-GMP approved Bavla facility. By Q2 FY27, 33 technology-transfer projects were underway across four partners; 33 site variations covered 18 molecules, with 11 products approved in the EU/UK.

The scale of this activity is now substantial. Management disclosed 33 ongoing projects with leading multinationals, and the commercial impact is already visible.

> *"We currently have 33 ongoing oncology technology transfer projects with leading pharmaceutical companies, including Accord-Intas, Torrent, Emcure, Glenmark, and Zydus."*
>
> **Q1 FY27 CONCALL (JUL 2026)**

The mechanism is simple: the partner already sells the product, so Sakar's revenue begins as soon as the site variation is approved and purchase orders are placed. The Accord-Intas portfolio has 11 oncology products with potential of ₹50-150 crore, and management uses about ₹100 crore as an average. Accord has 8 of 11 molecules approved at Sakar's site.

The transition from approval to revenue is underway. By Q2 FY27, 6 of the 22 MAs had been commercialised and 16 remained. Sakar received 3 additional MHRA/EMA approvals through partners in the UK and Germany, and Accord received 6 additional EMA site-variation approvals, taking it to 8 of 11 molecules.

Export ramp: oncology exports ₹8.2 crore in Q2 FY27; 16 of 22 MAs still to commercialise

Oncology exports are the smallest piece of Sakar's business today and the fastest-growing one. In Q2 FY27, oncology revenue was about ₹50 crore, of which ₹8.2 crore came from exports. H1 FY27 oncology revenue was about ₹85 crore. Six of the 22 MAs have been commercialised, while 16 remain, and 351 dossiers have been shared with 191 submitted.

The mechanism is two parallel revenue streams. The first is site-variation supplies for technology-transfer partners; Sakar had 33 site variations covering 18 molecules, with 11 products approved in the EU/UK. The second is exports under Sakar's own and partners' marketing authorisations; 22 MAs are granted, 6 are commercialised, and 16 remain.

> *"So, which you are seeing a minuscule figure which my colleague has just mentioned few minutes back of just only INR6 lakhs or something odd INR6 crores business which is coming maybe for the quarter, that we are looking forward to maybe around making 10 times of it roughly at the end of year that value through exports."*
>
> **BIKRAMJIT GHOSH, VP STRATEGY AND BUSINESS DEVELOPMENT, Q1 FY27 CONCALL (JUL 2026)**

Oncology exports were ₹8.2 crore in Q2 FY27, against ₹6.3 crore in the prior comparison management cited, and management expects exports to drive the next leg as 16 of 22 MAs remain to be commercialised. The first own MA was received this quarter, with commercial supplies expected soon. Management guides oncology revenue growth of 35%+ in FY27 and FY28 and calls about ₹300 crore FY28 oncology revenue achievable, with full-year contribution by end-FY28. It did not restate a specific export share for FY27.

Bavla facility revenue potential of INR800-1000 crores at optimal utilization, without major incremental capex

The Bavla oncology facility is the physical asset behind Sakar's export-led growth story. It is an EU GMP approved, API-integrated plant that makes oral solids, injectables, oral liquids, and APIs under one roof. Management believes this existing infrastructure can generate INR800 crores to INR1,000 crores in revenue at optimal utilization over the next 4 to 5 years, with no major incremental capital expenditure required.

The mechanism is operating efficiency on an already-built plant. In Q2 FY27, the new oncology plant was running at about 26% utilisation. The revenue ramp does not depend on new construction, but on filling existing lines with export orders as dossier approvals convert into commercial launches.

> *"The Bavla oncology facility has been designed with significant growth potential and we believe it can support revenues of INR800 crores to INR1,000 crores at optimal utilization over the next 4 to 5 years without requiring any major incremental capital expenditure."*
>
> **VP STRATEGY AND BUSINESS DEVELOPMENT, Q1 FY27 CONCALL (JUL 2026)**

The inputs feeding this ramp are already in motion. As of Q2 FY27, Sakar had 33 technology-transfer projects across four partners, 33 site variations covering 18 molecules with 11 EU/UK approvals, 351 dossiers shared, 191 submitted, and 22 MAs granted. Six of the 22 MAs have been commercialised, and 16 remain.

The capex requirement is the key constraint that makes this trigger distinct. Management stated in Q3 FY26 that capex for FY26 was around INR39 crores, and that no major capex was foreseen for FY27 since the capacity was already in place. The revenue potential is therefore a function of utilization, not investment.

API backward integration: 21 APIs, 16 written confirmations, 8 commercialised, 2 of 7 CEP applications approved; 35% margin target over a couple of years

Sakar's oncology margin expansion plan rests on making the APIs for its finished dosage forms in-house and getting them certified for regulated markets. Management confirmed on the Q2 FY27 call that 21 oncology APIs have been developed in-house, 16 have written confirmation, 8 are commercialised, and 2 of 7 CEP applications are approved. The remaining applications are progressing.

Management's current timeline is longer than the earlier two-to-three-quarter CEP expectation. On the Q2 FY27 call, management said 2 of 7 CEP applications are approved and the remaining applications continue through review. It also said 15-20 key molecules still need API integration and that the 35% margin benefit will take a couple of years.

> *"once we integrate that with our current product portfolio that will push those products which will be integrated to have a margin nearby around 35% plus."*
>
> **VICE PRESIDENT, STRATEGY AND BUSINESS DEVELOPMENT, Q1 FY27 CONCALL (JULY 2026)**

The margin uplift applies only to the specific products whose APIs are integrated, not the whole portfolio. In Q2 FY27, blended EBITDA margin was 28%, with roughly equal contribution from oncology and non-oncology. Management guides toward 30% near term and 34-35% after API integration over a couple of years.

Accord-Intas portfolio: 11 oncology products, potential ₹50-150 crore, average ₹100 crore

The Accord-Intas relationship is Sakar's largest technology-transfer programme: 11 oncology products under manufacturing transfer, with the portfolio's revenue potential quantified at ₹50-150 crore and management using about ₹100 crore as an average. This is the single biggest disclosed revenue driver within the 33-project technology-transfer pipeline.

The mechanism is site variation approval. Accord already holds the marketing authorizations for these products in Europe. Sakar's EU-GMP approved Bavla facility gets added as an approved manufacturing source, then supplies product against Accord's existing registrations. This is why the lead time after approval is short - the product is already on the market, so Sakar replicates it and ships without waiting for fresh dossiers to clear.

Management disclosed the potential in Q4 FY26:

> *"The Accord Intas portfolio alone comprising 10 oncology products to be manufactured by Sakar represents a potential opportunity of INR50 crores to INR100 crores"*
>
> **Q4 FY26 CONCALL (MAY 2026)**

The first milestone was Imatinib for Accord Healthcare UK, approved for supply into Europe in Q4 FY26. By Q2 FY27, Sakar had 33 site variations covering 18 molecules, with 11 products approved in the EU/UK and Accord at 8 of 11 molecules. Six of the 22 MAs had been commercialised.

The ₹50-150 crore range is a forecast based on partner business plans, not a binding commitment. Management says the number comes from multiple multinational partners that also have multiple procurement sites, and that proximity to Intas helps. Accord dominates the European oncology market for these molecules.

Oncology growth: management guides 35%+ revenue growth in FY27 and FY28; about ₹300 crore FY28 target

The clearest growth target management puts on the table in the Q2 FY27 call is oncology revenue growth of 35%+ in FY27 and FY28. Q2 FY27 oncology revenue was about ₹50 crore,

and H1 was about ₹85 crore. Management says about ₹300 crore oncology revenue is achievable in FY28, with full-year contribution expected by end-FY28.

> *"Yes, so INR100 crores going to INR200 crores right."*
>
> **BIKRAMJIT GHOSH, VP STRATEGY AND BUSINESS DEVELOPMENT, Q1 FY27 CONCALL (JUL 2026)**

The revenue mix is shifting. External API sales were ₹36-37 crore in H1 FY27 and management expects FY27 annual API sales to be double or more than H1. In FY28, management expects more API output to go into captive consumption to improve blended profit rather than into third-party API sales.

The export ramp is supported by 22 MAs, 33 site variations covering 18 molecules with 11 EU/UK approvals, 69 oncology product contracts, 45 additional opportunities, and 33 technology-transfer projects across four partners. Six of the 22 MAs have been commercialised, while 16 remain.

The export ramp is supported by 22 MAs, 33 site variations covering 18 molecules with 11 EU/UK approvals, 69 oncology product contracts, 45 additional opportunities, and 33 technology-transfer projects across four partners. Six of the 22 MAs have been commercialised, while 16 remain.

Q2 FY27 revenue +52%, H1 +45%; oncology growth guided at 35%+

The Q2 FY27 result is the current evidence point: revenue was ₹87.42 crore, up 52% year-on-year; EBITDA was ₹24.35 crore, up 114%; PAT was ₹11.31 crore, up 149%; and EBITDA margin was 28% versus 20%. Management guides oncology revenue growth of 35%+ in FY27 and FY28. The growth is driven by oncology mix, 22 MAs and 33 technology-transfer projects, not by a restated total-company order-book target.

> *"we are seeing more than 40% growth year-over-year for FY26. That is what the order book is currently showing."*
>
> **BIKRAMJIT GHOSH, VP STRATEGY AND BUSINESS DEVELOPMENT, Q3 FY26 CONCALL (FEB 2026)**

The mechanism has three legs, all anchored on the EU-GMP approved Bavla oncology facility. First, technology-transfer projects with partners turn into recurring commercial supply once site variation approvals land; by Q2 FY27 Sakar had 33 site variations covering 18 molecules, with 11 approvals in the EU/UK and Accord at 8 of 11 molecules. Second, dossier approvals convert into licensed-out product launches; 351 dossiers have been shared, 191 submitted and 22 MAs granted, with about 6 commercialised. Third, exports build from a small base, ₹8.2 crore in Q2 FY27, as the 16 remaining MAs and partner site variations convert.

The actual numbers confirm the mechanism is working. Q2 FY27 revenue was ₹87.42 crore, up 52% year-on-year, with EBITDA of ₹24.35 crore and PAT of ₹11.31 crore. H1 FY27

revenue was ₹160.39 crore, up 45%, with PAT of ₹21.59 crore.

The order book visibility is concrete, not aspirational. Management disclosed 69 oncology product contracts, 45 additional opportunities, 33 technology-transfer projects across four partners, 22 MAs, and 33 site variations covering 18 molecules. Six of the 22 MAs are commercialised; 16 remain. Q2 FY27 oncology exports were ₹8.2 crore.

Key risks

- **Marketing authorization timelines sit outside management's control, and the growth plan depends on them.** The company has 191 dossiers submitted globally and 22 marketing authorisations granted, with 6 commercialised and 16 still to commercialise. Management says some pending approvals may come in the first half of FY28, and the FY28 ~₹300 crore oncology target depends on those approvals converting to commercial supplies.
- **The growth plan relies on a handful of partners whose offtake is not a binding commitment.** Accord-Intas alone represents 11 oncology products with potential of ₹50-150 crore, and management uses about ₹100 crore as an average. Sakar has 33 technology-transfer projects across four partners and 45 additional opportunities, but these are not binding forecasts. If one partner delays a launch or qualifies a second source, a meaningful slice of growth slips.
- **The export ramp is being built from a small, early base.** Oncology exports were ₹8.2 crore in Q2 FY27, and 16 of 22 MAs are still to be commercialised. The first own MA was received this quarter, with commercial supplies expected very soon. The machinery for repeatable, quarter-over-quarter export revenue has not yet been demonstrated across a full cycle.
- **The oncology facility remains a fixed-cost drag until utilization rises well above current levels.** The new oncology plant was at about 26% utilisation in Q2 FY27, and the Changodar facility was at 36-37%. Q2 FY27 EBITDA margin was 28%; if exports scale slower than guided, idle capacity and depreciation would compress margins for longer than the plan assumes.
- **Competition in European oncology generics is intense and price erosion is structural.** The TKI space (Imatinib, Gefitinib and the wider -tinib family) has multiple Indian and multinational players. Management said on the Q3 FY26 call that "more multinational competitors as well as our Indian competitors" are present in Europe. Imatinib is a large market, roughly INR200-250 crores in the EU, and Accord can source from several qualified manufacturers. Sakar's edge is intended to be partner relationships and EU GMP compliance, but that edge erodes as more Indian capacity gets EU approval.

- **Working capital needs grow in absolute terms as revenue scales.** The cycle is stable at around 135 days, down from 165 days in March 2025, but management confirmed on the Q2 FY26 call that the absolute working capital requirement increases in line with sales. Oncology batches carry a 90-day API procurement lead time plus 25-30 days of testing before release. The scale-up requires inventory builds ahead of dispatches, and if dispatches slip, the cash is tied up longer.

Platinum-based products are about 8-10% of the business, and management says platinum raw-material and API prices have risen globally. Sakar makes oxaliplatin, carboplatin and cisplatin APIs in-house with written confirmation, which gives supply flexibility, but management still describes the platinum price move as a concern. Domestic principal contracts of 3-5 years are the stated mechanism for managing price terms.

- **Guidance credibility still matters.** Existing research records the FY26 revenue target being reframed and export dispatch timing slipping. The Q2 FY27 call shows better delivery: revenue ₹87.42 crore and PAT ₹11.31 crore, with 22 MAs and commercial supply started. But the FY28 ~₹300 crore oncology target still depends on 16 uncommercialised MAs and 169 dossiers awaiting approval.

Scenarios

Bull case

The regulatory machinery converts faster than the current timeline. The 22 MAs move from 6 commercialised to broader supply, the 191 submitted dossiers begin to clear, and oncology revenue grows 35%+ in FY27 and reaches about ₹300 crore in FY28. The 33 technology-transfer projects across four partners scale, with Accord commercialising more of its 11-product portfolio toward the ₹50-150 crore range. API integration of 15-20 key molecules lifts EBITDA margin from 28% toward 34-35% over a couple of years. New oncology plant utilisation rises from 26%, and the existing facility supports much higher revenue without major new capex. Oncology crosses 60% of revenue in a couple of years.

Base case

Approvals come in drips. Oncology grows 35%+ in FY27 and reaches the lower end of the FY28 ~₹300 crore target rather than the full figure. Exports build from ₹8.2 crore in Q2 FY27 but the 16 uncommercialised MAs convert slowly, and 191 submitted dossiers remain pending. Overall revenue growth is strong, but EBITDA margin stays near 28-30% rather than reaching 34-35% quickly. The domestic and non-oncology business, at about ₹36 crore in Q2 FY27, carries the base while exports build. The company delivers solid growth, but the full oncology transformation takes longer than management's timeline.

Bear case

The export and approval ramp stalls. Of 22 MAs, 16 remain uncommercialised and 191 submissions are still pending, so the FY28 ~₹300 crore oncology target slips. The first own MA was only received this quarter. Oncology exports stay small at ₹8.2 crore in Q2 FY27. API integration still needs 15-20 key molecules, and the 34-35% margin target remains a couple of years away. New oncology plant utilisation stays near 26%, fixed costs compress margins, and partner concentration across four technology-transfer partners leaves little cushion. Platinum products at 8-10% of the business face raw-material inflation. The company settles at a lower growth trajectory with an underutilised asset.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	178	252	362	482	586
Revenue growth	-	+41.8%	+43.6%	+33.4%	+21.5%
EBITDA (₹ Cr)	-	-	105	147	188
EBITDA margin	28.0%	27.4%	29.0%	30.5%	32.0%
Depreciation (₹ Cr)	20.90	23.60	26.30	27.50	29.00
Interest (₹ Cr)	8.50	7.90	7.40	6.50	5.50
Other income (₹ Cr)	1.30	2.30	3.50	4.00	4.50
PBT (₹ Cr)	21.50	39.80	74.70	117	158
Tax (₹ Cr)	4.00	9.30	21.90	34.00	44.90
Tax rate	0.2%	0.2%	0.3%	0.3%	0.3%
PAT (₹ Cr)	17.50	30.50	52.70	83.10	113
PAT growth	-	+74.2%	+72.9%	+57.7%	+35.5%
EPS (₹)	7.97	13.70	23.69	37.37	50.61
P/E	125.1x	72.8x	42.1x	26.7x	19.7x
PEG	2.7x	1.6x	0.9x	0.6x	0.4x

CAGR FY27E-FY29E: Revenue +27.3% · EBITDA +33.7% · PAT +46.2%

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Q2 FY27 concall notes

TLDR

Sakar Healthcare reported Q2 FY27 revenue of ₹8,741.61 lakhs, up 50-52% YoY, with EBITDA more than doubling to ₹2,434.53 lakhs and margin at 28% versus 20%. PAT rose 149% to ₹1,130.69 lakhs. Oncology revenue was about ₹50 crores for the quarter, split roughly ₹43 crores domestic (including deemed exports through partners) and ₹8.2 crores exports. Management said 69 oncology product contracts were executed, 351 dossiers shared globally, 191 submitted and 22 MAs granted, of which about 6 are commercialized. The Bavla facility runs at about 26% utilization and Changodar at 36-37%. Management guides to 35%+ revenue growth maintained into FY28, oncology EBITDA around 30% until API integration lifts it to 34-35% over a couple of years, and expects the EU GMP certificate within the quarter. Key watch points are the slow conversion of 22 MAs to sales, platinum API price inflation and the timing of CEP approvals.

WHAT CHANGED SINCE Q1 FY27

- **Margin guidance narrowed and pushed out.** Q1 guided consolidated EBITDA margin of 30%+ by FY27 end and 35%+ on CEP-integrated products. Q2 says oncology EBITDA stays around 30% until API integration, which "will take another couple of years" to reach 34-35%. The 30% is now a plateau, not a stepping stone.
- **Export ramp slipped.** Q1 expected export revenue of ₹60-70 crores for FY27, a 10x jump from the ₹6.5 crores Q1 base, with inflection from Q3 FY27. Q2 reports exports of ₹8.2 crores for the quarter (₹6.3 crores prior) and gives no FY27 export number. The 10x target was not repeated.
- **MA count and dossier base grew.** MAs rose from 16 to 22 (11 Europe/UK, 6 Latin America, 4 Myanmar, 1 Canada). Dossiers shared rose from 261 to 351, submissions from 178 to 191. Q1 targeted 32+ MAs in FY27; Q2 does not restate that target.
- **API sales disclosed as a real revenue line.** Q1 framed API as captive integration for margin, with external sales deprioritized. Q2 discloses ₹36-37 crores of external oncology API sales in H1, about equal to last year's full-year figure, and says FY27 will be double or more. Management still says captive use is the priority for FY28.
- **New capacity utilization disclosure.** Bavla at about 26% and Changodar at 36-37%, neither given in Q1.
- **New product and regulatory items.** 33 site variations filed covering 18 cytotoxic molecules, 11 approved; Accord received 6 additional EMA site variations, taking it to 8 of 11 molecules; 3 more MHRA/EMA approvals through UK and Germany partners; one own MA received this quarter. Q1 had 7 site variation approvals and 1 own European MA.
- **Platinum API cost pressure appeared.** Management flagged platinum prices raising API and finished-product costs globally, with in-house oxaliplatin, carboplatin and cisplatin providing flexibility. Not discussed in Q1.
- **Tone shift on partnerships.** Q1 emphasized building 15 own European MAs to reduce partner dependence. Q2 emphasizes converting existing partner registrations and site variations to commercial supply, with own-MA revenue guided to only 50-60% of a full-year value in FY28.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹8,741.61 lakhs	+50-52% YoY	Oncology momentum and stronger business mix

METRIC	REPORTED	CHANGE	WHAT DROVE IT
H1 FY27 revenue	₹16,038.86 lakhs	+45% YoY	Same drivers across both quarters
EBITDA	₹2,434.53 lakhs	+114% YoY	Operating leverage and rising oncology contribution
EBITDA margin	28%	vs 20% YoY	Business mix shift toward oncology
H1 FY27 EBITDA	₹4,559.42 lakhs	+90% YoY	Margin expansion to 28% from 22%
PAT	₹1,130.69 lakhs	+149% YoY	Flow-through from EBITDA
H1 FY27 PAT	₹2,159.18 lakhs	+134% YoY	Same
Oncology revenue (Q2)	~₹50 crores	vs ₹33 crores in Q1	Domestic ₹43+ crores (incl. deemed exports), exports ₹8.2 crores vs ₹6.3 crores
Oncology API external sales (H1)	₹36-37 crores	~equal to last full year	Third-party oncology cytotoxic API sales
Non-oncology revenue (Q2)	~₹36-37 crores	n/a	Exports ₹29 crores, domestic ₹7.37 crores
Bavla capacity utilization	~26%	n/a	EU GMP oncology formulation facility
Changodar capacity utilization	36-37%	n/a	Non-oncology facility, half-year basis

SEGMENTS & GEOGRAPHIES

- **Oncology:** Q2 revenue about ₹50 crores, of which domestic ₹43+ crores including deemed exports through partners such as Torrent and Intas, and exports ₹8.2 crores. Of the ₹8.2 crores, about ₹3.5 crores was own export and the rest CDMO. 22 MAs granted, about 6 commercialized; 16 of 22 still to be commercialized, plus 7-8 site-variation molecules. Management expects commercialization within 1-6 months of MA receipt, with some products awaiting tenders.
- **Non-oncology:** Q2 revenue about ₹36-37 crores, exports ₹29 crores and domestic ₹7.37 crores. Management gave no growth or margin guidance for this segment this quarter.
- **Europe and UK:** 11 of 22 MAs; 36 European filings including 16 proprietary; 11 site variation approvals across the EU and UK; 3 additional MHRA/EMA approvals through UK and Germany partners.
- **Latin America, Myanmar, Canada:** 6, 4 and 1 MAs respectively. Dossiers submitted to more than 40 countries.
- **GCC:** 16 dossiers with Zydus under approval in GCC and nearby markets; no timeline or revenue given.

STRATEGY & COMPANY-SPECIFIC

- **Regulatory pipeline:** 351 oncology dossiers shared, 191 submitted, 22 MAs granted. 33 site variations filed across 18 cytotoxic molecules, 11 approved.
- **Technology transfers:** 33 projects across 4 partners. Accord has 8 of 11 molecules approved at Sakar's site; management puts the Accord portfolio potential at ₹50-150 crores and uses ₹100 crores as an average figure, citing Intas's proximity as an advantage.

- **API integration:** 21 oncology APIs developed in-house, 16 with written confirmation, 8 commercialized. 2 of 7 CEP applications approved, 5 in process. Management says 15-20 key molecules need integration for the 35% margin, beyond the 7 CEPs.
- **Platinum APIs:** Oxaliplatin, carboplatin and cisplatin made in-house with written confirmation to supply as API to Europe and other developed markets. Platinums are 3 of 32 molecules, roughly 8-10% of product revenue by management's estimate.
- **EU GMP certificate:** Audit process ongoing with regular interaction; management expects the certificate within this quarter, possibly earlier.
- **Own MA:** One own MA received this quarter, with commercial supplies expected soon.
- **Domestic pricing regulation:** Management said the 30% trade margin cap on 137 non-scheduled anti-cancer drugs does not affect Sakar as a manufacturer, since it has no direct domestic sales and supplies principals on 3-5 year contracts.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue growth	35%+ maintained this year and next	Maintained	Oncology scale-up; last year was 40%+
Oncology revenue FY27	₹190-200 crores (analyst framing management did not dispute)	Maintained (Q1: ₹186-188 crores)	H1 oncology about ₹85 crores
Oncology revenue FY28	~₹300 crores achievable even with small own-MA contribution	Maintained	Site variations and domestic business at current pace
Own-MA revenue FY28	50-60% of full-year value, about ₹20-25 crores (analyst figure management did not dispute)	New	Half of MAs granted by mid-FY28
Oncology EBITDA margin	~30% until API integration; 34-35% or more after, over a couple of years	Cut (Q1: 30%+ by FY27 end, 35%+ on integrated products)	Business mix; API integration timing
Consolidated EBITDA margin	~30%	Maintained	Oncology share rising
Oncology API sales FY27	Double or more than H1's ₹36-37 crores	New	Current run rate
API use FY28	Shift toward captive consumption over external sales	Maintained	Margin and price-fluctuation protection
EU GMP certificate	Within this quarter, possibly earlier	New	Ongoing regulator interaction
Own MA commercialization	Supplies "very soon"	New	MA received this quarter
Combined quarterly revenue	₹100 crores expected next quarter	New	Oncology and non-oncology combined
Oncology share of revenue	Cross 50% next year, 60% in a couple of years	Maintained	Oncology growth outpacing non-oncology
Product contracts	Cross 70 this year (69 now)	New	Current engagement pipeline

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
MA conversion lag	16 of 22 MAs not yet commercialized; 1-6 months from approval to dispatch, with some products waiting on periodic tenders.
Export target slippage	Q1's ₹60-70 crores FY27 export guidance was not repeated; Q2 exports were ₹8.2 crores.
Platinum API cost inflation	Platinum prices have raised API and finished-product costs globally; in-house API gives flexibility but management called it "a concern."
CEP integration timeline	Only 2 of 7 CEPs approved; 15-20 key molecules need integration, which management says will take a couple of years.
Capacity underutilization	Bavla at about 26% and Changodar at 36-37%; the ₹800-1,000 crores Bavla potential depends on filling this.
Partner concentration	Accord portfolio potential of ₹50-150 crores depends on a single partner with multiple procurement sites; deemed exports through Torrent and Intas sit in the domestic number.
Regulatory approval timing	Management said approval timing is up to regulators; 191 dossiers pending with no committed conversion schedule.
Domestic margin cap indirect effects	Management said it cannot comment on the rest of the value chain and called any indirect impact "very difficult to comment" on.

Q&A HIGHLIGHTS

Oncology versus non-oncology mix Asked for the revenue mix over the next 2-3 years, management said oncology is near 50% now, will cross 50% next year and 60% in a couple of years, with non-oncology predominant until last financial year.

Platinum exposure Asked how much business comes from platinum-based drugs amid raw material shortages, management said platinums are 3 of 32 molecules, roughly 8-10% of product revenue, and that in-house API production with written confirmation for Europe supply provides flexibility against price swings.

Domestic trade margin cap Pressed on whether the 30% cap on 137 anti-cancer drugs affects Sakar given its domestic sales, management said sales go to principals on 3-5 year contracts at practical manufacturer margins, Sakar has no direct domestic presence, and it sees hardly any impact.

Export split within oncology Asked to split the ₹8.2 crores of oncology exports between CDMO and own registrations, management said about ₹3.5 crores was own export and the rest CDMO.

API sales scale Asked how external API sales should be modeled, management said H1 was ₹36-37 crores, FY27 will be double or more, and FY28 will shift toward captive consumption to lift blended margins rather than push external API sales.

Margin path to 35% Asked when 35% margins arrive, management said a couple of years, pending integration of 15-20 key molecules beyond the 7 CEPs, and that margins improve incrementally each year as integration proceeds, from 25% two years ago to 28% now.

EU GMP certificate timing Asked when the certificate is expected, management said the process is ongoing with regular regulator interaction and expects it within this quarter, possibly earlier.

FY28 oncology scale-up Asked whether ₹300 crores is achievable in FY28 with small own-MA contribution, management said yes, with site variations and domestic business continuing at their own pace and full-year contribution from pending approvals arriving at end-FY28.

Ind-Swift Laboratories Limited

GROWTH TRIGGERS

The bull case rests on a visible CDMO and own-brand export ramp now converting into revenue, with a debt-free balance sheet funding capacity and registrations. Q2 contract manufacturing rose to about ₹65 crore from ₹25 crore, ibuprofen supply has started, and management reiterated more than 50% FY27 revenue growth. The main conditions are clarithromycin approval, two customer sign-offs, H2 margin delivery and sustained export demand.

1. Contract manufacturing has inflected

Contract-manufacturing revenue rose from approximately ₹25 crore in Q1 FY27 to about ₹65 crore in Q2. Management said orders, raw materials and production capability were in place for current projections, providing operating receipts rather than only qualitative pipeline evidence.

2. Ibuprofen supply provides a current growth product

Ibuprofen's European site variation has been approved and goods are being supplied. Management estimated about ₹20 crore of Q3 revenue from ibuprofen and ₹20-25 crore in Q4, making it the clearest existing-product driver for the near-term ramp.

3. Clarithromycin offers identified upside after approval

Clarithromycin dry suspension completed commercial validation and the customer has filed the European site variation. Management said batches will initiate as soon as the variation is approved, making approval the explicit gate to revenue.

4. Two additional customer deals could broaden the CDMO base

Management said it was in active discussion with two additional customers for the same products and hoped to sign off in the last quarter. Successful sign-offs would reduce reliance on the current partner set, although no value or volume was disclosed.

5. FY27 revenue guidance remains supported

Management reiterated more than 50% FY27 revenue growth and said it was comfortable achieving the guidance. Q2 and H1 execution provide a substantial base, although the statement that orders and inputs are in place remains a management assertion, not a disclosed backlog.

6. Margin expansion has operating support

Q2 operating EBITDA margin was 18.02% and H1 17.97%. Management retained a 20% full-year FY27 margin vision, with lower round-trip expenses and a richer own-brand mix providing the operating rationale. Delivery in H2 is still required because H1 was below 20%.

7. Own-brand registration provides a multi-year runway

The company reported more than 900 registrations across 85 countries and more than 2,100 filed dossiers, with more than 330 additional registrations expected in FY27 and about 100-150 already obtained. Registrations in Latin America and African markets support the own-brand route, but revenue can lag registration by around two years.

8. Debt-free funding supports the build-out

Management reiterated that the company was completely debt-free with robust cash and liquid reserves. The ₹250 crore growth-capex programme covering Samba, warehouse, R&D and debottlenecking was described as on track, reducing dependence on leverage while the projects are developed.

9. FY30 ambition has visible revenue mechanisms

Management retained a 20-25% revenue CAGR to more than ₹1,500 crore by FY30 with 200-300 basis points of EBITDA-margin expansion. The mechanisms are CDMO conversion, own-brand registrations and operating leverage; the new formulation pipeline starts contributing from FY28-29 rather than in FY28.

INVESTMENT THESIS

Ind-Swift Laboratories is no longer an API restructuring story. It is a debt-free finished-dosage formulator whose Q2 FY27 results show the first clear operating conversion of its export and contract-manufacturing strategy. The business makes oral solid dosages, sachets and other formulations at the Derabassi export unit and at Samba, and sells through contract manufacturing, co-development, out-licensing and own-brand registrations. Exports were 82.7% of Q2 sales. Management reported Q2 operating revenue of ₹234.89 crore, operating EBITDA of ₹42.33 crore and PAT of ₹31.03 crore, with H1 revenue of ₹420.97 crore and PAT of ₹55.47 crore. The exact Q2 values differ from the separately supplied quarterly data, so the direction of travel is clearer than the precise level.

The core earnings mechanism is operating leverage on a mostly fixed manufacturing and regulatory base. Contract manufacturing rose to about ₹65 crore in Q2 from ₹25 crore in Q1. Ibuprofen supply for Viatris has begun after European site-variation approval; clarithromycin dry suspension has completed commercial validation but awaits its own site variation. Management expects major CDMO partnerships to add ₹100-130 crore of incremental revenue in FY27 and ₹200-220 crore over two years. The own-brand book is larger: 55.75% of Q2 sales and 69% of export sales. Higher own-brand and CDMO volumes spread regulatory, R&D and plant costs, which is why a higher revenue base can produce a much larger EBITDA increase. The reported Q2 EBITDA margin of 18.02% and H1 margin of 17.97% versus a year-ago 8.55% EBITDA base illustrate the operating leverage; they do not prove the 20% full-year target.

Management guidance is explicit on FY27 and FY30 and deliberately silent on FY28. It reiterated more than 50% FY27 revenue growth and a 20-25% revenue CAGR to more than ₹1,500 crore by FY30, with 200-300 basis points of EBITDA-margin expansion. It also retained a 20% FY27 EBITDA-margin vision. For FY28, the CFO said numbers might be revised and that next-year guidance would be ready at the next investor call; no FY28 revenue target should be inferred. The new-product pipeline is not an FY28 driver: management said no new molecule contributes that year, with 11 molecules targeted for FY28-29 readiness and two for FY29-30, and new-formulation revenue starting from FY28-29. My inference is that FY28 depends on existing products, especially ibuprofen and macrogol, plus own-brand registrations and current partner volumes.

Capital allocation is conservative but not passive. The company is debt-free with cash and liquid reserves. It is spending ₹250 crore on Samba's EU GMP/PIC/S upgrade, a warehouse, R&D infrastructure and debottlenecking. Warehouse land has been acquired, approvals are in place and construction has started; relocation is expected in 10-12 months. Samba's ANVISA Brazil visit is expected probably in Q4 and European approval possibly next year. Derabassi utilisation was 70-75%, leaving room for the current order base while the

warehouse creates more manufacturing space. The 7.80% Synthymend stake is a separate optionality: management cited tag-along rights and possible partial monetisation, but no transaction is committed. Working capital is the main capital-allocation watch item: management estimated about ₹350 crore at ₹1,500 crore FY30 turnover, with debtor realisation at 75 days against a 60-day target.

Management delivery is mixed but improving. The Q2 CDMO ramp and reiterated FY27 revenue guidance are real operating receipts. Clarithromycin, the two prospective customer sign-offs, Samba approvals and the warehouse relocation remain open. The Q2 call also declined to give a detailed capex timeline and did not answer constant-currency growth. Because prior-quarter call transcripts are not in the supplied record, a full multi-quarter delivery score cannot be established; the current evidence supports execution on the existing-product ramp, not on the pending approvals.

The thesis is operating leverage in an inflection stage. Revenue is accelerating, capacity and regulatory infrastructure are being built, and the balance sheet can fund the programme without debt. The path is not yet full acceleration because H1 margin remained below 20% and the new-product wave starts only from FY28-29. The next proof point is Q3 FY27: contract-manufacturing revenue should stay near the Q2 level, ibuprofen should scale, clarithromycin should move through site-variation approval, and EBITDA margin should move closer to 20%. Falsifiers are a fallback in contract manufacturing toward ₹25 crore, further delay in clarithromycin, failure to sign the two additional customers, Samba approval slippage, or working-capital absorption materially above the ₹350 crore estimate. If those break, the operating-leverage case becomes a one-quarter CDMO spike rather than a multi-year earnings path.

RESEARCH REPORT

What Ind-Swift Laboratories Ltd does

Ind-Swift Laboratories is a finished-dosage formulations company headquartered in Chandigarh. It completed its transition from an API business in FY25, sold the API operations to Synthymend Labs, repaid debt and amalgamated Ind-Swift Limited. As of Q2 FY27, management described the company as a pure-play finished-dosage platform serving global generic partners and own-brand export markets through the Derabassi GBU, alongside domestic branded and contract formulations. The company remained debt-free with robust cash and liquid reserves at the end of Q2 FY27.

> *"We have re-entered the formulations business-the very space where our story began."*
>
> **CHAIRMAN'S MESSAGE, FY25 ANNUAL REPORT**

The business runs through two principal manufacturing locations: the 100% export-oriented Global Business Unit at Derabassi, Punjab, and the Samba facility in Jammu, which supports domestic products and is being upgraded to EU GMP and PIC/S standards. In Q2 FY27, exports represented 82.7% of sales and domestic verticals 17.3%. Management expects the mix to remain broadly stable, with approximately 80% export revenue and 20% domestic revenue. The prior FY25 figures remain useful as the restructuring baseline, but Q2 FY27 is now the more relevant operating reference.

The Global Business Unit (GBU) - Exports

The GBU remains the company's principal growth engine. Q2 contract manufacturing was approximately ₹65 crore, compared with about ₹25 crore in Q1. The opening remarks put own brands at 55.75% of total Q2 sales and 69% of export sales, with contract manufacturing at 26.99% of total sales; a later Q&A reference to a 68/32 own-brand versus contract split appears to use a different denominator. The quarter included commercial ibuprofen supply for Viatris; clarithromycin dry suspension had completed commercial validation but still required European site-variation approval. Management expects the export share to remain around 80% of consolidated revenue.

The GBU specialises in oral solid dosage forms - tablets, capsules, granules in sachets, pellets and modified-release formulations. Annual capacity is 9,600 million tablets, 186 million capsules, 117.80 million liquids/dry syrups/sachets, 184 million stick packs, 33 million dry suspension units, 6,000 kg of pellets and 30 million creams and ointments. The unit is approved by the UK MHRA, TGA Australia, EU-GMP, WHO-GMP and Health Canada. The Derabassi site holds EU-GMP (2024), MHRA (2025), Health Canada (2022) and MoH Russia approvals among others.

The GBU plays four roles: contract manufacturing for global generic majors, co-development of products, out-licensing of dossiers, and proprietary brand sales. Its differentiator is speed to market on first-to-launch generics. The company reports completing site transfer projects from trial batch to site variation package within 150-180 days, which is what European generic companies need when a patent expires and they have a narrow window to launch day-one.

Domestic Formulations (Ethical, Generics, Nova, P2P)

The domestic business is a branded generics operation that the company is consciously rebuilding. It runs four verticals:

Ethical division: prescription-driven brands in gynaecology and paediatrics, with a dedicated marketing and brand management office set up in New Delhi. The flagship brands are Anin Injection 500, Suprox SR, Anin Tablet and Netazox, and the division reported 15% revenue growth in FY25. The division launched Matravi, its first new brand in nearly five years, which achieved ₹9 crore in sales within six months (IQVIA MAT May 2025). It also launched Anin PFS, a pre-filled syringe of a gestational hormone, nationally in February 2025, the first product of its kind introduced in India. The Ethical division has moved to a Direct-to-Stockist (DTS) model through CFA networks across India.

Generics division: a pioneer in branded generics in India for nearly three decades, with a portfolio of more than 700 products. A new Agile Division focuses on ~150 specialty products distributed through a separate channel.

Nova division: multi-specialty products manufactured to customer requirements, sold on advance payment terms to minimise credit risk.

P2P (peer-to-peer/contract manufacturing): loan licensing and contract manufacturing for reputed domestic companies.

The Samba, Jammu facility produces tablets (1,080 million per annum capacity), capsules (120 million), ointments (120 million), dry syrups and a pilot-cum-manufacturing area for small-batch and early-stage work. It also supplies Rest of World markets, not just India. A second Greenfield facility is under development in Mohali, Punjab, engineered to secure USFDA and ANVISA approvals.

R&D supports both CDMO site transfers and the company's own export registrations. The Q2 call reported more than 900 registrations across 85 countries, more than 2,100 filed dossiers and more than 330 additional registrations expected in FY27. Management estimated approximately 100-150 of the additional FY27 registrations had already been obtained. It said 11 molecules should be ready by FY28-29 and two by FY29-30, with no new molecule contributing in FY28 and revenue from the new formulations expected from FY28-29.

R&D is the function that makes the other businesses work. The company maintains a pipeline of 30+ non-infringing generic products under development for regulated markets (USA, EU, TGA, Canada, ROW). During FY25 it developed over 15 products, completed pilot and pivotal bioequivalence studies, filed two patent applications, and developed GR/DR and MUPS technologies. Its Clarithromycin Citrate salt is patented in the US, Europe and India. It executed roughly 100 technology transfers for site variance across Europe, Canada and Australia, and has filed 1,915+ dossiers globally with 520+ approvals secured. The R&D centre is recognised by the Department of Science & Technology and employs 50+ scientists. Q2 FY27 R&D expense was about ₹8 crore; the call described 11 molecules targeted for FY28-29 readiness and two for FY29-30, with new-molecule revenue starting from FY28-29 rather than FY28.

The regulatory pipeline remains an important growth asset, but the near-term commercial schedule has become clearer. More than 330 registrations are expected in FY27, with approximately 100-150 already obtained as of Q2. Clarithromycin dry suspension has completed commercial validation and awaits European site-variation approval. The next wave of formulations remains in R&D, with 11 molecules targeted for FY28-29 readiness and two for FY29-30; management said no new molecule would contribute in FY28 and that new-formulation revenue should start from FY28-29.

Business segments

Global Business Unit (GBU) – Exports

The Global Business Unit is the export arm of Ind-Swift Laboratories. Established in 2006 at Derabassi, Punjab, it runs as a 100% export-oriented unit with zero domestic exposure, which means every batch it produces must clear a foreign regulator's bar. The unit makes oral solid dosage forms - tablets, hard gelatin capsules, granules in sachets - plus pellets and dry suspensions, and it sells through four models: contract manufacturing for other pharma companies, co-development of products with partners, out-licensing of its own dossiers, and sale of products registered in its own name.

The asset that took years to build is the regulatory dossier base, not the machines. The company reports 1,915+ dossiers filed and 520+ approvals secured, with 750+ product registrations across 70+ countries and another 500 under registration, with 400 more filings planned. Each dossier is a bundle of formulation data, bioequivalence studies and stability work that a regulator has already accepted, and that acceptance is what lets a partner launch a product in Europe or Australia without re-developing it. The Derabassi site holds accreditations from the UK MHRA, EU-GMP, TGA (Australia), Health Canada and WHO-GMP, and that combination of plant approvals plus a filed dossier pipeline is what allows day-one generic launches. The Atorva-Ezetimibe cholesterol combination launched day-one in Europe in partnership with generic players is the flagship example.

The product range inside the unit spans immediate-release, modified-release, gastro-resistant (GR/DR) and MUPS formulations, along with fixed-dose combinations. R&D, recognised by the Department of Science & Technology, developed over 15 products during FY25 with pilot and pivotal bioequivalence studies completed, and holds a pipeline of 30+ non-infringing generics targeted at the USA, EU, TGA and Canada. The company also filed two patent applications for in-house formulations and holds a US, Europe and India patent on its Clarithromycin citrate salt. During the year it completed validation batches and submissions for two originator products at the newly commissioned facility, originator work, which means innovator-company contracts rather than generic replication, is a step up the value chain.

Who buys from this unit: large generic pharma companies. The annual report names Teva, Actavis, Stada, Ratiopharm, Chanelle, Synthon, Viatris and Wockhardt as manufacturing partners, and separately cites Wockhardt, Chanelle, Mylan, Strides and Viatris for co-development, out-licensing and contract manufacturing engagements. They buy for four concrete reasons. First, the regulatory approvals at Derabassi let their products enter European and TGA-regulated markets without revalidation. Second, the 97% Delivered in Full, On Time (DIFOT) record lets them run lean supply chains. Third, site transfers run from trial batch to site variation package in 150-180 days, about six months, which is faster than a partner could revalidate its own plant. Fourth, India-based manufacturing runs 30-35% below US and European costs, per the report's industry analysis. The GBU also maintains direct operations in Dubai, Baku and Dushanbe, with tender-authority relationships across Africa.

Competition in this segment is the crowded field of Indian formulation exporters and CDMOs - Aurobindo, Hetero, Intas, Cipla, Sun Pharma and Laurus Labs all court the same European and TGA-regulated generic contracts. Notably, some of Ind-Swift's named partners, including Wockhardt and Strides, are themselves Indian exporters in this space, which positions Ind-Swift as a contract capacity supplier to rivals. Ind-Swift's differentiation rests on the breadth of its filed dossiers and its day-one launch record, which smaller contract manufacturers cannot match, and its compliance standing, which larger ones hold.

Within the group, the GBU is the export channel for a shared portfolio. R&D centres at Jammu and Chandigarh feed its pipeline, the Jammu manufacturing unit supports both domestic plant-to-plant needs and international market opportunities, and a greenfield facility in Mohali is purpose-built to secure USFDA and ANVISA (Brazil) approvals to extend regulated reach. The merger with Ind-Swift Limited, effective August 2025, consolidated the group's formulation business into one debt-free entity, with the GBU as its primary international growth vehicle.

Revenue mix has shifted materially higher toward exports. Exports represented 82.7% of Q2 FY27 sales, while domestic verticals represented 17.3%. Within Q2 sales, management put own brands at 55.75% of total sales and 69% of export sales, contract manufacturing at 26.99% and branded generics at 6.84%. A later Q&A reference to a 68/32 own-brand versus contract split appears to use a different denominator. These Q2 figures supersede FY25's export split for current operating analysis; FY25 figures remain useful only as the post-restructuring baseline.

> *"The Global Business Unit (GBU) at Ind-Swift is the engine of our international expansion - purpose-built to serve export markets with precision, scale and regulatory excellence."*
>
> **ANNUAL REPORT FY25**

> *"Long-standing partnerships with global leaders, including Wockhardt, Chanelle, Mylan, Strides and Viatris, continue to reinforce our position through co-development, out-licensing and contract manufacturing."*
>
> **ANNUAL REPORT FY25**

Domestic Formulations (Ethical, Generics, Nova, P2P)

This is the business that brought Ind-Swift back to where it started. Until FY24 the company was an API manufacturer carrying heavy debt. It sold the API business to Synthimed Labs for ₹1,650 crore, repaid its borrowings, and merged Ind-Swift Limited - the group's finished-dosage company - into itself. The domestic formulations segment is the India-facing half of that merged business. It contributed ₹150.41 crore in FY25, roughly 27% of the group's ₹549.65 crore total revenue.

The capability that had to be rebuilt sits at the Samba facility in Jammu & Kashmir's Industrial Growth Centre. The plant has annual capacity for 1,080 million tablets, 120 million capsules and 120 million ointments, and plays a dual role: it feeds Ind-Swift's domestic brands and also supplies Rest of World markets. The annual report calls it a "vital contributor" to both domestic growth and international aspirations. This is the manufacturing backbone for everything sold under Ind-Swift's own labels, and it is the answer to why the company could re-enter formulations at all after exiting APIs.

Four verticals run on top of that base. The Ethical division is the prescription-driven core, focused on gynaecology and paediatrics, with flagship brands Anin Injection 500, Suprox SR, Anin Tablet and Netazox. It grew 15% in FY25 and adopted a Direct-to-Stockist (DTS) model through CFA networks to widen penetration. The division set up a marketing and brand management office in New Delhi in FY25, and, within months, launched Matravi - its first new brand in nearly five years - which recorded ₹9 crore in sales within six months (IQVIA MAT May 2025). It also launched Anin PFS, a pre-filled syringe of a gestational hormone,

nationally from the ISAR Lucknow forum in February 2025. The report describes it as the first product of its kind in India.

The Generics division is the older sibling: the report claims Ind-Swift was among the pioneer companies in launching branded generics in India and has remained in the segment for nearly three decades, with a portfolio of over 700 products. Its new Agile division carries a specialty-focused basket of ~150 products through a separate channel, and another generics division with ~150 additional products is slated to roll out in FY2026-27. The Nova division makes multi-specialty products strictly to customer specifications and takes advance payment, which the report says keeps cash flow strong and credit risk minimal. The P2P division does loan licensing and contract manufacturing for a set of named clients: Dr. Reddy's Laboratories, Sun Pharma (Ranbaxy), Micro Systopic, Abbott, Sandoz, Novartis, Lupin, Cipla and Unichem.

Customers split by vertical. Doctors and patients buy the Ethical and Generics brands through stockists. The P2P buyers are large Indian and multinational pharma companies that pay Ind-Swift to manufacture on their behalf, the same companies, notably, that are among the competitors in the broader domestic branded generics market. The competitive ambition is stated openly: the Ethical division aims to place Ind-Swift among the top 80 pharmaceutical companies in India as ranked by IQVIA. The reported differentiators are three decades of branded generics history, the 750+ product registrations across therapeutic areas, and the speed at which new brands like Matravi and Anin PFS were launched.

The segment is where the group's internal synergies converge. The Samba facility serves both domestic and ROW supply, the R&D team of 50+ scientists develops products for both the Indian portfolio and export dossiers, and the merger with Ind-Swift Limited is what supplied the finished-dosage manufacturing capacity and brand history. With exports at ~75% of revenue, the domestic business is the smaller leg, but it is the one carrying the company's own brand equity rather than contract work. Management's framing of the whole transition, from the chairman's desk in the FY25 annual report:

> *"We have re-entered the formulations business-the very space where our story began."*

The segment is early in its rebuild: the DTS model was adopted during FY25, the Agile division is new, and the second generics division launches in FY2026-27. What management has disclosed is a series of launches and structural moves in their first year, not yet a multi-year track record of domestic growth.

Contract Development & Manufacturing (CDMO)

Ind-Swift Laboratories' CDMO business is the contract manufacturing and development arm of its export operations, housed in the 100% Export-Oriented Global Business Unit (GBU) at

Derabassi, Punjab. The unit was established in 2006 and produces oral solid dosages: tablets, hard gelatin capsules, and granules in sachets. The core capability that took years to build is not the manufacturing itself but the regulatory infrastructure around it. The Derabassi site holds approvals from the EU-GMP (2024), UK MHRA (2020 and renewed 2025), Health Canada (2022), TGA Australia, WHO-GMP, and the health ministries of Russia, Iraq, Yemen, and the UAE. That stack of approvals is what allows Ind-Swift to offer global partners a complete service: contract development, technology transfer, site transfer, and commercial supply.

The capability shows in execution speed. The annual report states the company typically completes site transfers, from trial batch to site variation package, within 150-180 days. That matters because generic pharma companies in Europe race to be first-to-market when a patent expires. Ind-Swift's workflow runs R&D trial batches for feasibility, then GMP trial batches for regulatory validation, then optimisation, validation batches, and finally partner scale-up and launch. The proof of this model is the day-one launch of Atorva-Ezetimibe in Europe during FY25, done in partnership with leading generic players.

The CDMO segment carries two product types. First, contract manufacturing of finished dosage forms for partner companies, who sell under their own brands. Second, co-development and out-licensing of Ind-Swift's own proprietary products, where the company develops the dossier and licenses it to a partner for a specific geography. The R&D division, staffed by 50+ scientists and recognised by the Department of Science and Technology, feeds this pipeline with 30+ non-infringing generic products under development for the US, EU, TGA, Canada, and rest-of-world markets. During FY25, over 15 products were developed with completed bioequivalence studies, and the company filed two patents for novel formulations.

Customers are global pharmaceutical companies that need manufacturing capacity and regulatory expertise they do not want to build themselves. The annual report names Teva, Actavis, Stada, Ratiopharm, Chanelle, Synthon, Viatris, and Wockhardt as manufacturing partners. The company also lists long-standing partnerships with Wockhardt, Chanelle, Mylan, Strides, and Viatris spanning co-development, out-licensing, and contract manufacturing. These partners buy from Ind-Swift because the Derabassi facility is purpose-built for export with zero domestic exposure, which means the facility's quality systems are dedicated to the tightest regulatory standards. The 97% Delivered in Full, On Time (DIFOT) rate is the operational metric that keeps these partners reordering.

Competitive position sits inside the broader Indian CDMO market. The annual report cites India's contract manufacturing market at USD 19.63 billion in 2023, projected to nearly double to USD 38.92 billion by 2028, a 14.7% CAGR. Within that, the generic pharmaceuticals contract manufacturing segment is worth USD 3.21 billion in 2024. Ind-

Swift's competitors in export-facing oral solid dose CDMO include companies like Syngene, Piramal Pharma Solutions, and Divis Laboratories, along with large Indian generic manufacturers that sell spare capacity. The differentiator Ind-Swift claims is speed: the 150-180 day site transfer cycle and day-one launch capability, which most Indian CDMO players cannot match because they lack the same combination of MHRA and TGA approvals with existing European marketing authorisation experience.

The CDMO segment is structurally important to the group. Export revenues for FY25 were C39,923.33 lakhs, and the company disclosed that CDMO revenue was C188.73 crore, roughly 34% of export sales. The Chairman's letter confirms the strategic push:

> *"CDMO opportunities: We are actively partnering with leading pharmaceutical MNCs to support the development and manufacturing of select products. While several capacity discussions remain underway, I am pleased to share that two engagements have already been formalised—each offering strong growth momentum and long-term revenue visibility."*

The segment synergises with the rest of the company through R&D. The same formulation science that builds Ind-Swift's own generics pipeline also produces the technology used in co-development and out-licensing deals. The R&D team's work on GR/DR (gastro-resistant / delayed release) and MUPS (multiple unit pellet system) formulations, plus developments in injectables and topicals, expands what the CDMO can offer partners. The newly commissioned facility mentioned in the annual report, where validation batches for two originator products were completed during FY25, is the capacity bet that CDMO contracts will grow. Management frames the whole export engine as a mix: "Exports contribute nearly 75% of our revenues, driven by a balanced mix of contract development, manufacturing and proprietary product filings." The CDMO is not a side business. It is the bridge between Ind-Swift's R&D investment and its regulated-market ambitions.

Customers

There are two distinctly different customer bases, and the economics of each are different.

On the export side, the GBU's customers are global generic pharmaceutical companies. The annual report names Wockhardt, Chanelle, Mylan, Strides and Viatris as long-standing partners, and separately names Teva, Actavis, Stada, Ratiopharm, Synthon, Viatris and Wockhardt as manufacturing partners of the GBU. These are European and global generic majors who need oral solid dose capacity, regulatory-compliant manufacturing and fast site transfers to launch products the day patents expire. The Atorva-Ezetimibe day-one launch in Europe in 2024, done in partnership with leading generic players, is the showcase example of what this customer base buys: speed to market on a first-to-file basis.

Why do these customers pick Ind-Swift? Three reasons. The GBU holds the regulatory approvals (MHRA, TGA, EU-GMP, Health Canada) that let a customer market its product in Europe, the UK, Australia and Canada without re-auditing the site. It has the proven site-transfer capability that compresses a 150-180 day window. And it reports a 97% Delivered in Full, On Time (DIFOT) rate, which is what supply-chain managers at a European generic company are measured on. For the CDMO piece, the company completed validation batches and submissions for two originator products at a newly commissioned facility during FY25, and has formalised two CDMO engagements with pharmaceutical MNCs. These are long-dated relationships - the annual report describes them as offering "strong growth momentum and long-term revenue visibility."

Customer concentration remains a risk as the CDMO ramp becomes a larger part of earnings. Q2 contract-manufacturing revenue was approximately ₹65 crore, up from about ₹25 crore in Q1, and was concentrated among major global partners, including Viatris. The current call did not disclose contract values, renewal periods or customer-level shares. Management said orders were in hand for current projections and was in active discussions with two additional customers, but the additional deals were not yet signed.

On the domestic side, the P2P division's clients are reputed Indian companies, named as Dr. Reddy's Laboratories, Sun Pharma (Ranbaxy), Micro Systopic, Abbott, Sandoz, Novartis, Lupin, Cipla and Unichem. These are loan licensing and contract manufacturing arrangements where Ind-Swift's manufacturing capability and its own distribution strength matter. The buying decision for P2P is different: the client wants a partner with scale manufacturing, regulatory standing and the ability not to compete aggressively in the same therapeutic space. The Nova division operates on advance payment, which removes credit risk but caps the relationship at customers willing to pay upfront.

The Ethical and Generics divisions sell through a field force to doctors and stockists in India. This is prescription-driven business where the decision-maker is the prescribing physician and the buyer is the stockist. The company has built its domestic strategy around this: the DTS model via CFA networks, the New Delhi marketing office, and the stated goal of positioning among the top 80 pharmaceutical establishments in India as recognised by IQVIA.

Switching costs work differently across the segments. For CDMO and site-transfer work, switching costs are high because the customer's dossier is tied to the manufacturing site and regulatory submissions reference it. Once a product is registered at Derabassi, moving it means a new site transfer and revalidation, which is expensive and slow. That is why the annual report frames the 150-180 day site transfer speed as a competitive weapon: it makes Ind-Swift easy to work with, but every completed transfer also deepens the customer's dependence on the site. For the branded domestic business, switching costs are low for the

customer but the moat is brand equity and doctor relationships, which is why the company is investing in new brand launches after a five-year gap.

Competitive landscape

The annual report does not name direct competitors, so the competitive picture has to be reasoned from industry structure. Ind-Swift competes in two arenas that have very different competitive intensity.

The export CDMO/contract manufacturing arena is crowded with Indian companies that built oral solid dose capacity to serve regulated markets, including Cipla, Aurobindo, Sun Pharma, Zydus, Strides, Ipca and Alkem, alongside dedicated CDMO players like Syngene, Piramal Pharma Solutions, Jubilant, Laurus Labs and Divi's Laboratories. Within this set, Ind-Swift is a medium-sized player competing on a specific combination: EU/UK/Australia regulatory approvals, fast site transfers, day-one launch capability and near-perfect delivery. The UK finished dosage form market, one of its core geographies, contracted at -5.1% CAGR between 2019 and 2024, which means the addressable market is not growing and win rates matter more than the rising tide. The company's flywheel positions it for Europe's generic price erosion cycle: as branded drugs lose patent protection, generic players need validated capacity fast, and Ind-Swift's approvals and transfer speed make it a candidate.

Where Ind-Swift can win is in semi-regulated and emerging markets, where its 750+ registrations and pipeline of 500 under process give it a portfolio advantage that few peers match. Its expansion into Africa, Latin America and CIS via tender authorities and local marketing teams puts it in competition with Chinese and other Indian suppliers offering the lowest prices. This is the most price-sensitive part of the competitive landscape, and the company's ability to win depends on quality credentials and delivery reliability, not price alone.

The domestic branded generics market is intensely competitive, with Sun Pharma, Cipla, Dr. Reddy's, Torrent, Alkem, Mankind, Zydus and Abbott dominating prescription mindshare. Ind-Swift's own goal of cracking the top 80 players per IQVIA is an acknowledgement of where it sits: a mid-tier player with strong heritage brands in gynaecology and paediatrics but limited scale. Its competitive strategy in India is focused therapeutic expansion - gynaecology, paediatrics, cardiology, diabetology, dermatology - plus new product introductions in categories where incumbents are weak. Matravi's ₹9 crore in six months is meaningful for a company of this size but small against the ₹100+ crore launch blockbusters that large Indian players regularly post. The honest read is that domestic competition will stay intense and the domestic business is a rebuild, not a strength.

The structural advantage of a debt-free balance sheet remains relevant, although the growth programme will consume cash and working capital. Management reiterated that Ind-Swift

was completely debt-free with robust cash and liquid reserves. It is investing ₹250 crore across the Samba upgrade, warehouse, R&D infrastructure and debottlenecking. At a possible ₹1,500 crore FY30 turnover, management estimated working-capital needs of roughly ₹350 crore, making funding discipline and cash conversion important alongside the operating ramp.

Industry

The global drug formulation market was estimated at around USD 1.85 trillion in 2024 and is projected to reach approximately USD 3.32 trillion by 2034, a 6.05% CAGR, according to the annual report. Chronic disease prevalence, an ageing global population, biologics and advanced drug delivery systems drive the growth. Oral formulations account for 43.2% of global market share in 2025, which is the segment Ind-Swift specialises in. The advanced drug delivery segment specifically is valued at USD 43.85 billion (2022) and projected to surpass USD 137.33 billion by 2030 at a 13.4% CAGR.

India's place in the global supply chain is that of the low-cost, high-volume manufacturer of generics. According to the annual report citing Pharmexcil data, India exports 20% of the world's generic drugs by volume, supplying over 200 countries. India's pharmaceutical industry is valued at over USD 65 billion, with domestic market contributing about 30% growing at 10-12% CAGR through FY30, and exports contributing about 70%. India's pharmaceutical manufacturing industry was valued at USD 17.82 billion in 2023 and is projected to surpass USD 48.54 billion by 2033, a 10.54% CAGR. Manufacturing costs in India run 30-35% lower than in the US and Europe, which is the fundamental reason global generic companies outsource here.

Contract manufacturing is the fastest-growing part of India's formulation story. The CMO market in India is projected to nearly double from USD 19.63 billion in 2023 to USD 38.92 billion by 2028, a 14.7% CAGR, and contract manufacturing already accounts for 54% of India's total market. Generic pharmaceutical contract manufacturing specifically was worth USD 3.21 billion in 2024 and is forecast to reach USD 6.05 billion by 2030 (11.3% CAGR). This is the demand pool Ind-Swift's CDMO business taps, and the two formalised MNC engagements are early evidence of its share of that pipeline.

The demand drivers for Ind-Swift's specific geographies are mixed. Europe and the UK, its largest revenue contributor, are mature markets under cost pressure: the UK's pharmaceutical preparations (finished dosage form) sector generated about £25.5 billion in 2024 but contracted at -5.1% CAGR from 2019 to 2024. Growth comes from generic substitution, not from the size of the pie. By contrast, MENA pharmaceutical manufacturing is projected to grow from USD 8.97 billion (2023) to USD 15.17 billion by 2030 at a 7.8% CAGR, driven by national healthcare localisation policies. Africa and Asia-Pacific, where Ind-

Swift is expanding its registration pipeline, are growing faster on demographic trends. Asia-Pacific's pharmaceutical market is expected to grow from USD 354 billion in 2024 to USD 662.9 billion by 2033. The company's geographic expansion into semi-regulated and emerging markets is a bet on those demographics and on limited local domestic manufacturing capacity in those countries.

Regulatory dynamics shape the industry. The annual report notes India's regulatory alignment with WHO-GMP through the Revised Schedule M guidelines, stricter GMP norms from CDSCO, QR codes on API packs and real-time batch tracking. For an exporter, the critical point is that regulatory approvals are the barrier to market access and the source of moat. Ind-Swift's MHRA, TGA, EU-GMP and Health Canada approvals are assets that cannot be replicated quickly, and its active pipeline of 500 registrations under process plus 400 planned is how it compounds that moat. The industry cycle is not deeply cyclical in the classic sense, but it is exposed to foreign exchange, input cost inflation and regulatory shocks. Ind-Swift runs a natural hedge on FX because its exports and imports are both largely in USD and Euro, and the annual report states it undertook no hedging activities during the year.

Growth triggers

Commercial scale-up of existing CDMO products

The clearest near-term trigger is conversion of existing CDMO products into higher quarterly output. Contract-manufacturing revenue rose from about ₹25 crore in Q1 FY27 to approximately ₹65 crore in Q2. Ibuprofen supplies had commenced, while clarithromycin remained gated by European site-variation approval. Management expects major partnership programmes to contribute ₹100-130 crore in incremental FY27 revenue and ₹200-220 crore over two years, with orders, raw materials and production capacity described as being in place for current projections.

The trigger is a near-term commercialisation event from Ind-Swift's R&D pipeline. The Chairman's letter in the FY25 Annual Report states that 3-5 products are progressing through regulatory validation and are expected to launch within 18-24 months, which places the first launch around late 2026 to early 2027.

> *"Additionally, 3–5 products are progressing through regulatory validation and are expected to be launched over the next 18–24 months, providing near-term visibility and reinforcing our long-term growth trajectory."*
>
> **CHAIRMAN'S LETTER, ANNUAL REPORT FY25**

The mechanism runs through the 100% Export-Oriented Global Business Unit (GBU) at Derabassi, Punjab. The GBU operates with zero domestic exposure, so these products

convert to revenue entirely through export channels: contract manufacturing for existing partners like Teva, Actavis, Stada, Ratiopharm, Chanelle, Synthon, Viatris and Wockhardt, or through the company's own dossier filings and out-licensing. The facility already holds regulator approvals including UK MHRA, TGA, EU-GMP and Health Canada, so the regulatory validation stage is the final gate before commercial supply.

The surrounding pipeline gives context for how these 3-5 products sit within a larger flow. Management reported a pipeline of 30+ non-infringing generic products under development for regulated markets (USA, EU, TGA, Canada, ROW), 15+ products developed during FY25 with completed bioequivalence studies (both pilot and pivotal), and two originator products already past validation batches and submissions at the newly commissioned facility. The 3-5 products are therefore the first tranche of a broader R&D engine converting into launched revenue.

The annual report frames this as the start of sustained product flow, with the Innovation Pipeline section noting "we remain optimistic about finalising additional engagements over the coming years" on top of the two CDMO engagements already formalised. Exports contribute nearly 75% of revenues, and a 97% DIFOT performance demonstrates the operating discipline in place to supply these launches once approved.

Expansion of the CDMO customer base

The Viatris-led ramp now has commercial receipts, and management is attempting to broaden the customer base. Q2 contract-manufacturing revenue was approximately ₹65 crore versus about ₹25 crore in Q1. Management said discussions with two additional customers for the same products were active and that it hoped to sign them in the last quarter. No signed value, volume or margin was disclosed for those prospective deals, so they remain pipeline rather than contracted backlog.

Ind-Swift has moved beyond exploratory talks and signed two contract development and manufacturing (CDMO) engagements with pharmaceutical MNCs. The Chairman's letter in the FY25 annual report confirms the shift from discussion to signed business:

> *"while several discussions remain underway, I am pleased to share that two engagements have already been formalised—each offering strong growth momentum and long-term revenue visibility."*

The mechanism is straightforward. Ind-Swift acts as the manufacturing and development partner for a global MNC, using its 100% Export-Oriented Global Business Unit (GBU) at Derabassi, Punjab. That facility is already approved by the UK MHRA, TGA, EU-GMP and WHO-GMP, which is the entry ticket for supplying regulated markets. The GBU's existing partner roster - Teva, Actavis, Stada, Ratiopharm, Chanelle, Synthon, Viatris and Wockhardt -

shows the kind of counterparty these contracts now formalises. The revenue model is recurring manufacturing income: the MNC buys finished dosage forms from Ind-Swift on a long-run basis, rather than Ind-Swift bearing the cost of launching and marketing its own brands.

The foundation for this is the annual capacity of 9,600 Mn tablets, 186 Mn capsules and 118 Mn sachets at the GBU. The company also completed validation batches and submissions for two originator products at its newly commissioned facility during the year, which management describes as "laying the groundwork for incremental growth" (Annual Report FY25).

The commercial logic is visible in the FY25 export mix, where exports contributed C39,923.33 lakhs "largely driven by the Punjab 100% EOU unit catering to regulated and semi-regulated markets and supported by a growing base of CDMO contracts" (Annual Report FY25). These two formalised engagements are the latest additions to that base, converting Ind-Swift's installed capacity and regulatory approvals into contracted, multi-year revenue streams.

Registration-led own-brand expansion into emerging markets

Own-brand exports remain the larger revenue pool and management is expanding registrations in Peru, Mexico, Brazil and several African markets. The call reported more than 900 registrations across 85 countries, more than 2,100 filed dossiers and more than 330 additional registrations expected in FY27; approximately 100-150 of those additions had already been obtained. Management expects revenue from a new product to start around two years after the start of registration, so the registration campaign supports the medium-term FY30 ambition more directly than FY27.

Ind-Swift is running a registration machine. As of FY25, the company holds 750+ marketing authorisations across 70+ countries, has 500+ authorisations under registration expected to grant in the next 1-3 years, and plans to file 400+ more applications in the next 12-24 months. The Chairman's letter frames this as deliberate strategy: geographic expansion focused on "semi-regulated markets and emerging economies where the demand for affordable, high-quality medicines continues to accelerate" (FY25 Annual Report).

The mechanism is straightforward: every registration is a buildable product dossier that converts directly into commercial supply. The company's R&D division developed 15+ products during FY25 and holds a 30+ product pipeline for regulated markets, giving it raw material to feed the filing engine. The fiscal math already shows this working - export revenues of C39,923.33 lakhs in FY25 came "largely driven by the Punjab 100% EOU unit catering to regulated and semi-regulated markets" (FY25 Annual Report). The Global

Business Unit, established in 2006 as a 100% export-oriented facility, is the dedicated execution arm for these markets, with capacity for up to 9600 Mn tablets annually.

Management has been explicit about the registration pipeline:

> *"We currently have 500 under registration and plan to apply for an additional 400 in the coming year."*
>
> **CHAIRMAN'S STATEMENT, FY25 ANNUAL REPORT (SEPTEMBER 2025)**

The commercial sequencing follows a pattern the company has already demonstrated. In the Middle East and CIS region, registrations in Georgia and Armenia are set for commercial launch in the next financial period, following recent Tajikistan and Azerbaijan launches that delivered "triple-digit growth targeted" (FY25 Annual Report). This is the model: file dossiers, secure approvals, then convert approvals into revenue through local teams and distribution partners. The registration count is the leading indicator of future export sales.

Samba EU GMP and PIC/S upgrade to unlock export access

Samba's EU GMP and PIC/S upgrade is the most concrete regulatory-capacity project in the current call. It is included within the ₹250 crore growth-capex programme and is described as on schedule. Management expects an ANVISA visit probably in the last quarter and European approval possibly next year. The facility is intended to support topical and oral formulations and both contract manufacturing and own-brand exports. Commercial revenue from the newly enabled access was not quantified.

The Samba project is intended to extend regulated-market access from the Derabassi base. Its economic test is whether the upgraded site obtains EU GMP/PIC/S and other market approvals and then converts topical and oral formulations into export sales. The current call provides an approval window but no commissioning or revenue-ramp date, so it should not be treated as completed capacity.

The Samba facility is being upgraded within the ₹250 crore growth-capex programme. The current call confirms the total programme remains on track but does not restate phase-level budgets or spending periods. Management expects an ANVISA Brazil visit probably in the last quarter and European approval possibly next year. Derabassi utilisation was 70-75%, and the Jammu production area was described as using about 75% of capacity. The immediate economic purpose is to remove capacity and regulatory bottlenecks for existing export programmes.

The warehouse and debottlenecking programme is further advanced than the prior research indicated. Land for the new warehouse has been acquired, approvals are in place and construction has started; management expects the warehouse to shift out of the existing facility in 10-12 months, freeing space for more manufacturing units. Derabassi utilization of

70-75% suggests capacity is available for the current order base, but sustained utilization gains depend on conversion of active and prospective CDMO programmes.

> *"We are developing a state-of-the-art Greenfield facility in Mohali, Punjab, engineered to meet the world's most rigorous regulatory standards. Purpose-built to secure approvals from leading authorities—including the USFDA and ANVISA—this facility will significantly enhance our capacity to drive global dossier filings, expand access to regulated markets and scale commercial supply for high-value therapeutic segments."*
>
> **ANNUAL REPORT FY25, REGULATORY APPROVALS & COMPLIANCE SECTION**

The project is already a live operating mechanism: the company has the manufacturing space to support the stated ₹1,200 crore FY28 top-line level, while the warehouse relocation is expected to create additional production space over the next 10-12 months. That statement is management's capacity assessment, not a formal FY28 revenue forecast.

Expanding therapeutic portfolio into gynaecology, paediatrics, and lifestyle therapies

The portfolio expansion is the domestic-facing engine of Ind-Swift's post-API transformation, and it already generates revenue. The portfolio of 750+ product registrations "spans key therapeutic areas such as gynaecology, paediatrics, cardiology, diabetology and dermatology," and the domestic formulations business contributed ₹15,041.34 lakhs in FY25 "with notable traction in gynaecology and paediatrics under the Ethical division" (Annual Report FY25).

The mechanism runs through the Ethical division's branded-generics model: a direct-to-stockist distribution network, a field force, and new brand launches. The division grew 15% year on year on flagship brands Anin Injection 500, Suprox SR, Anin Tablet and Netazox. Two launches show the pace. Matravi, the first new brand in five years, recorded ₹9 crore in sales within six months of launch (IQVIA MAT May 2025). Anin PFS, a pre-filled syringe of a gestational hormone and the first such product introduced in India, went national in February 2025.

> *"We are now strategically focusing on gynaecology and paediatrics - two dynamic areas experiencing accelerated growth across both emerging and developed markets."*
>
> **CHAIRMAN'S LETTER, ANNUAL REPORT FY25**

Lifestyle therapies sit one stage earlier. Management describes them as an R&D pipeline item, not a commercial line yet.

> *"In parallel, our R&D team is actively advancing a pipeline focused on lifestyle therapies - an area of rising global relevance."*
>
> **CHAIRMAN'S LETTER, ANNUAL REPORT FY25**

The R&D base feeding both is material: 30+ non-infringing generic products under development for regulated markets, over 15 products developed in FY24-25 with bioequivalence studies completed, and 3-5 products progressing through regulatory validation with launch expected in 18-24 months. The gynae and paediatrics expansion is live and profitable. Lifestyle therapies depend on that same development pipeline converting into filings and launches.

Rollout of new generics division with ~150 additional products in FY2026-27

Ind-Swift is doubling down on domestic branded generics with a second dedicated generics vertical. The company already launched the Agile Division, a generics vertical with a specialty-focused portfolio of ~150 products distributed through a separate channel. The Annual Report FY25 confirms the follow-on: another generics division with ~150 additional products, including newly introduced molecules in India, is slated for rollout in FY2026-27.

The mechanism is straightforward. These are domestic branded generics sold through a distinct distribution channel, separate from the Ethical division's prescription-driven business. The products flow through the company's existing manufacturing capacity at Derabassi, Parwanoo and Jammu, which the annual report states can produce up to 9600 Mn tablets, 186 Mn capsules and 118 Mn sachets annually. The generics division adds revenue without requiring new plants, and it leverages the 750+ product registrations the company already holds across gynaecology, paediatrics, cardiology, diabetology and dermatology.

The domestic branded business is already proving the model works. The Ethical division reported 15% revenue growth in FY25, driven by flagship brands like Anin Injection 500, Suprox SR, Anin Tablet and Netazox. The company also launched Matravi, its first new brand in nearly five years, which achieved sales worth C9 crore within six months of launch. The new generics division is the next step in that same playbook, broadening the domestic portfolio with a larger product count.

> *"Building on this momentum, another generics division with ~150 additional products—including newly introduced pharmaceutical molecules in India—will be rolled out in FY2026–27."*
>
> **ANNUAL REPORT FY25**

Q2 FY27 operating update

Q2 marked a meaningful acceleration in the finished-dosage transition. The call reported operating revenue of ₹234.89 crore, operating EBITDA of ₹42.33 crore and PAT of ₹31.03 crore; H1 revenue was ₹420.97 crore and PAT ₹55.47 crore. Exports supplied 82.7% of Q2 sales, contract manufacturing increased to approximately ₹65 crore from about ₹25 crore in Q1, and management reiterated more than 50% FY27 revenue growth. The company remained debt-free, while the ₹250 crore growth-capex programme covering Samba, warehouse, R&D and debottlenecking was described as on track.

Q2 FY27 also clarified the medium-term funding and portfolio path. Management reiterated a 20-25% revenue CAGR to more than ₹1,500 crore by FY30 with 200-300 basis points of EBITDA-margin expansion and estimated about ₹350 crore of working capital at that turnover. It gave no explicit FY28 revenue number, saying it might revise guidance and would be ready with next-year numbers at the next investor call. The 7.80% Synthymend stake remains available for partial monetisation with tag-along rights, but no transaction was committed.

Key risks

- **Unhedged foreign exchange exposure.** Exports earned ₹39,923.33 lakhs in FY25, about 73% of revenue, and raw material imports are in the same currencies (USD and Euro). Management argues this creates a natural hedge, but it is not a perfect one, and the company explicitly confirms it did not hedge during the year. A sustained rupee appreciation against both currencies compresses export realisation while domestic costs stay rupee-denominated.

- **CDMO customer concentration.** CDMO revenue was ₹188.73 crore, roughly 34% of export sales, generated from a short list of named partners: Wockhardt, Chanelle, Mylan, Strides, Viatris, Teva, Actavis, Stada, Ratiopharm and Synthon. Each is a discrete renewal decision. If one large multinational shifts volume in-house, to a rival Indian CDMO, or to another low-cost geography, export revenue drops sharply and the idle capacity at Derabassi (9,600 Mn tablets per annum) becomes a fixed cost problem.

- **Regulatory re-approval risk.** The Derabassi GBU, Parwanoo and Jammu facilities must hold MHRA, EU-GMP, TGA, Health Canada, WHO-GMP and country approvals from Oman, Russia, Iraq, Yemen and the UAE simultaneously. A single compliance failure, such as an inspection finding, can remove market access across multiple geographies at once because the approvals are interdependent and regulators routinely share inspection data. The Mohali greenfield facility targeting USFDA and ANVISA is unproven: a USFDA inspection outcome is binary, and a warning letter would not just delay Mohali but could freeze the entire regulated-market expansion story.

- **Merger integration and title transfer gaps.** The amalgamation with Ind-Swift Limited became effective August 8, 2025, and 81,24,697 equity shares are still to be allotted to transferor shareholders. Meanwhile key assets remain legally registered in the name of Ind Swift Limited, not the company, including the Derabassi land carrying value of ₹85.49 crore and the Parwanoo plants at ₹19.42 crore. The auditor flagged that title deed transfers are pending completion of legal formalities. Until those transfers conclude, the consolidated entity does not hold clean title to its most important operating sites.

- **Related party loan recovery.** A loan of ₹62.89 crore to Swift Fundamental Research & Education Society is overdue by more than 90 days, no interest has been provided on it during the year, and the auditor describes the company's recovery steps only as "reasonable." If this promoter-linked entity cannot repay, the company absorbs a loss on an asset that otherwise sits quietly on its books. The same note applies to smaller outstanding loans to Sislax Pharma and Mohali Green Environment.
- **Pending litigation exposure.** A VAT demand of ₹66.34 crore inherited from transferor company Ind-Swift Limited is pending adjudication, alongside a Chandigarh VAT demand of ₹6,633.62 lakh, GST disputes in Jammu (₹84.88 lakh) and Bihar (₹5.02 lakh), and multiple excise and service tax cases before CESTAT. Adverse judgments would consume the cash that management plans to spend on registrations, R&D and the Mohali facility. The amounts are material relative to a consolidated net worth of ₹36,592.91 lakhs from FY25.
- **Warrant conversion overhang and dilution.** 2,44,68,000 fully convertible warrants at ₹121 each remain outstanding, with only 25% paid and the balance receivable by February 28, 2026. If the share price trades above the conversion price, conversion adds equity and capital, which is the intended outcome. If it trades below, warrant holders may walk away, leaving the company without the planned ₹92.63 crore and with the shares unplaced. Either path moves the capital structure, and the conversion decision is out of management's control.
- **Inflation on inputs with lagged pricing.** Cost of materials consumed was ₹22,455.96 lakhs in FY25. CDMO contracts and day-one generic launches in Europe are often priced 6-12 months ahead at fixed rates. If API and packaging costs rise faster than contract prices reset, margins compress in the interim. The company has no disclosed mechanism for automatic pass-through.
- **Emerging market demand and collection fragility.** The strategy rests on adding 400+ product registrations in the next 12-24 months across Africa, CIS and Latin America, where per capita medicine spending is low and public healthcare budgets are thin. Volume growth depends on government tenders and donor funding, and currency devaluation in these markets reduces both affordability and the real value of receivables. These are also the markets where receivables aging tends to be longest.
- **Domestic branded generics competition against larger players.** The Ethical division grew 15% in FY25 on the strength of Matravi and Anin PFS, but it competes directly with Abbott, Cipla, Lupin and Dr. Reddy's across gynaecology, paediatrics, cardiology and diabetology. Those same names are P2P clients for contract manufacturing, creating a conflict where domestic rivals control both the brand shelves and, potentially, the manufacturing

relationships. Matravi's ₹9 crore in six months is a strong start, but it is a single SKU in a market where the company is rebuilding a field force after nearly five years without a new brand launch.

Scenarios

The Q2 FY27 operating ramp provides evidence for a stronger near-term bull case than the prior research allowed. Contract-manufacturing revenue increased from approximately ₹25 crore in Q1 to ₹65 crore in Q2, ibuprofen supplies commenced, and management said orders, raw materials and production capability were in place for current projections. The pathway is continued CDMO conversion, two additional customer sign-offs, registration-led own-brand expansion and an operating margin approaching the 20% FY27 ambition. The medium-term FY30 target is more than ₹1,500 crore revenue with 200-300 basis points of margin expansion, while the new formulation pipeline is now targeted to start contributing from FY28-29 rather than materially in FY28.

The two formalised CDMO engagements with pharmaceutical MNCs scale into long-dated contracts, adding a third and fourth engagement within two years. The registration pipeline converts into commercial launches across Europe, Africa, CIS and Latin America, and the planned 330+ additional FY27 filings extend the runway. The first new molecules are targeted for FY28-29 readiness, with two more by FY29-30, so FY28 growth must come from existing products. The Mohali greenfield plant passes USFDA and ANVISA inspections, opening the US market for the first time. Domestically, Matravi and Anin PFS build a franchise in women's health, the two generics divisions gain share, and the Direct-to-Stockist model lifts the Ethical division's reach. Revenue grows from the FY25 base, margins expand as the 9,600 Mn tablet capacity fills, and the debt-free balance sheet funds targeted inorganic hires without debt.

Base case

The base case is that FY27 revenue growth exceeds 50% on the strength of existing CDMO products, especially ibuprofen, and continued export demand. Clarithromycin contributes after site-variation approval, while two additional customer deals become signed rather than immediately material in revenue. EBITDA margin improves toward 20% but depends on Q3 and Q4 delivery because Q1 and Q2 were below that level. The ₹250 crore capex programme proceeds within the current order base, the Samba upgrade moves toward approval and the FY30 target remains a medium-term objective rather than a near-term forecast.

Exports grow at a mid-single to low-double-digit rate as existing CDMO contracts hold and registrations convert at a measured pace, weighted toward semi-regulated markets where entry friction is lower than in Europe. Domestic formulations grow 10-15% annually on the Ethical division's gynaecology and paediatrics traction, with Matravi and Anin PFS providing

the new-product energy. Mohali progresses but slips beyond the guided timeline, with USFDA approval arriving in the outer years rather than near term. Some of the 3-5 pipeline launches are delayed by bioequivalence study timelines. The warrants convert on schedule, adding equity capital and removing the overhang. The merger integration completes, title transfers conclude, and the related party loan is either repaid slowly or provisioned. Margins stay broadly stable, profits grow roughly in line with revenue, and the company remains a mid-sized Indian formulations player with a respectable export franchise and a solid but not dominant domestic position.

Bear case

The principal downside is that the strong Q2 CDMO run rate is not sustained. Clarithromycin could remain delayed by site-variation approval, prospective customer deals could fail to convert, and a customer concentration issue could reduce volumes. The 20% FY27 EBITDA-margin ambition requires stronger H2 margins than those reported in Q1 and Q2, so revenue mix, fixed-cost absorption or input costs could prevent the target. Working capital could also rise faster than planned: debtor realization was 75 days against a 60-day target, and management estimated roughly ₹350 crore of working capital would be needed at ₹1,500 crore FY30 turnover. Regulatory or execution slippage at Samba would defer the regulated-market opportunity.

A single large CDMO client among the named multinationals does not renew its contract, cutting export revenue by a meaningful share and leaving a significant slice of Derabassi capacity underutilised. Around the same time, a regulatory inspection at Derabassi or at the new Mohali facility surfaces a compliance gap, suspending market access in the UK or EU, which is the highest-margin geography. The ₹62.89 crore related party loan is written off after the borrower entity fails to repay. The VAT and sales tax disputes resolve adversely, consuming cash on top of the write-off. Unhedged rupee appreciation compounds the margin pressure on the remaining export book. The domestic branded push stalls as Abbott, Cipla and Lupin defend their categories and the company's rebuilt field force fails to gain meaningful share. Revenue falls from the ₹54,964.67 lakh FY25 base, the Mohali investment becomes a stranded cost, and the company reverts to a small, contracted manufacturer in a market where scale and regulatory depth decide the winners.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	562	641	975	1,200	1,440
Revenue growth	-	+14.1%	+52.0%	+23.1%	+20.0%
EBITDA (₹ Cr)	-0.40	45.10	190	246	310
EBITDA margin	-0.1%	7.0%	19.5%	20.5%	21.5%
Depreciation (₹ Cr)	24.50	30.60	33.00	42.00	50.00
Interest (₹ Cr)	2.90	1.40	3.50	4.00	4.50
Other income (₹ Cr)	68.80	47.00	30.00	22.00	16.00
PBT (₹ Cr)	40.90	60.10	184	222	271
Tax (₹ Cr)	8.10	7.70	44.10	55.50	67.80
Tax rate	19.7%	12.9%	24.0%	25.0%	25.0%
PAT (₹ Cr)	32.90	52.30	140	167	203
PAT growth	-	+59.2%	+166.7%	+19.3%	+22.1%
EPS (₹)	3.80	6.00	16.00	19.10	23.40
P/E	82.8x	52.4x	19.7x	16.5x	13.4x
PEG	4.0x	2.5x	1.0x	0.8x	0.7x

CAGR FY27E-FY29E: Revenue +21.5% · EBITDA +27.6% · PAT +20.7%

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Q2 FY27 concall notes

TLDR

Ind-Swift Laboratories reported Q2 FY27 operating revenue of ₹234.89 crore, up 15.15% YoY and 26.22% QoQ, with operating EBITDA of ₹42.33 crore (4.95x YoY, 27.04% QoQ) at an 18.02% margin and PAT of ₹31.03 crore (3.54x YoY). Exports were 82.7% of sales; own brands were 55.75% of quarterly sales and 69% of exports, while contract manufacturing was 26.99%. CDMO revenue rose to about ₹58-65 crore in Q2 from about ₹25 crore in Q1, and management expects ₹20 crore from ibuprofen in Q3 and ₹20-25 crore in Q4. Management reiterated FY27 revenue growth above 50% and a 20-25% revenue CAGR to cross ₹1,500 crore by FY30 with 200-300 bps EBITDA margin expansion, and targets 20% EBITDA margin for the full year. Risks are the pending clarithromycin site variation, the Samba EU GMP/PIC/S approval timing, and working capital as revenue scales.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue guidance moved from "around ₹900 crore" to "more than 50% revenue growth in FY27", reiterated on the call. Management said it is comfortable achieving the projected numbers.
- FY29 target of ₹1,200 crore was not repeated. Management said it is very difficult to comment on March 2028 at this point and that next financial year numbers would be shared at the next investor call.
- FY30 aspiration of at least ₹1,500 crore revenue and ₹200 crore-plus net profit was restated as a 20-25% revenue CAGR to cross ₹1,500 crore by FY30 with 200-300 bps EBITDA margin expansion. The net profit figure was not repeated.
- Margin guidance shifted from "21-22% if sales grow, fully expected by Q3" to a full-year 20% EBITDA target, with management saying it is fully focused and determined to achieve it. Q2 margin was 18.02%, up 11 bps QoQ.
- CDMO revenue target of ₹100-130 crore in year one was restated as ₹100-130 crore incremental revenue in FY27 and ₹200-220 crore over two years. Q2 CDMO revenue was about ₹58-65 crore against about ₹25 crore in Q1.
- The two additional CDMO customers, previously described as under discussion with no signing expected this year, are now expected to be signed off in the last quarter of FY27.
- Clarithromycin dry suspension, previously expected to launch this year, is now awaiting a customer-filed site variation in Europe, with batches to start after approval. Ibuprofen site variation is approved and supplies have begun.
- Global registrations rose to 900-plus across 85 countries from 850-plus, and dossiers to 2,100-plus. Management now expects over 330 additional registrations in FY27, of which about 100-150 were secured in H1, against the earlier 400-plus net new approvals target.
- The Samba EU GMP and PIC/S upgrade is now quantified at ₹45 crore, with an Anvisa Brazil visit expected in the last quarter and EU approval expected anytime next year. The earlier framing was that the Jammu plant was being audited; this call refers to Samba.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Operating revenue	₹234.89 crore	+15.15% YoY, +26.22% QoQ	Higher own-brand export sales and scaling CDMO supplies

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Operating EBITDA	₹42.33 crore	4.95x YoY, +27.04% QoQ	Operating leverage and improved product mix
Operating EBITDA margin	18.02%	+1,256 bps YoY, +11 bps QoQ	Lower round-trip expenses at 45.15% of revenue vs 49.38% a year ago
PAT	₹31.03 crore	3.54x YoY, +26.96% QoQ	Margin expansion; PAT margin 13.21%, up 761 bps YoY
H1 FY27 operating revenue	₹420.97 crore	+35.79% YoY	First-half scale-up across exports
H1 FY27 operating EBITDA	₹75.65 crore	4.45x YoY	EBITDA margin 17.97%, up 1,254 bps
H1 FY27 PAT	₹55.47 crore	3.29x YoY	PAT margin 13.18%
Export share of sales	82.7%	n/a	Own brands 69% of exports; domestic 17.3%
CDMO revenue	About ₹58-65 crore in Q2	Up from about ₹25 crore in Q1	Ibuprofen supplies after site variation approval
Own-brand share of sales	55.75% of quarterly sales	n/a	Direct marketing and field force expansion in GCC, Central Asia, Africa
Capacity utilization	70-75%	n/a	Jammu expansion under way; Dharavasi facility at similar level
R&D expenses	About ₹8 crore in the quarter	n/a	FY26 R&D was about ₹12 crore

SEGMENTS & GEOGRAPHIES

- **Exports:** 82.7% of Q2 sales. Management expects the split to stay at about 80% exports and 20% domestic. Own brands were 69% of export sales, contract manufacturing 26.99% of total sales, branded generics 6.84%, ethical division 5.43% and domestic contract manufacturing 5% with 39 repeat clients.
- **Europe:** About 47% of geographical revenue per the presentation. Management said Europe is a stable, payment-oriented territory and that the company is entering it with its own products alongside CMO work.
- **New territories:** Registrations have started in Peru, Mexico and Brazil with partners identified, and in Rwanda, Congo, Cambodia, Ivory Coast, Benin and other markets, 8-9 territories in total. Management expects growth to come from these markets.
- **CDMO:** Q2 export revenue was about ₹190 crore, of which CDMO was about ₹65 crore and own brands about ₹125 crore. Management expects the mix to settle near 35% contract manufacturing and 65% own products.

STRATEGY & COMPANY-SPECIFIC

- The ₹250 crore growth capex covering the Samba EU GMP upgrade, warehouse, new R&D infrastructure and capacity debottlenecking is on track. The Samba upgrade alone is ₹45 crore.
- Warehouse land has been acquired, approvals are in place and construction has started. The warehouse is expected to shift out of the existing facility in 10-12 months, freeing space for manufacturing.
- Management said current Dharavasi capacity is sufficient to reach ₹1,200 crore top line by FY28.
- The company is debt-free with cash and liquid reserves. It holds a 7.80% stake in Synthimed Labs. Management said IndiaRF, the majority holder, is in diligence to hive off part of its stake, that Ind-Swift has tag-along rights, and

that some stake could be sold in coming quarters if valuations are good. Management believes the API business should be valued at ₹7,000-8,000 crore and prefers to wait a couple of years before liquidating the full holding.

- Total API purchases this financial year are expected at about ₹400 crore, of which about ₹100 crore from Synthimed. Key APIs are sourced mainly from Synthimed, with only one or two molecules sourced from China.
- R&D pipeline: 11 molecules targeted for FY28-29 and 2 for FY29-30 across antibiotic, urology, antiprotozoal and ulcerative categories. No new molecule is expected in FY28; growth that year comes from existing molecules.
- Product registration takes a minimum of 1-1.5 years, with revenue starting about 2 years from day one.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	More than 50%	Maintained (earlier framed as around ₹900 crore)	Comfortable with H1 run rate; orders in hand
FY27 EBITDA margin	20% for the full year	New (earlier 21-22% by Q3)	Management focus; needs above 20% in Q3 and Q4
FY27 CDMO incremental revenue	₹100-130 crore	Maintained	Ibuprofen ramp and clarithromycin after variation approval
CDMO revenue over two years	₹200-220 crore	Maintained	Viatris and Arrotex molecules
Ibuprofen revenue	About ₹20 crore in Q3, ₹20-25 crore in Q4	New	Quantities agreed with Viatris
FY27 product registrations	Over 330 additional	Raised from 400-plus net new approvals target framing	About 100-150 already registered in H1
Samba EU GMP/PIC/S approval	Anvisa Brazil visit in Q4; EU approval anytime next year	New detail	Capex under way
Warehouse shift	10-12 months	New	Land acquired, construction started
New CDMO customer signings	Expected in Q4 FY27	Changed from no signing this year	Active discussions with two customers
FY28 revenue	To be shared at next investor call	Dropped (earlier ₹1,200 crore by FY29)	Too early to comment
FY30 revenue	Cross ₹1,500 crore at 20-25% CAGR	Maintained	Existing molecules and new territory registrations
FY30 EBITDA margin	200-300 bps expansion	Maintained	Mix and operating leverage
FY30 working capital	About ₹350 crore	New	At ₹1,500 crore turnover
Debtor days target	About 60 days	New	October collections described as good
Inventory days target	Minimum 90 days	New	n/a

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Clarithromycin launch delay	Customer has filed the site variation in Europe; batches start only after approval

RISK	WHAT MANAGEMENT SAID
Samba regulatory approval timing	EU approval expected anytime next year; Anvisa Brazil visit expected in Q4
Working capital	Trade receivables rose from ₹168 crore to about ₹234 crore; average realization is 75 days, with reduction expected in Q3 after good October collections
Customer concentration in CDMO	Ibuprofen sales are driven by Viatris, which gives the guidance; Ind-Swift cannot sell those products to other customers
New molecule timing	New molecules only from FY28-29, with revenue from FY29-30; FY28 growth depends on existing molecules
Margin delivery	20% full-year EBITDA requires above 20% in Q3 and Q4 after 18.02% in Q2
Competition in new markets	Management said quality is assumed similar across suppliers and pricing decides; it believes it can offer a more exciting price
Guidance visibility	Management declined to comment on FY28 numbers and on upgrading the FY30 vision

Q&A HIGHLIGHTS

FY27 guidance confidence Asked whether the more than 50% revenue growth guidance is achievable after H1, the CFO said the company is in a comfortable position to achieve the projected numbers and might revise guidance upward for FY28.

CDMO run rate Asked how to model FY28 CDMO growth after about ₹100 crore of contract manufacturing exports in H1, management said Q2 CDMO revenue was about ₹65 crore against about ₹25 crore in Q1, expects about ₹20 crore from ibuprofen in Q3 and ₹20-25 crore in Q4, and sees the mix settling near 35% contract manufacturing and 65% own products.

Samba approvals and utilization Asked about capacity utilization and the EU GMP/PIC/S timeline, management said utilization is 70-75%, an Anvisa Brazil visit is expected in the last quarter, EU approval is expected anytime next year, and the Samba facility is intended for exports.

Synthimed stake Asked about monetizing the 7.8% stake, management said IndiaRF is in diligence to sell part of its holding, Ind-Swift has tag-along rights and may sell some stake in coming quarters if valuations are good, but prefers to wait a couple of years before liquidating the full holding.

New CDMO customers Asked for the status of the two additional customers discussed in August, management said discussions are active and it hopes to sign off in the last quarter.

Working capital and receivables Asked about the rise in trade receivables, management said average realization is 75 days, most debtors fell due at quarter end, October was a good collection month, and targets are about 60 debtor days and a minimum 90 inventory days.

Pricing with Viatris Asked whether CMO contracts are cost-plus, management said a transfer price has been agreed, not cost-plus, and that Viatris drives the sales and gives the guidance.

Risks to guidance Asked about challenges to achieving guidance, management said it sees no risk, with orders in hand, raw materials in place and the production facility equipped.

Beta Drugs Ltd

GROWTH TRIGGERS

Beta Drugs can compound if FY27 revenue above INR535cr is delivered, H2 own-brand sales recover to INR80cr, Nivin delivers 30-35% growth with margin synergy, and CMO and exports convert current guidance. H1 FY27 revenue grew 29.2%, EBITDA margin was 23.18% and PAT rose about 45% to INR34cr. The intermediate plant, EU audit and margin mix are the next tests.

1. FY27 revenue target of INR535 crore plus is backed by 29.2% H1 growth

H1 FY27 revenue grew 29.2% and PAT rose about 45% to INR34cr. Management says it is comfortably in the range of touching INR535cr plus for FY27 and reiterates 20-25% growth over three to five years with 23-24% margins. This is guidance, not full-year delivery.

2. Own-brand INR150 crore target requires H2 catch-up after Q2 shutdown

Own-brand sales grew 17% in H1 but Q2 was flat after a temporary shutdown shifted INR6-7cr into H2. Management expects H2 own-brand sales of INR80cr versus INR62cr prior and retains a INR150cr FY27 target. Branded oncology is guided at 20-22% growth, with four launches in FY27 and six more planned.

3. Nivin IVF grows 75% and targets 30-35% with margin uplift

Nivin H1 FY27 sales rose 75% to INR31cr from INR18cr, and FY26 revenue was about INR43cr. Management guides 30-35% growth over two to three years and EBITDA expanding from 18-18.5% to 23-25% as Beta synergies arrive. It is evaluating a recombinant FSH launch in two to three years and puts the addressable market at INR1,500-1,800cr.

4. CMO FY27 guidance of INR180-190 crore follows 21% H1 growth

CMO grew 21% in H1 FY27. Management guides FY27 CMO revenue at INR180-190cr, helped by two to three new Indian partners and NDDS products carrying higher gross margins than standard CMO. Platin API supply remains a constraint, but management says the guidance can be met without platins.

5. Exports target INR90-100 crore FY27 with a roughly 30% CAGR path

H1 FY27 exports were INR43cr, with 35 new registrations and 872 registrations in the pipeline for the next two to three years. Management guides FY27 exports at INR90-100cr and about INR300cr over three to four years at a roughly 30% CAGR. The business remains tender-driven.

6. Intermediate/KSM plant targets January 2027 start and API PIC/S approval

The KSM/intermediate plant is targeted live by January 2027 with about 20 intermediates for captive API supply. Machinery is largely installed, with qualifications and departmental

approvals pending. The adjacent API plant is awaiting PIC/S approval expected in the next one to two months, which management says would open overseas API supply.

7. Margin mix and backward integration support 23-24% guidance

H1 FY27 EBITDA margin was 23.18% and management guides 23-24%, calling 25% conservative. Mix and backward integration are the stated drivers, but reported EBITDA includes other income and ex-other margin was 22%. Branded gross margin is about 70%, CMO about 50% and exports 55-60%.

8. Derma PCPM and European cosmetics consignment support brand build

Derma PCPM rose 30% to an average INR2.5 lakh in H1 FY27. Beta registered a high-end European cosmetics product and the first consignment is in transit, while licensed derma products are due for launch in December 2026. Management aims to make derma a larger brand over two to three years.

9. EU GMP audit after four dossiers could open regulated exports

Beta filed four EU dossiers and management expects an EU GMP audit in the next two to four months. Approval would support regulated-market formulation exports. Timing is not fixed and remains a gating item.

INVESTMENT THESIS

Beta Drugs is a delivery compounder, not a promise compounder. The business now spans branded oncology, Nivin IVF, CMO, exports and API/intermediates. H1 FY27 revenue grew 29.2%, reported EBITDA margin was 23.18% including other income, and PAT rose about 45% to INR34cr. Management guides FY27 revenue above INR535cr, 20-25% growth over three to five years and 23-24% margins. Those are guidance, not achieved annual outcomes.

The economics improve with mix. Management says branded gross margin is about 70%, CMO about 50% and exports 55-60%. A shift toward branded and Nivin should lift EBITDA even without cost cuts. API backward integration adds a second lever because it can reduce imported intermediate costs and support dossiers. H1 reported EBITDA margin was 23.18%, but excluding other income it was 22%. The margin case therefore depends on mix and operating leverage, not only the headline.

Own brands are the core. H1 FY27 own-brand sales grew 17%, but Q2 was flat after a temporary shutdown shifted INR6-7cr into H2. Management expects H2 own-brand sales of INR80cr versus INR62cr prior and retains a INR150cr FY27 target. Branded oncology is guided at 20-22% growth, with four launches in FY27 and six more planned. The near-term falsifier is H2 own-brand sales below INR80cr, which would put both the INR150cr own-brand target and the INR535cr plus consolidated target at risk.

Nivin is the second engine. Beta owns about 66% of Nivin Lifesciences; the remaining 33% is open-ended. Nivin H1 FY27 sales rose 75% to INR31cr from INR18cr, and FY26 revenue was about INR43cr. The prescriber base rose 60% and the top five brands are 63% of sales. Management guides 30-35% growth over two to three years and 23-25% EBITDA after synergies from 18-18.5% now. It is evaluating a recombinant FSH launch in two to three years and puts the addressable market at INR1,500-1,800cr. The falsifier is growth below 30% or no margin uplift as Beta's corporate hospital access is applied.

CMO is the third engine. H1 FY27 CMO grew 21%, and management guides FY27 CMO revenue at INR180-190cr. Two to three new Indian partners were added, and NDDS products carry higher margins than standard CMO. Platin API supply remains constrained, but management says the CMO guidance can be met without platins. CDMO retention is described as unbroken over 15 years. The falsifier is CMO revenue below INR180cr or a return to low single-digit growth if partner orders do not repeat.

Exports are the fourth engine and the most ambiguous. H1 FY27 exports were INR43cr. Management guides FY27 exports at INR90-100cr and about INR300cr over three to four years at a roughly 30% CAGR. The business is tender-driven, so timing can slip. The pipeline is large: 35 new registrations were received and 872 registrations are in the pipeline for the next two to three years. An analyst said export growth guidance had been cut to 30% from

50%; management said it had not guided 30% and preferred to under-promise. I treat the reset as unconfirmed but the lower framing as real. The falsifier is FY27 exports below INR90cr or another year of tender delays.

API and intermediates are the cost lever. API sales grew 29% in H1 FY27. The KSM/intermediate plant is targeted live by January 2027 with about 20 intermediates for captive API and possible external sales. Machinery is largely installed, with qualifications and departmental approvals pending. The adjacent API plant is awaiting PIC/S approval expected in the next one to two months, which management says would open overseas API supply. Q2 does not restate the prior total cost or the margin benefit. The falsifier is a commissioning slip beyond January 2027 or yields that do not deliver the cost benefit.

Derma is optionality. H1 FY27 PCPM rose 30% to an average INR2.5 lakh, Beta registered a high-end European cosmetics product and the first consignment is in transit, with licensed launches due in December 2026. The segment is still small and competitive. The falsifier is derma revenue stalling or gross margin remaining below the broader branded business.

The regulatory gate is the EU GMP audit. An analyst referred to an audit expected this month; management said it could come in the next two to four months after four dossiers. Approval would support regulated-market formulation exports. The falsifier is another delay beyond the next few months, which would defer the regulated export contribution.

Capital allocation is active but still modest. The Nivin acquisition added a new IVF business, the intermediate plant is targeted for January 2027, and the R&D land is now held for disposal after the plan was dropped. CCDs converted in early FY27, the cost of debt is 8-9%, and receivables were 116 days versus 113 days at 31 March 2026. Institutional branded tenders of INR20-25cr carry 100-120 day terms. These are manageable but absorb cash as the institutional mix rises.

Management delivery is mixed. H1 growth, Nivin and CMO are delivering; export guidance framing is ambiguous; the EU audit and intermediates plant are still open; and FY27 targets require H2 own-brand delivery. The thesis is therefore a delivery compounder, not a promise compounder. The evidence supports a business with multiple growth engines and improving economics, but the next twelve months must show H2 own-brand recovery, export conversion, CMO delivery, Nivin margin synergy and the intermediate plant start.

On current evidence, Beta can compound if FY27 revenue reaches INR535cr plus and margins hold at 23-24% including other income. The key falsifiers are H2 own-brand below INR80cr, exports below INR90cr, CMO below INR180cr, Nivin growth below 30%, an intermediate plant slip beyond January 2027, or a further EU audit delay. No price target or valuation judgment is implied.

RESEARCH REPORT

Company overview and history

Beta Drugs is an oncology-focused pharmaceutical company that manufactures and markets anti-cancer formulations across solid tumour, haematology and supportive care, and ranks among the top 10 in the domestic cytotoxic market. It also runs a CDMO business, an export franchise, an API and intermediates operation, a dermatology and cosmetology division, and, since April 2026, a 66.1% stake in Nivian Lifesciences, an IVF and fertility business. Its products are sold across major government and private hospitals in India and exported to multiple geographies.

The company was taken over by Mr Vijay Batra in 2014 from its erstwhile promoters. It is now part of the Adley group, which Mr Batra founded in 1985. The takeover marked a turning point: under the Adley group's stewardship, Beta Drugs shifted from a single-product orientation to a diversified oncology platform with backward integration into APIs, contract manufacturing capabilities, and an expanding export footprint.

The company manufactures at three formulation facilities in Baddi and Mohali and an API site through Adley Lab India. It holds PIC/S accreditation and Latin American approvals, and as of Q2 FY27 had filed four EU dossiers. An EU GMP audit was expected in the next two to four months. The EU audit is the gating step for regulated-market formulation exports.

In FY23, the company derived approximately 30% of revenue from branded products, 48% from contract manufacturing, 13% from exports, 8% from APIs, and 1% from its newly launched dermatology and cosmetology division. This diversified base spreads risk across revenue streams that have different demand drivers and customer sets.

Q2 FY27 update

H1 FY27 revenue grew 29.2% with EBITDA margin at 23.18% and PAT of INR34cr, up 45%. Management guides FY27 revenue to INR535cr plus, 20-25% growth over three to five years and 23-24% margins. Own brands target INR150cr, CMO INR180-190cr, exports INR90-100cr and Nivin 30-35% growth. Nivin FY26 revenue was about INR43cr; a recombinant FSH launch is targeted in two to three years. Management assessed NPPA trade-margin capping as zero or negligible impact. The intermediate plant is targeted live in January 2027; the EU GMP audit is expected in the next two to four months.

> *"Beta Drugs is one of the leading players in the domestic oncology space and ranks among the top 10 in the cytotoxic market."*
>
> COMPANY DESCRIPTION

Corporate structure and subsidiaries

Beta Drugs operates through three wholly or majority-owned subsidiaries, each carved out for a specific function in the oncology value chain.

Adley Formulations Pvt (100% held) manufactures and trades oncology formulations. This subsidiary houses the oral solid dose and injectable manufacturing capacity that has been the primary engine of formulation growth. In FY23, the company expanded tablet capacity at this facility, along with hard gelatin capsule, liquid injection, and lyophilised injection lines.

Adley Lab India (100% held) produces oncology APIs. This is where the company's backward integration strategy is physically anchored. The subsidiary houses the reactor capacity for API synthesis and a newly developed R&D laboratory. It is the entity targeting the EU GMP audit, which would open European CEP (Certificate of Suitability to the European Pharmacopoeia) markets for API exports.

Beta UBK International Pvt was a 60% joint venture for oncology APIs and products. The venture was ended, the investment was written off, and Uzbekistan sales are now handled directly by Beta Drugs, with the product marketing authorisations held by the Indian entity.

The subsidiary structure separates formulations manufacturing from API synthesis, which matters for regulatory purposes. API facilities face different inspection regimes and quality standards than formulation plants. By housing APIs under a separate entity, Beta Drugs can pursue EU GMP certification for its API line without entangling its formulation approvals.

Manufacturing network

Beta Drugs operates three formulation facilities and one API manufacturing site through its subsidiaries. The network is designed around cytotoxic and oncology-specific manufacturing, which requires segregated production areas, dedicated HVAC systems, and specialised containment to protect workers from exposure to potent compounds.

Baddi Plant 1 (Himachal Pradesh)

This facility manufactures lyophilised injections for oncology use. Lyophilisation, or freeze-drying, is a critical capability in oncology manufacturing because many chemotherapy compounds are unstable in liquid solution. The process removes water from the formulated product under low temperature and low pressure, producing a stable dry powder that can be reconstituted with a diluent immediately before administration to the patient.

In FY23, the company increased lyophilised injection capacity at this plant by 2.5x. This expansion was significant because lyophilised injectables carry higher barriers to entry than standard liquid injectables. The process requires specialised freeze-drying equipment, longer cycle times, and deep formulation expertise to ensure the product reconstitutes

properly without degradation. Few generic manufacturers in India have invested in this capability at scale.

The facility holds INVIMA (Colombia) and INVISA (Brazil) approvals, along with PIC/S accreditation. PIC/S (Pharmaceutical Inspection Co-operation Scheme) is an international framework that harmonises GMP inspection standards across member countries. Having PIC/S accreditation means the facility's manufacturing practices meet a benchmark recognised by dozens of regulatory authorities, reducing the need for individual country audits.

Baddi Plant 2 (Himachal Pradesh)

The second Baddi facility manufactures oncology formulations across oral and injectable dosage forms. It shares the same regulatory certifications as Plant 1: INVIMA, INVISA, and PIC/S. Having two facilities in the same industrial cluster allows the company to segregate different cytotoxic compounds by potency or dosage form, which is a regulatory expectation in oncology manufacturing to prevent cross-contamination between products.

Mohali facility (Punjab)

The Mohali plant adds formulation capacity in Punjab, providing geographic redundancy beyond the Baddi cluster. It carries the same INVIMA, INVISA, and PIC/S certifications. The three-plant network gives the company flexibility in production planning and provides backup capacity if one facility faces regulatory action or equipment downtime.

Adley Formulations (100% subsidiary)

This subsidiary is the workhorse of the company's formulation manufacturing. In FY23, the company executed a substantial capacity expansion across four dosage forms:

DOSAGE FORM	PRE-EXPANSION (FY22)	POST-EXPANSION (FY23)	EXPANSION MULTIPLE
Tablet (million units)	53	208	~2x
Hard gelatin capsule (million units)	23	58	~1.6x
Liquid injection (million units)	48	243	~2.8x
Lyophilised injection (million units)	7	10	~1.2x

Oral solid dose capacity expanded 92% year-on-year, while injection capacity expanded 180% year-on-year. The disproportionate expansion of liquid injection capacity reflects the company's strategic emphasis on injectables, which account for approximately 60% of its product portfolio and carry superior margins compared to oral solids.

The expansion was funded primarily from internal accruals. The company incurred a capex of approximately INR36cr over FY22 and FY23, with an annual capex run-rate of INR18-20cr in most years.

Adley Lab India - API facility (100% subsidiary)

The API manufacturing site houses the company's backward integration engine. In FY23, the company added one new API line focused on preparing for an EU GMP audit. The facility's reactor capacity includes:

- 5 glass lined reactors (GLRs) with a combined annual capacity of 3,250 litres
- 3 stainless steel reactors (SSRs) with a combined annual capacity of 3,200 litres
- 6 glass flask assemblies with a combined annual capacity of 200 litres

Glass lined reactors are used for reactions involving corrosive materials, while stainless steel reactors handle a broader range of synthetic chemistry. The combination allows the facility to run different types of API synthesis without cross-contamination concerns.

A new R&D laboratory was also developed at this site in FY23 to expand the API product offering. This lab is where the company develops new API molecules before scaling them to commercial production in the reactor lines.

Management team

The company is run by the Batra family, with professional managers supporting key functions.

Mr Vijay Batra is the promoter and founder of the Adley group, which he established in 1985. He took over Beta Drugs in 2014 from its erstwhile promoters. His takeover initiated the transformation of the company from a single-product operation into a diversified oncology platform.

Mr Rahul Batra serves as Chairman and Managing Director. He holds a Master of Science degree in Business and Management from the University of Strathclyde, Scotland. His scope of work includes managing the marketing and sales functions of the company. This places him at the centre of the branded formulations strategy, including the FTL/FFTL launch pipeline and prescriber expansion efforts.

Mr Varun Batra is Joint Managing Director. He holds a degree in Business Management from Toronto, Canada. He monitors the production department and export sales. His role spans both manufacturing operations and the international business, which is significant because the export strategy depends on manufacturing facilities meeting the regulatory standards of target markets.

Mr Balwant Singh is a Director. He holds a PGDM in HR and IR from DAV College of Management, Chandigarh, and brings 19 years of experience in the pharmaceutical field. He manages all the affairs of the company.

Mr Ashutosh Shukla is Director of Sales and Marketing. He brings more than 20 years of sales and marketing experience at top pharmaceutical companies and holds an executive MBA from Symbiosis International University, Pune. He handles both domestic and international markets, which means he oversees the branded oncology business, the CDMO client relationships, and the export dossier strategy.

The management structure divides responsibilities along functional lines: Rahul Batra owns the branded business and marketing strategy, Varun Batra owns production and exports, and Ashutosh Shukla executes across domestic and international sales. This division matters because each revenue stream requires a different go-to-market approach. Branded formulations require prescriber relationships and a launch pipeline. CDMO requires client retention and technical service. Exports require regulatory filings and distributor relationships in each country.

API business and molecule portfolio

The API segment is housed under Adley Lab India and contributed approximately 8% of revenue in FY23. The company has developed APIs spanning solid tumour, haematology, and supportive care therapy areas. Approximately 70% of its formulations are backward integrated with in-house APIs, which gives it cost control and supply security that pure formulators lack.

The strategic significance of the API business extends beyond internal consumption. The company is preparing to enter the CEP (Certificate of Suitability to the European Pharmacopoeia) market in Europe, which would allow it to sell APIs to European formulation manufacturers. It has initiated exports to semi-regulated markets and is gearing up to export API products to 12 countries. A new API line has been added specifically to focus on the EU GMP audit.

In FY23, the company developed 10 new API products, expanding its portfolio beyond the five molecules detailed below.

Carfilzomib

Carfilzomib is a proteasome inhibitor used to treat multiple myeloma, a cancer of plasma cells in the bone marrow. The reference drug is Kyprolis, developed by Onyx Pharmaceuticals (later acquired by Amgen). It is typically administered as an intravenous injection in combination with dexamethasone or lenalidomide plus dexamethasone for patients with relapsed or refractory disease.

The mechanism of action is distinct from older proteasome inhibitors like bortezomib. Carfilzomib irreversibly binds to and inhibits the 20S proteasome, the cellular machinery responsible for degrading misfolded and unwanted proteins. Myeloma cells produce large

quantities of abnormal immunoglobulin proteins, making them heavily dependent on proteasome function to clear misfolded proteins. When the proteasome is blocked, these misfolded proteins accumulate, triggering apoptosis (programmed cell death) in the myeloma cell. Carfilzomib's irreversible binding gives it a longer duration of action compared to bortezomib's reversible inhibition.

The advantage of developing this API in-house is twofold. First, carfilzomib is an epoxomicin derivative with a complex molecular structure featuring an epoxyketone pharmacophore that is challenging to synthesise at commercial scale. Few generic API manufacturers in India have successfully developed it. Second, the backward integration means Beta Drugs can supply its own carfilzomib formulation at a lower cost than competitors who purchase the API from third parties, while also maintaining control over quality and supply continuity.

The addressable market is substantial. Multiple myeloma is the second most common haematological malignancy globally. The company targets both the domestic Indian market, where access to carfilzomib has been limited by price, and semi-regulated export markets where demand for affordable generics is growing. The API is also being positioned for CEP filing in Europe, which would open sales to European formulation manufacturers.

Cabozantinib

Cabozantinib is a multi-targeted tyrosine kinase inhibitor used to treat advanced renal cell carcinoma (RCC), hepatocellular carcinoma (HCC), and medullary thyroid cancer. The reference drugs are Cabometyx (tablet formulation for RCC and HCC) and Cometriq (capsule formulation for medullary thyroid cancer), both developed by Exelixis.

Cabozantinib works by simultaneously inhibiting multiple receptor tyrosine kinases, including VEGFR2 (vascular endothelial growth factor receptor 2), MET (mesenchymal-epithelial transition factor), RET, and AXL. This multi-target approach is the key to its efficacy. VEGFR2 inhibition cuts off the blood supply that tumours need to grow by preventing angiogenesis (the formation of new blood vessels). MET inhibition blocks a pathway that tumours use to become invasive and metastatic. RET inhibition is particularly relevant for medullary thyroid cancer, where RET mutations are a driver. AXL inhibition addresses a pathway associated with drug resistance. By hitting multiple targets simultaneously, cabozantinib makes it harder for tumours to develop escape mechanisms compared to single-target therapies.

The API development is significant because cabozantinib's synthesis involves multiple steps with specific stereochemical requirements. The molecule contains a substituted quinoline core with specific functional groups that must be introduced in a precise sequence. Being one of the few companies to develop this API positions Beta Drugs to supply formulations at a time when cabozantinib's indications are expanding. The drug received approval for first-

line RCC in combination with nivolumab, which has expanded the patient population significantly.

The addressable market spans renal cell carcinoma (the most common type of kidney cancer in adults), hepatocellular carcinoma (the most common type of liver cancer), and medullary thyroid cancer. All three indications are growing due to rising incidence rates and expanding treatment protocols. The company targets the domestic market and semi-regulated export markets, with CEP filing planned for Europe.

Afatinib

Afatinib is an irreversible ErbB family blocker used to treat non-small cell lung cancer (NSCLC) with epidermal growth factor receptor (EGFR) mutations. The reference drug is Gilotrif, developed by Boehringer Ingelheim. It is administered as an oral tablet.

Afatinib's mechanism differentiates it from first-generation EGFR inhibitors like erlotinib and gefitinib. While those drugs reversibly bind to EGFR, afatinib covalently and irreversibly binds to EGFR (ErbB1), HER2 (ErbB2), and ErbB4. This irreversible binding means the drug remains attached to the receptor until the receptor protein is degraded and replaced by the cell, resulting in more sustained inhibition. The broader ErbB family targeting also matters because tumours can use alternative ErbB receptors to bypass EGFR blockade. By blocking the entire ErbB family, afatinib closes this escape route.

The advantage of in-house API development lies in the synthesis complexity. Afatinib features a covalent warhead - a reactive acrylamide group that forms the irreversible bond with the target receptor. This reactive group must be introduced late in the synthesis to avoid unwanted side reactions during earlier steps, requiring careful process design. The molecule also contains a tetrahydro-3-isoquinoline moiety that adds synthetic complexity. Having mastered this synthesis, Beta Drugs can supply afatinib formulations at competitive cost while maintaining quality control over the reactive functional group.

The addressable market is significant in India and emerging markets. EGFR mutation-positive NSCLC is more prevalent in Asian populations than in Western populations, with approximately 30-40% of NSCLC patients in Asia carrying EGFR mutations compared to 10-15% in Western populations. This makes afatinib and other EGFR inhibitors particularly relevant for the markets Beta Drugs targets.

Pazopanib

Pazopanib is a multi-targeted tyrosine kinase inhibitor used to treat advanced renal cell carcinoma and advanced soft tissue sarcoma. The reference drug is Votrient, originally developed by GlaxoSmithKline (now Novartis). It is administered as an oral tablet.

Pazopanib inhibits VEGFR-1, VEGFR-2, VEGFR-3, PDGFR (platelet-derived growth factor receptor) alpha and beta, and c-Kit. The primary anti-tumour effect comes from VEGFR inhibition, which blocks tumour angiogenesis. By preventing the formation of new blood vessels that supply oxygen and nutrients to the tumour, pazopanib starves the tumour of resources needed for growth. The additional inhibition of PDGFR and c-Kit broadens the anti-tumour activity, particularly in soft tissue sarcoma where these pathways may be more relevant.

The API development matters because pazopanib's synthesis involves an indazole core with multiple substitution patterns. The molecule contains a 2-methylindazole ring system with specific substituents at positions that require selective functionalisation. The selective introduction of the aminopyrimidine group and the methyl group at specific positions on the indazole ring requires careful control of reaction conditions. Being one of the few companies to develop this API gives Beta Drugs a supply advantage for pazopanib formulations in both the domestic and export markets.

The addressable market includes advanced renal cell carcinoma (the same indication as cabozantinib, offering an alternative treatment option) and advanced soft tissue sarcoma, a rare cancer with limited treatment options. The soft tissue sarcoma indication is particularly relevant because treatment options for this condition are scarce, creating demand for affordable generics.

Rucaparib

Rucaparib is a PARP (poly ADP-ribose polymerase) inhibitor used to treat BRCA-mutated ovarian cancer, fallopian tube cancer, and primary peritoneal cancer. The reference drug is Rubraca, developed by Clovis Oncology. It is administered as an oral tablet.

The mechanism of rucaparib exploits a concept called synthetic lethality. PARP enzymes are involved in DNA repair, specifically in repairing single-strand DNA breaks through base excision repair. When PARP is inhibited, single-strand breaks accumulate and eventually become double-strand breaks during DNA replication. In cells with functional BRCA1 or BRCA2 genes, double-strand breaks are repaired through homologous recombination, a high-fidelity DNA repair pathway. But in cancer cells with BRCA mutations, homologous recombination is defective. These cells cannot repair double-strand breaks, leading to cell death. The synthetic lethality concept means that either PARP inhibition alone or BRCA mutation alone is tolerable to the cell, but the combination is lethal. This makes rucaparib selectively toxic to cancer cells with BRCA mutations while sparing normal cells.

The API development is significant because rucaparib represents a newer class of oncology drugs (PARP inhibitors) that few generic API manufacturers in India have developed. The molecule contains a tricyclic indole core with a specific substitution pattern that requires

multi-step synthesis. The presence of a chiral centre and specific stereochemistry adds complexity. Being early in developing this API positions Beta Drugs to capture demand as rucaparib's patent expires and generic formulation demand grows.

The addressable market is focused but growing. Ovarian cancer is the third most common gynaecological cancer in India, and approximately 15-20% of ovarian cancer patients carry BRCA mutations. As genetic testing becomes more accessible in India and emerging markets, more patients are being identified as candidates for PARP inhibitor therapy, expanding the addressable population.

Additional API development pipeline

Beyond the five named molecules, the company developed 10 new API products in FY23. These span solid tumour, haematology, and supportive care therapy areas. The specific molecules have not been individually named in company disclosures, but the development of 10 new APIs in a single year indicates a significant ramp-up in API R&D capability, supported by the new laboratory at Adley Lab India.

The company's API development capability covers three categories: solid tumour APIs (such as cabozantinib, afatinib, pazopanib, and rucaparib), haematology APIs (such as carfilzomib), and supportive care APIs. This breadth matters because it allows the company to backward integrate across its entire formulation portfolio rather than relying on a single therapy area.

R&D infrastructure and EU GMP ambitions

The new R&D laboratory at Adley Lab India is designed to expand the API product offering. This lab handles process development - the work of figuring out how to synthesise a molecule at commercial scale, optimising reaction conditions, yields, and impurity profiles. Process development is the bottleneck in API launches because a molecule can be chemically known but still take months or years to manufacture reproducibly at scale with acceptable purity.

The company has added one new API line specifically to focus on the EU GMP audit. EU GMP certification would allow the company to file CEPs (Certificates of Suitability to the European Pharmacopoeia) for its APIs, which are required to sell APIs to European formulation manufacturers. The CEP pathway is faster and less expensive than individual country registrations because a single CEP is recognised across European Pharmacopoeia member states. This would open a significantly higher-value market than the semi-regulated markets where the company currently exports APIs.

The company is also planning to export API products to 12 countries, expanding from its current base of domestic consumption and semi-regulated market exports.

Regulatory filings and export certifications

PIC/S accreditation and Latin American approvals

All three of the company's formulation facilities hold PIC/S accreditation. PIC/S (Pharmaceutical Inspection Co-operation Scheme) is an international framework that harmonises GMP inspection standards across member regulatory authorities. PIC/S membership includes over 50 regulatory authorities, including those in Latin America, South Africa, North Africa, the Middle East, and the Asia Pacific. When a facility holds PIC/S accreditation, it means the manufacturing practices meet a benchmark that many member countries accept without requiring their own separate audit.

In March 2023, the company received approval from INVIMA (Colombia's food and drug regulatory agency). In April 2023, it received approval from INVISA (Brazil's health surveillance agency). These two approvals are particularly significant because Brazil and Colombia are among the largest pharmaceutical markets in Latin America. Brazil is the largest pharmaceutical market in Latin America, and INVISA approval is known for its rigorous inspection process.

The combination of PIC/S accreditation and INVIMA/INVISA approvals positions the company to file product dossiers across Latin America, South Africa, North Africa, the Middle East, and the Asia Pacific. Each market requires its own product registration, but the facility approval is the prerequisite - without an approved manufacturing site, product dossiers cannot be filed.

Dossier filing position by geography

The company's regulatory filing pipeline is structured across four geographic clusters. The filing position as of FY23:

GEOGRAPHY	DOSSIERS FILED	PRODUCTS REGISTERED	PLANNING TO FILE
Latin America	23	41	86
Middle East and Africa	44	30	127
Asia	8	55	134
CIS	2	20	10

The company filed 77 dossiers in FY23 and plans to file more than 150 dossiers across these geographies going forward. In total, 146 products are registered and 357 are in the planning-to-file stage.

The Middle East and Africa cluster has the highest number of dossiers filed (44) but fewer registered products (30), suggesting recent filing activity that is still working through regulatory review. The Asia cluster has the highest number of planning-to-file dossiers (134),

indicating the largest future pipeline. Latin America has a balanced position with 23 filed, 41 registered, and 86 planned.

The CIS (Commonwealth of Independent States) cluster is the smallest, with 2 dossiers filed, 20 registered, and 10 planned. This reflects the earlier stage of market development in this region for the company.

Eurasian Economic Union opportunity

The company has completed a pre-audit for the Eurasian Economic Union (EAEU) and expects a full audit in FY24. The EAEU includes Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. EAEU certification would widen export opportunities in this region, which has historically been a significant market for Indian pharmaceutical exports.

The EAEU regulatory framework is still evolving, with the union moving from individual country registrations to a unified EAEU-wide procedure. Being early in this process could give the company a first-mover advantage as the unified system takes hold.

> *"The management expects a Eurasian Economic Union (EAEU) audit, which will widen export opportunities in this region."*
>
> MANAGEMENT COMMENTARY

Formulations portfolio

Portfolio architecture

The company's oncology formulation portfolio comprises over 112 SKUs and approximately 64 products. These are distributed across three therapy areas:

- **Solid tumour**: 36 products, addressing cancers of the breast, lung, testicular, brain, kidney, liver, and other organs
- **Haematology**: 18 products, addressing blood cancers including leukaemia, lymphoma, and multiple myeloma
- **Supportive care**: 10 products, addressing side effects of cancer treatment including nausea, neutropenia, bone health, and pain

Approximately 60% of the portfolio consists of injectable products, with the remainder in oral solid dosage forms. This mix is significant because injectables carry higher manufacturing complexity, higher regulatory barriers, and superior margins compared to oral solids. The injectable focus also aligns with oncology treatment patterns, where many chemotherapy regimens are administered intravenously in hospital settings.

The portfolio has been built through a first-to-launch (FTL) and first-few-to-launch (FFTL) strategy. In the last four years, the company has launched more than 20 products. The pace

of FTL/FFTL launches has accelerated: 2 products in FY21, 7 in FY22, and 13 in FY23. This acceleration reflects the company's growing development capability and its expanding regulatory infrastructure.

The branded formulation business contributed approximately 30% of revenue in FY23, up from 25% in FY19. This shift in revenue mix toward branded products is deliberate because branded formulations carry higher margins than contract manufacturing. The growth has been driven by continuous product launches, particularly FTL and FFTL products that face limited competition in their initial period on the market.

The pipeline includes 23 products (including 5 new drug delivery systems or NDDS) to be launched over the next four years. The company plans to launch 5 products each in FY24 and FY25, and 7 products in FY26, including 4-5 NDDS products.

Solid tumour franchise

The solid tumour portfolio is the largest segment with 36 products. It covers major cancer types including breast, lung, testicular, and brain tumours. This franchise benefits from the company's API backward integration in molecules like cabozantinib (renal cell carcinoma, hepatocellular carcinoma), afatinib (non-small cell lung cancer), pazopanib (renal cell carcinoma, soft tissue sarcoma), and rucaparib (ovarian cancer).

The solid tumour segment is where the company's FTL/FFTL strategy has been most visible. Being first to launch a generic oncology product in the Indian market gives the company a window of limited competition before other generic manufacturers enter. During this window, the company can establish its brand with oncologists and build prescription habits that persist even after competitors arrive.

The company's solid tumour products span multiple dosage forms. Injectable chemotherapy agents (such as taxanes, platinum compounds, and anthracyclines) are administered in hospital settings under oncologist supervision. Oral targeted therapies (such as the tyrosine kinase inhibitors developed from in-house APIs) are taken by patients at home, requiring different packaging, patient support, and distribution channels.

The addressable market for solid tumour products in India is driven by rising cancer incidence. Breast, oral, gastric, and cervical cancers are among the most prevalent in India. Lung cancer is the most common cancer in Indian males, with one in 68 males diagnosed between ages zero and 74. Breast cancer affects one in 29 females in the same age range. The company's products target these high-incidence cancers.

Haematology franchise

The haematology portfolio comprises 18 products targeting blood cancers. This includes products for multiple myeloma (supported by the in-house carfilzomib API), leukaemia, and

lymphoma. Haematology products are predominantly injectable, reflecting the hospital-based administration of most blood cancer treatments.

The haematology segment has seen significant innovation in recent years, with new targeted therapies and immunotherapies entering the market. The company's API development in carfilzomib positions it in the proteasome inhibitor class, which is a cornerstone of multiple myeloma treatment. Other haematology products in the portfolio likely include generic versions of established chemotherapy agents used in leukaemia and lymphoma regimens.

The addressable market for haematology products is growing as diagnosis rates improve and treatment protocols expand. Multiple myeloma, leukaemia, and lymphoma collectively represent a significant portion of the oncology market in India, and the introduction of affordable generics has expanded access to treatment.

Supportive care franchise

The supportive care portfolio includes 10 products that address the side effects and complications of cancer treatment. These products are essential to oncology practice because they enable patients to tolerate and complete their chemotherapy regimens. Without effective supportive care, dose reductions and treatment discontinuations compromise outcomes.

Supportive care products typically include antiemetics (to control nausea and vomiting from chemotherapy), colony-stimulating factors (to treat neutropenia, a dangerous drop in white blood cells), bone-modifying agents (to treat bone metastases and hypercalcaemia), and pain management medications. These products are used across all cancer types rather than being tumour-specific, which gives them a broad prescriber base.

The supportive care segment is strategically important because it creates relationships with oncologists beyond the specific tumour types they treat. An oncologist who prescribes the company's supportive care products across multiple cancer types is more likely to consider the company's solid tumour and haematology products as well. This cross-franchise effect makes the supportive care portfolio a customer acquisition tool, not just a revenue stream.

New drug delivery systems (NDDS) pipeline

The company has identified NDDS as a key differentiator. Five NDDS products are in the pipeline, with 4-5 targeted for launch in FY26. NDDS in oncology refers to formulations that use novel delivery mechanisms to improve on conventional dosage forms. These can include liposomal formulations (which encapsulate the drug in lipid vesicles to alter distribution and reduce toxicity), transdermal patches (which provide controlled drug release through the skin), oral dispersible films (which dissolve on the tongue without water, useful for patients with difficulty swallowing), ready-to-use injectables (which eliminate the need for

reconstitution), and sustained-release formulations (which maintain therapeutic drug levels over extended periods).

The advantage of NDDS products is that they face lower generic competition because the delivery technology itself is protected, even when the underlying molecule is off-patent. A conventional generic tablet of a molecule faces competition from every other manufacturer who can make the same tablet. A liposomal injection of the same molecule faces competition only from manufacturers who have mastered the liposomal technology, which is a much smaller set.

NDDS products also command premium pricing because they offer clinical benefits. A liposomal formulation of a chemotherapy drug, for example, can reduce systemic toxicity by altering the drug's distribution in the body, allowing higher doses to be administered safely. This clinical benefit supports premium pricing and prescriber preference.

The company's investment in lyophilised injection capacity (expanded 2.5x at Baddi Plant 1 and 1.2x at Adley Formulations) supports the NDDS pipeline because several NDDS approaches in oncology involve lyophilised formulations that require specialised freeze-drying capability.

First-to-launch and first-few-to-launch strategy

The FTL/FFTL strategy is the engine of the branded formulations business. When a patent expires on an oncology drug, the first generic manufacturer to launch in the market captures disproportionate market share because oncologists, once they start prescribing a brand, tend to continue unless there is a compelling reason to switch. This prescription inertia means that the first mover establishes a brand that can persist even after competitors enter.

The company has accelerated its FTL/FFTL launches: 2 products in FY21, 7 in FY22, and 13 in FY23. This acceleration reflects several factors. First, the company's expanding API portfolio gives it earlier access to the active ingredients needed for formulation development. Second, its regulatory infrastructure (PIC/S, INVIMA, INVISA) enables faster dossier filing. Third, its manufacturing capacity expansion (particularly in injectables and lyophilised products) removes production bottlenecks.

The pipeline of 23 products over the next four years, including 5 NDDS products, indicates that the company expects to maintain or accelerate its launch pace. The plan to launch 5 products each in FY24 and FY25, and 7 in FY26 (including 4-5 NDDS), suggests that the NDDS products will cluster in FY26 as the earlier launches build the revenue base.

Beyond product launches, the company aims to expand its prescriber base. The number of doctors prescribing the company's products directly drives branded formulation revenue, and each new product launch gives the company's medical representatives a new reason to visit oncologists and build relationships.

Recapro

Recapro is a topical hair growth serum, the company's first product in the dermatology and cosmetology segment. It was launched in FY23 as part of the company's foray beyond oncology into the broader specialty pharmaceutical market.

The product addresses hair loss, which is a common concern across both male and female patients. The dermatology market in India has a total size of approximately INR14,000cr and is expected to grow at 15% annually in the near-to-medium term. Hair growth treatments represent a significant segment within this market, driven by increasing awareness, rising disposable incomes, and growing acceptance of medical interventions for cosmetic concerns.

The advantage of Recapro lies in the company's ability to leverage its existing pharmaceutical infrastructure - regulatory expertise, quality systems, and medical representative network - to enter a market adjacent to its core oncology business. While the product itself is a topical serum in a competitive hair growth market, the company's pharmaceutical credibility gives it a positioning advantage over purely cosmetic brands. Doctors are more likely to recommend a product from a pharmaceutical company with established quality systems than from a consumer brand with no manufacturing pedigree.

Within the first six months of launch, the company added more than 700 prescribers. This rapid adoption indicates that the product found traction with dermatologists, a prescriber base the company had no prior relationship with. The dermatology division has a 56-member team dedicated to this segment.

Within the first six months of launch, the company added more than 700 prescribers. The dermatology division incurred an operating loss of INR2.04cr in FY23, but it became EBITDA positive in FY26. By H1 FY27, PCPM had risen 30% to an average of INR2.5 lakh, Beta had registered a high-end European cosmetics product, and the first consignment is in transit.

The commercialization model is direct: the company markets Recapro under its own brand through its dedicated dermatology field force. There is no external commercialization partner. The division has 12 products in total, with plans to expand the product offering going forward.

Dermatology and cosmetology division

The dermatology and cosmetology division represents the company's first step outside oncology. Launched in FY23, the division generated revenue in its first year and has been expanding its product range and prescriber base.

The division has 12 products and a 56-member team. Beyond Recapro, the specific products in the dermatology portfolio have not been individually named in company disclosures. The

company added more than 700 prescribers within the first six months of launch, which is a meaningful achievement in a segment where the company had no prior presence.

The strategic logic for entering dermatology is twofold. First, the dermatology market in India is large (approximately INR14,000cr) and growing faster than the overall pharmaceutical market, driven by rising awareness of skin conditions, increasing disposable incomes, and growing acceptance of cosmetic treatments. Second, dermatology shares distribution channels with oncology - both require specialist doctors (dermatologists and oncologists) who prescribe branded products. The company can leverage its existing field force infrastructure and distribution relationships to enter dermatology without building an entirely new commercial platform.

The division currently outsources manufacturing to third-party contract manufacturers. This is a common approach for pharmaceutical companies entering a new therapy area before committing capital to a dedicated facility. The company plans to set up its own dermatology plant at an estimated capex of INR20cr once the segment achieves satisfactory scale and profitability. This planned backward integration mirrors the strategy the company executed in oncology, where it built API capability to support its formulation business.

> *"The dermatology/cosmetology segment is expected to break even in H2FY24."*
>
> **MANAGEMENT COMMENTARY**

The break-even expectation was subsequently met: derma was EBITDA positive in FY26. The next test is scale and margin. H1 FY27 PCPM averaged INR2.5 lakh, up 30%, and the first high-end European cosmetics consignment is in transit; licensed derma products are due for launch in December 2026. Management aims to build derma into a larger brand over two to three years.

Contract development and manufacturing organisation (CDMO) segment

The CDMO business is the single largest revenue contributor at approximately 48% of the total in FY23. It has grown at a 20% CAGR over FY19-23, driven by repeat orders from existing clients and incremental customer additions. The segment manufactures oncology products on a contract basis for more than 50 pharmaceutical companies, ranging from large Indian generics manufacturers to specialty oncology firms.

The structural advantage Beta Drugs brings to CDMO is specialised cytotoxic manufacturing infrastructure. Oncology contract manufacturing is not the same as standard pharmaceutical contract manufacturing. Cytotoxic compounds require segregated production areas with dedicated air handling systems, negative pressure zones to prevent powder escape, personal protective equipment protocols for operators, and specialised waste management. A standard formulation plant cannot simply add oncology production lines. The investment

barrier and regulatory complexity of cytotoxic manufacturing create a natural moat that limits the pool of qualified contract manufacturers.

The company's three facilities - two in Baddi and one in Mohali - along with the Adley Formulations subsidiary, give it dedicated capacity for oral solid doses, liquid injectables, hard gelatin capsules, and lyophilised injectables. This breadth matters because CDMO clients typically need multiple dosage forms for a single molecule. A client launching a new oncology product may need tablets for one indication, injectables for another, and lyophilised formulations for a stability-sensitive compound. Being able to manufacture all three under one contract simplifies the client's supply chain and quality management.

The CDMO business model is built on long-term relationships rather than transactional orders. The company has retained its CMO partners and secured repeat orders from most of them. This retention rate is significant because switching costs in oncology contract manufacturing are high. A client who has validated a manufacturing process at a specific facility faces regulatory revalidation costs, bioequivalence study costs, and supply disruption risks when switching to a new manufacturer. These switching costs create revenue stickiness that transactional contract manufacturing does not have.

The top 10 clients account for approximately 50% of revenue. This concentration is a double-edged sword. On one hand, it indicates deep relationships with large, stable clients who provide predictable order volumes. On the other hand, the loss of a major client could materially impact revenue. The company has been adding new customers to diversify this base, including a new client added in FY24.

The CDMO segment's growth trajectory reflects a broader industry trend. Indian pharmaceutical companies that sell oncology products but lack cytotoxic manufacturing infrastructure are increasingly outsourcing production to specialised manufacturers rather than building their own facilities. This trend is driven by the high capital cost of cytotoxic facilities, the regulatory burden of maintaining them, and the growing complexity of oncology products that require specialised capabilities like lyophilisation.

CDMO customer relationships and contract structures

The company's CDMO client list reads as a who's who of Indian pharmaceutical companies with oncology franchises. Each relationship has its own dynamics, though the company does not publicly disclose specific contract terms, milestone payments, or royalty structures for individual clients. The contracts are structured as fee-for-service manufacturing arrangements where Beta Drugs develops and manufactures oncology products to the client's specifications, and the client markets and distributes the finished product under its own brand name.

Hetero Drugs

Hetero Drugs is one of the largest generic pharmaceutical companies in India with a significant oncology franchise. The company manufactures oncology products for Hetero on a contract basis. Hetero's oncology portfolio spans multiple therapy areas and dosage forms, and the contract likely involves both oral solid doses and injectables given Hetero's broad product range. The relationship is significant because Hetero has its own manufacturing infrastructure but chooses to outsource certain cytotoxic products, suggesting that Beta Drugs offers either capacity, capability, or cost advantages that Hetero's internal facilities cannot match.

Cadila Pharmaceuticals

Cadila Pharmaceuticals (distinct from Zydus Cadila/Cadila Healthcare) is a privately held pharmaceutical company with a presence across multiple therapy areas. The contract manufacturing relationship involves oncology products manufactured to Cadila's specifications. Cadila's decision to outsource oncology production rather than manufacture in-house likely reflects the specialised nature of cytotoxic manufacturing and the regulatory complexity of maintaining dedicated oncology lines.

Alkem Laboratories

Alkem Laboratories is a top-10 Indian pharmaceutical company by revenue with a growing oncology presence. The contract involves manufacturing oncology formulations that Alkem markets under its own brands. Alkem's oncology strategy has been expanding, and having a reliable cytotoxic manufacturing partner allows it to grow its oncology franchise without committing capital to building its own cytotoxic facility. The relationship gives Beta Drugs predictable volume from a large, growing client.

Shilpa Medicare

Shilpa Medicare is itself an oncology-focused company, which makes this relationship particularly interesting. Shilpa Medicare has its own manufacturing infrastructure for oncology APIs and formulations, yet it outsources certain products to Beta Drugs. This suggests that either Shilpa's internal capacity is insufficient for its product range, or that specific products require manufacturing capabilities (such as lyophilised injectables) that are more efficiently outsourced. The fact that a fellow oncology specialist chooses Beta Drugs as a manufacturing partner is a validation of the company's technical capability.

RPG Life Sciences

RPG Life Sciences has a pharmaceutical portfolio that includes oncology products. The contract manufacturing arrangement involves producing oncology formulations for RPG's branded portfolio. RPG's outsourcing decision reflects the same dynamic as other clients: the cost and complexity of maintaining dedicated cytotoxic manufacturing infrastructure is

justified only at sufficient scale, and outsourcing to a specialist is more economical for certain products.

Glenmark Pharmaceuticals

Glenmark Pharmaceuticals is a global pharmaceutical company with a significant Indian presence. The contract involves manufacturing oncology products that Glenmark markets under its brand. Glenmark's oncology portfolio has been growing, and the outsourcing relationship allows it to expand its product range without proportional capital investment in manufacturing. Glenmark is listed as one of the marquee CDMO clients, indicating a relationship of significant volume.

Intas Pharmaceuticals

Intas Pharmaceuticals is one of the largest privately held pharmaceutical companies in India and has a substantial oncology franchise marketed under the Intas and Accrete brands. Intas is listed as a marquee CDMO client, suggesting a relationship of meaningful scale. Intas's oncology portfolio includes both generic chemotherapy agents and newer targeted therapies, and the contract likely spans multiple products and dosage forms. The relationship with a client of Intas's scale provides significant volume and validates Beta Drugs' manufacturing quality standards, since Intas maintains rigorous supplier qualification processes.

Reliance Life Sciences

Reliance Life Sciences is part of the Reliance group and has a presence in biosimilars, oncology, and other specialty areas. The company is listed as a marquee CDMO client. The contract involves manufacturing oncology products for Reliance Life Sciences' portfolio. This relationship is notable because Reliance Life Sciences has its own manufacturing infrastructure, including oncology capabilities, yet chooses to outsource certain products. This suggests that Beta Drugs offers specific capabilities or capacity that Reliance's internal facilities cannot efficiently provide.

Contract structure observations

The CDMO contracts follow a standard pharmaceutical contract manufacturing model. Beta Drugs is responsible for manufacturing the product to the client's specifications, maintaining GMP compliance, and delivering finished product that meets agreed quality parameters. The client is responsible for providing the product formula (or collaborating on process development), registering the product with regulatory authorities, and marketing and distributing the finished product.

The company does not publicly disclose specific pricing terms, volume commitments, or duration of individual contracts. However, the high rate of client retention and repeat orders suggests that contracts are typically multi-year arrangements with rolling volume

commitments rather than one-time transactional orders. The switching costs inherent in oncology contract manufacturing - process validation, regulatory filings tied to specific manufacturing sites, and quality consistency requirements - create a natural lock-in that extends relationships beyond formal contract terms.

No milestone payments or royalty structures are disclosed for the CDMO relationships. The revenue model appears to be straightforward fee-for-service manufacturing, where the company earns revenue per unit manufactured rather than earning royalties on the client's sales. This means CDMO revenue is driven by manufacturing volume rather than the commercial success of the client's products, which reduces commercial risk but also limits upside if a client's product becomes a blockbuster.

Competitive landscape

Domestic oncology formulations

The domestic oncology formulations market is fragmented but has a defined set of specialised players. The competitive structure differs from general pharmaceuticals because cytotoxic manufacturing barriers filter out the long tail of small-scale formulators that populate other therapy areas. Only companies with dedicated oncology manufacturing infrastructure and regulatory expertise can participate meaningfully.

Shilpa Medicare is the most direct competitor. Shilpa is an oncology-focused company with APIs, formulations, and contract manufacturing. It has a broader API portfolio and a longer track record in novel drug delivery systems, particularly liposomal formulations. Shilpa's revenue base is larger, and it has invested in biosimilars and novel oncology products that Beta Drugs has not yet entered. However, Shilpa's recent financial performance has been weaker, with negative return on equity, suggesting operational challenges that may have created space for competitors to gain share. Beta Drugs competes with Shilpa on FTL/FFTL launches, CDMO contracts, and hospital tenders. The advantage Beta Drugs holds is its more focused cost structure and its backward integration into APIs that Shilpa may not have for certain molecules.

Intas Pharmaceuticals (through its oncology division) competes in branded formulations but is also a CDMO client. This dual relationship is common in Indian oncology: companies compete in some products while outsourcing others. Intas has a larger field force and broader product portfolio, but Beta Drugs can compete on specific molecules where it has FTL advantage or API backward integration.

Natco Pharma is a significant player in oncology generics with strengths in targeted therapies and complex generics. Natco's API development capability and its track record of patent challenges give it a different competitive profile. Beta Drugs does not compete head-

to-head with Natco on patent challenge strategies but may compete on subsequent generic launches.

Cipla and **Sun Pharmaceutical** have oncology franchises but are not primarily oncology-focused. Their scale advantages in distribution and field force give them reach, but their oncology manufacturing depth is less than specialist players. Beta Drugs competes with these larger players on specific products where its specialised manufacturing and FTL timing create advantage.

The competitive dynamic in domestic oncology is shaped by the FTL/FFTL strategy. The first mover in a generic oncology launch typically captures 30-40% of the generic market before competitors erode share through pricing. This means the competitive landscape is not static - it shifts with each product launch cycle. Companies that consistently launch first build brand equity with oncologists that persists across products.

CDMO segment

In the CDMO segment, the competitive set is narrower because cytotoxic manufacturing capability is the entry barrier. The main competitors are companies with dedicated oncology manufacturing infrastructure.

Shilpa Medicare competes in CDMO from the other side - it is both a client and a competitor. Shilpa's own CDMO offering overlaps with Beta Drugs for clients seeking cytotoxic manufacturing. The competition here is based on capacity availability, quality track record, and pricing.

Sai Life Sciences and **Syngene International** are larger CDMO players but are not exclusively oncology-focused. They compete for oncology CDMO contracts where their broader capabilities and scale are advantageous, but they may lack the specialised cytotoxic focus that oncology-only clients prefer.

Veeva Labs and other niche oncology CDMO players compete on specific dosage forms or molecules. The competitive dynamic is fragmented, with different manufacturers holding expertise in different product types.

Beta Drugs wins CDMO business through its specialised infrastructure, its regulatory approvals (PIC/S, INVIMA, INVISA), and its track record of client retention. It loses when clients need capabilities it does not have - such as biosimilar manufacturing, sterile fill-finish for biologics, or large-scale API synthesis beyond its current reactor capacity. The company's expansion of lyophilised and injectable capacity directly addresses the areas where it was previously capacity-constrained.

API segment

In the API segment, the competitive landscape varies by molecule. For older, established oncology APIs (such as generic chemotherapy agents), the market is commoditised with multiple Indian and Chinese manufacturers competing on price. Beta Drugs does not compete primarily in this space.

For newer, complex APIs like carfilzomib, cabozantinib, afatinib, pazopanib, and rucaparib, the competitive set is narrow. Few Indian API manufacturers have developed these molecules. Chinese API manufacturers are present but face increasing quality scrutiny from Indian and global regulators. The company's position as one of the few developers of these specific molecules gives it a window of limited competition, particularly in the domestic market where Indian formulators prefer domestic API suppliers for supply security and regulatory simplicity.

The CEP (European) market entry would place Beta Drugs in competition with European and Chinese API manufacturers. European API manufacturers carry higher cost structures but benefit from geographic proximity to European formulators and established regulatory trust. Chinese manufacturers compete on price but face quality perception challenges. Beta Drugs would compete on the combination of cost advantage over European manufacturers and quality/regulatory trust advantage over Chinese manufacturers.

Dermatology segment

The dermatology segment is a new and small part of the business, and the competitive landscape is entirely different from oncology. The Indian dermatology market is large at approximately INR14,000cr and growing at 15% annually, but it is highly competitive with established players.

Sun Pharmaceutical (through its acquisition of Ranbaxy's dermatology portfolio and Galderma's brands in India) is a dominant player. **Alkem Laboratories** has a growing dermatology franchise. **Eris Lifesciences** has built a focused dermatology portfolio. **Cipla** has a significant presence in dermatology through its consumer health division. **Mankind Pharma** competes aggressively on price in mass-market dermatology.

Beta Drugs enters this market with no prior dermatology presence, a 56-member team, and 12 products. The company cannot compete on scale or field force size against these established players. Its advantage is pharmaceutical credibility - as a company with GMP-certified manufacturing and regulatory approvals, it can position its products as medically credible alternatives to consumer brands. The initial traction of 700+ prescribers in six months suggests this positioning resonates with dermatologists, but sustained growth will require continued product launches and field force expansion.

Industry context and demand drivers

Global oncology market

Global spending on cancer medicines reached USD185bn in 2021 and is expected to cross USD300bn by 2026. This growth is driven by three forces: continued innovation in cancer therapeutics (including targeted therapies, immunotherapies, and cell therapies), patent expiries that open markets to generic competition, and rising incidence of cancer globally.

The patent expiry dynamic is particularly relevant for a generic oncology company. As patented oncology drugs lose exclusivity, the generic market for those molecules opens up. The pace of patent expiries in oncology has been accelerating, with several major targeted therapies facing patent cliffs in the 2020s. Each patent expiry creates a new generic market that companies like Beta Drugs can enter through FTL/FFTL launches.

Pharmerging markets - which include developing countries with growing pharmaceutical demand - accounted for USD25bn in oncology spending in 2021, representing approximately 14% of total global spending. Pharmerging markets are expected to be the fastest-growing geography, with 11.8% CAGR over FY22-26. This growth is driven by improving healthcare infrastructure, rising diagnosis rates, increasing insurance coverage, and growing government commitment to cancer treatment.

Indian cancer incidence and demand drivers

Cancer cases in India were estimated at 13.9 lakh in 2020 (National Cancer Registry Programme Report 2020, published by ICMR and the National Centre for Disease Informatics and Research) and are projected to increase to 15.7 lakh by 2025. Cases are pegged to touch 20 lakh by 2040, up from about 11.6 lakh in 2018.

India ranks third globally in new yearly cancer incidence, after China and the United States. India's cancer incidence is growing at an estimated 6.8% CAGR (2015-20), which is significantly higher than other developing countries with comparable population sizes. China's cancer incidence is growing at 1.3%, Brazil at 4.5%, and Indonesia at 4.8%. Even developed countries like the UK are growing at 4.4%, well below India's rate.

This elevated growth rate is driven by several factors. Tobacco use remains the leading cause of cancer in India, contributing to oral, lung, and throat cancers. Alcohol consumption, increasing use of processed foods, and worsening air pollution are additional risk factors. An ageing population is expanding the demographic most susceptible to cancer. Growing public emphasis on screening and a narrowing diagnostic gap are leading to higher reported cancer rates - meaning some of the growth in incidence statistics reflects better detection rather than purely new cases.

Cancer is the second leading cause of death in India. Breast, prostate, oral, gastric, and cervical are the most prevalent cancers. Among males, lung, throat, stomach, and

esophageal cancers are most common. Among females, breast and cervical cancers dominate. Breast cancer has reached alarming proportions in metropolitan cities - Hyderabad, Chennai, Bengaluru, and Delhi report higher rates than other parts of the country. One in 68 males will be diagnosed with lung cancer between ages zero and 74. One in 29 females will be diagnosed with breast cancer in the same age range. One in nine Indians will be diagnosed with cancer between ages zero and 74.

The real incidence of cancer is conservatively estimated to be 1.5-3x higher than the reported incidence from cancer registries, because many cases in rural areas go undiagnosed or unreported. This means the actual demand for oncology medicines in India is substantially higher than registry data suggests.

India's position in the global oncology supply chain

India plays a dual role in the global oncology supply chain. As a demand market, India is one of the fastest-growing oncology markets due to rising incidence and improving access. As a supply market, India is a major producer of generic oncology medicines and APIs, supplying both domestic and international markets.

The import substitution dynamic is relevant for the API business. Historically, Indian formulators have relied on Chinese API imports for many oncology molecules. The COVID-19 pandemic exposed the supply chain risk of this dependency, and the Indian government has been incentivising domestic API production through production-linked incentive (PLI) schemes. Companies like Beta Drugs that develop APIs in-house are positioned to benefit from this import substitution trend, both through government incentives and through the preference of domestic formulators for Indian API suppliers.

Dermatology market context

The Indian dermatology market has a total size of approximately INR14,000cr and is expected to grow at 15% CAGR in the near-to-medium term. This growth is driven by rising awareness of skin conditions, increasing disposable incomes, growing acceptance of cosmetic and aesthetic treatments, and expanding access to dermatologists in tier-2 and tier-3 cities.

The dermatology market is less regulated than oncology in terms of manufacturing complexity - most dermatology products are topical formulations (creams, ointments, serums) that do not require the specialised containment infrastructure of cytotoxic manufacturing. This lower barrier to entry means the market is more competitive, but it also means the capital required to enter is lower, which is why Beta Drugs has been able to enter through outsourced manufacturing before committing to its own facility.

Regulation and cyclicality

Oncology pharmaceuticals are less cyclical than most industries because cancer treatment is not discretionary. Patients do not defer chemotherapy during economic downturns. This gives the oncology market a defensive quality that is absent from many other pharmaceutical segments.

The regulatory environment is a continuous factor. Manufacturing facilities must maintain GMP compliance and pass periodic inspections by domestic and international regulators. Product registrations must be maintained and renewed. New product launches require regulatory filings that can take months or years to clear, depending on the country. The regulatory timeline is a key variable in the company's growth trajectory - delays in dossier approvals or facility audits directly push back revenue recognition.

Growth triggers

Branded product launches

In FY27, Beta launched four new products and planned six more. The own-brand target is INR150cr for FY27, with branded oncology guided at 20-22% growth. H1 own-brand growth was 17% and Q2 was flat after a temporary shutdown shifted INR6-7cr of sales into H2.

The launch cadence has been accelerating: 2 FTL/FFTL products in FY21, 7 in FY22, and 13 in FY23. If the company maintains this pace, the branded portfolio should continue growing at a rate significantly above the overall oncology market. Each FTL product creates a brand that generates revenue for years, meaning the cumulative effect of successive launches compounds over time.

The NDDS products are particularly important because they face lower generic competition and command premium pricing. The 4-5 NDDS products targeted for FY26 represent a step-change in the company's portfolio sophistication, moving from conventional generics to differentiated formulations.

Export expansion to Latin America and Africa

Exports are now guided at INR90-100cr for FY27, not the earlier 50% growth target, and management sees about INR300cr of export revenue over three to four years at a roughly 30% CAGR. The business remains tender-driven. Beta had 872 registrations in the pipeline for the next two to three years and expected about 50 new registrations in FY27.

The dossier filing pipeline supports this timeline. With 77 dossiers filed in FY23 and more than 150 planned, the company is building the regulatory infrastructure needed to convert facility approvals into product registrations. The geographic spread - Latin America, Middle East and Africa, Asia, and CIS - diversifies export revenue across multiple markets with different regulatory timelines and demand profiles.

The EAEU audit, expected in FY24, would add another geographic cluster. Pre-audit has been completed, suggesting the company's facilities are already at or near EAEU standards. EAEU certification would enable presence in Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan - markets that have historically been significant destinations for Indian pharmaceutical exports.

API business expansion

The API business is at an inflection point. The company has developed niche molecules (carfilzomib, cabozantinib, afatinib, pazopanib, rucaparib) and 10 new products in FY23. It is targeting CEP (Europe) markets and has added a new API line focused on the EU GMP audit. It is planning to export API products to 12 countries.

The CEP market entry would be transformative for the API segment. European API buyers pay higher prices than semi-regulated market buyers, and the CEP pathway provides regulatory access across European Pharmacopoeia member states through a single filing. The EU GMP audit is the gating milestone - without it, CEP filings cannot proceed.

The intermediates and KSM plant is targeted live by January 2027. On the Q2 FY27 call an analyst cited about INR9cr for the existing plant and INR15-17cr of building and machinery investment; management confirmed it is the same KSM/intermediate plant. It is designed for about 20 intermediates, initially for captive API supply and potentially external sales. Machinery is largely installed, with qualifications and departmental approvals pending.

The adjacent API plant is awaiting PIC/S approval, expected in the next one to two months, which management says would open overseas API supply and support DMF and dossier work. This is separate from the January 2027 intermediates plant start.

Dermatology and cosmetology ramp-up

The dermatology division is expected to break even in H2FY24. The division has 12 products, 700+ prescribers, and a 56-member team. The market is growing at 15% annually and is large at approximately INR14,000cr.

The growth trigger here is prescriber expansion. Each additional dermatologist who prescribes the company's products adds recurring revenue. The initial traction of 700+ prescribers in six months suggests the field force is effective, but the total dermatologist population in India is several thousand, leaving significant headroom for expansion.

The planned own manufacturing facility (at an estimated INR20cr capex) would improve margins by eliminating third-party manufacturing margins and would give the company control over quality and production scheduling. The trigger for this investment is achieving satisfactory scale and profitability in the segment.

Capacity expansion

The capacity expansions executed in FY23 provide the production headroom for growth across all segments. The lyophilised injection capacity expansion of approximately 3x at Baddi, the 92% expansion in oral solid dose capacity, and the 180% expansion in injection capacity at Adley Formulations remove the production constraints that could have limited growth.

The company has been incurring an annual capex of INR18-20cr (except FY21) to gradually expand capacities. This calibrated approach - expanding ahead of demand rather than in a single large burst - balances capacity utilisation with growth headroom. The INR36cr capex over FY22-23 was funded primarily from internal accruals, indicating that the expansion is self-funded rather than debt-driven.

CDMO customer additions

The company added a new CDMO customer in FY24 and continues to scout for additional clients. With 50+ existing customers and strong retention rates, each new client adds incremental volume that leverages the existing manufacturing infrastructure. The capacity expansions create room to onboard new clients without displacing existing ones.

Key risks

Export market execution risk

Export revenue is guided at INR90-100cr in FY27 after H1 sales of INR43cr, with management pointing to about INR300cr over three to four years at a roughly 30% CAGR. An analyst said export growth guidance had been reduced to 30% from 50%; management said it had not guided 30% and preferred to under-promise. The path is tender-driven and depends on registrations converting. Platin API availability also constrains how much volume Beta can supply.

The execution risk is multi-dimensional. First, regulatory timelines can slip. Dossier approvals in target markets may take longer than expected, delaying product launches. Second, commercial execution requires building distributor relationships in each country, negotiating pricing, and establishing supply chains. Third, currency risk is inherent in export revenue - fluctuations in the rupee against the dollar, real, or peso affect realisations. Fourth, competition in target markets may be more intense than expected, particularly from Chinese manufacturers who have been expanding their presence in Latin America and Africa.

If export revenue does not ramp as expected, the company's growth trajectory would slow because exports are a significant component of the projected growth.

Dermatology segment losses

The dermatology segment incurred an operating loss of INR2.04cr in FY23. The segment is small (approximately 1% of revenue) and currently outsources manufacturing, which means it carries third-party manufacturing costs that erode margins. Break-even is expected by H2FY24, but this depends on sales ramp-up and prescriber expansion.

Derma is no longer loss-making: it was EBITDA positive in FY26, and H1 FY27 PCPM averaged INR2.5 lakh. The risk has shifted to scale and margin execution. Management targets INR50cr of derma revenue over three years and 12-14% EBITDA at INR50-60cr sales, while the segment remains small and competes with larger dermatology field forces.

Competitive intensity in oncology generics

The domestic oncology market has multiple players, and pricing pressure could erode margins if the FTL/FFTL advantage is not sustained. The FTL window - the period between the first generic launch and the entry of subsequent competitors - is narrowing as more companies develop oncology formulation capabilities. If competitors launch faster, the FTL advantage shrinks, and the company must compete on price sooner than expected.

The risk is particularly relevant for non-NDDS products. Conventional generic oncology products (tablets, standard injectables) face competition from every manufacturer with the relevant dosage form capability. The company's defence is its NDDS pipeline, which faces lower competition, and its API backward integration, which gives it a cost advantage. But if competitors also backward integrate or if NDDS technology becomes more widely available, the differentiation narrows.

Regulatory approval delays

The company's growth plan depends on several regulatory milestones: the EAEU audit (expected FY24), the EU GMP audit for the API line (timing not specified), and CEP filing for Europe (not yet initiated). Each of these has uncertain timelines.

Regulatory timing remains a live risk. The EU GMP audit, expected in the month of the Q2 FY27 call, had not occurred. Management said it could come in the next two to four months after filing four dossiers. The 872-registration export pipeline still depends on approvals converting, and any further EU delay postpones regulated-market formulation exports.

The 357 products in the planning-to-file stage represent potential revenue that depends on regulatory clearance. Any systematic delay in dossier approvals across target geographies would slow the export growth trajectory.

Customer concentration

The top 10 clients account for approximately 50% of revenue. This concentration is primarily in the CDMO segment, where a few large clients contribute disproportionate volume. The loss

of a major CDMO client - through insourcing of manufacturing, switching to a competitor, or a change in the client's product strategy - could materially impact revenue.

The risk is mitigated by the high switching costs in oncology contract manufacturing. A client that has validated a process at Beta Drugs' facilities faces regulatory revalidation costs and supply disruption risks when switching. But switching is not impossible, particularly if a client builds its own cytotoxic facility or finds a competitor with lower pricing. The addition of new CDMO customers is the primary mitigation strategy, but this takes time.

Dermatology manufacturing dependency

The dermatology segment currently outsources all manufacturing to third-party contract manufacturers. This creates quality risk (the company does not directly control the manufacturing process), supply risk (the contract manufacturer's capacity and scheduling are not fully within the company's control), and margin risk (third-party manufacturing margins erode the segment's profitability).

The planned own manufacturing facility (at an estimated INR20cr capex) would address these risks, but this investment is contingent on the segment achieving satisfactory scale and profitability. If the segment does not reach the required scale, the company remains dependent on third-party manufacturers, which limits margin improvement and creates ongoing quality and supply vulnerabilities.

Closing synthesis

Beta Drugs occupies a specific niche in the Indian pharmaceutical landscape: a pure-play oncology company with backward integration into APIs, specialised cytotoxic manufacturing infrastructure, and a diversified revenue base spanning branded formulations, contract manufacturing, exports, and APIs. The company's position among the top 10 in the domestic cytotoxic market reflects nearly a decade of focused execution since the Adley group takeover in 2014.

Beta Drugs is no longer only a domestic oncology formulator. The investment case now spans branded oncology, Nivin IVF, CMO, exports and API/intermediates. H1 FY27 revenue grew 29.2%, EBITDA margin was 23.18% and PAT rose 45% to INR34cr. Management guides FY27 revenue to INR535cr plus, 20-25% growth over three to five years and 23-24% margins. Nivin grew 75% in H1, CMO is guided at INR180-190cr, and exports at INR90-100cr. Execution against these FY27 targets, the EU audit and the January 2027 intermediate plant start are the near-term tests.

The risks are real but identifiable. Export execution is the primary variable - the gap between facility approval and meaningful revenue is 12-18 months, and slippage in regulatory timelines or commercial execution would slow growth. Customer concentration in CDMO creates dependency on a small number of large clients. The dermatology segment is

unproven and faces intense competition. And the competitive landscape in oncology generics is tightening as more companies develop cytotoxic manufacturing capabilities.

The company's manufacturing capacity expansions in FY23 - the 3x lyophilisation expansion, the 92% OSD expansion, and the 180% injection expansion - provide the production headroom for the growth trajectory. The calibrated capex approach (INR18-20cr annually, funded from internal accruals) suggests disciplined capital allocation. The subsidiary structure separates formulations from APIs, enabling independent regulatory strategies for each.

The next 12-18 months will be judged on four delivery points: FY27 revenue of INR535cr plus, the H2 own-brand catch-up to INR80cr, export conversion against the reset INR90-100cr guidance, and the January 2027 start of the intermediates plant. The EU GMP audit, now expected in the next two to four months, is the longer-term gate for regulated-market exports. Nivin's 30-35% growth and margin synergy are the main acquisition test.

VALUATION SUMMARY

LINE ITEM	FY25	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	362	384	545	659	791
Revenue growth	-	+6.1%	+41.7%	+20.9%	+20.0%
EBITDA (₹ Cr)	77.00	86.90	128	158	193
EBITDA margin	21.3%	22.6%	23.6%	24.0%	24.4%
Depreciation (₹ Cr)	13.00	17.00	19.00	22.00	25.00
Interest (₹ Cr)	7.00	15.00	8.50	5.50	5.00
Other income (₹ Cr)	2.00	11.00	9.00	9.00	10.00
PBT (₹ Cr)	57.00	54.90	101	130	163
Tax (₹ Cr)	14.20	13.70	25.20	32.60	40.60
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
PAT (₹ Cr)	42.70	41.20	73.60	94.80	118
PAT growth	-	–3.7%	+78.6%	+28.9%	+24.2%
EPS (₹)	38.40	37.00	66.20	85.30	106
P/E	41.9x	43.5x	24.3x	18.9x	15.2x
PEG	1.6x	1.6x	0.9x	0.7x	0.6x

CAGR FY27E-FY29E: Revenue +20.5% · EBITDA +22.5% · PAT +26.5%

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Q2 FY27 concall notes

TLDR

Beta Drugs reported H1 FY27 revenue growth of 29.2% and PAT of ₹34 crore, up 45% from ₹24 crore, with EBITDA margin at 23.18% versus 23.08%. Own brands grew 17%, exports reached ₹43 crore, Nivin (acquired) grew 75% to ₹31 crore, CMO grew 21%, and API grew 29-30%. Management guides FY27 revenue above ₹535 crore, own-brand sales of ₹150 crore, CMO at ₹180-190 crore, and exports at ₹90-100 crore, with 20-25% growth and 23-24% margins sustained over 3-5 years. The NPPA trade margin capping is assessed as zero to negligible impact. Watch points include platin API supply constraints, a delayed EU GMP audit now expected in 2-4 months, receivable days at 116, and export growth dependent on tender timing and pending registrations.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	H1 FY27 growth 29.2%	YoY	Own brands, exports, Nivin, CMO and API all contributed
EBITDA margin	23.18%	+0.10 pp YoY (from 23.08%)	Mix shift toward higher-gross-margin businesses; includes other income (22% excluding other income)
PAT	₹34 crore	+45% YoY (from ₹24 crore)	Lower cost of debt after convertible debentures converted to equity early this year
Own brands	17% growth H1; ₹150 crore FY27 target	YoY	OSC (orals) now 50% of total business; 4 launches, 6 more planned
Exports	₹43 crore H1	vs ₹41 crore H1 FY26 (which included ₹25 crore one-off opportunity sale)	Regular territory sales rose from ₹16 crore to ₹43 crore; 35 new registrations received
Nivin	₹31 crore H1	+75% YoY (from ₹18 crore)	Corporate hospital penetration, 60% increase in prescriber base; FY26 revenue ~₹43 crore
CMO	21% growth H1; FY27 guidance ₹180-190 crore	YoY	NDDS product; 2-3 new Indian partners added
API	29-30% growth H1	YoY	New intermediate plant to add margin and supply; COFEPRIS audit done, approval expected in 1-2 months
Derma PCPM	₹2.5 lakh average	+30%	Secondary sales rising; first high-end cosmetics consignment from Europe in transit
Receivable days	116 days	vs 113 days on 31 Mar 2026	Institutional/tender payments stretching to 6 months; ₹20-25 crore of ₹150 crore branded target is institutional
Cost of debt	8-9%	Down from ~7-7.5% on convertible debentures (now converted)	Convertible debentures converted to equity early this year

SEGMENTS & GEOGRAPHIES

- **Own brands (oncology):** 17% growth in H1; Q2 was flat because a temporary plant shutdown for debottlenecking shifted ₹6-7 crore of sales to H2. H2 own-brand sales expected at ₹80 crore versus ₹62 crore in H2 FY26, taking FY27 to ~₹150 crore (over 20% growth). Branded oncology guidance held at 20-22% for the year; market growing 10-15%, so growth implies share gains.
- **Exports:** ₹43 crore in H1 against ₹41 crore in H1 FY26, but last year included a ₹25 crore single-country opportunity order; regular territory sales rose from ₹16 crore to ₹43 crore. 76 new dosages filed across geographies including 4 in Europe; 872 registrations in pipeline over 2-3 years, ~50 expected this year; 20 dosages filed in Azerbaijan with 12 registrations expected in FY27. FY27 guidance ₹90-100 crore; management sees ~₹300 crore over 3-4 years at ~30% CAGR, with tender slippage between years.
- **Nivin (IVF):** ₹31 crore H1 versus ₹18 crore, 75% growth; top 5 brands are 63% of sales; gross margin ~50%, EBITDA ~18-18.5%, expected to reach 23-25% with Beta synergies. Addressable market ₹1,500-1,800 crore. First recombinant (FSH) in discussion with a partner for Phase 3, launch in 2-3 years; recombinant entry would roughly double the addressable market. Management sees 30-35% growth over 2-3 years.
- **CMO/CDMO:** 21% growth H1; NDDS product carries higher gross margin than other CMO products. Management says no partner has been lost in 15 years of CDMO operations. FY27 guidance ₹180-190 crore.
- **API:** 29-30% growth H1; platin sales flat H1 despite higher prices because of API supply constraints. New intermediate (KSM) plant to start by January 2027; API plant to be PIC/S approved, opening overseas supply.
- **Derma:** PCPM up 30% to ₹2.5 lakh; first high-end cosmetics consignment from Europe in transit; licensed products to launch in December 2026.

STRATEGY & COMPANY-SPECIFIC

- **Intermediate/KSM plant:** Same plant previously discussed as KSM capex (existing plant bought for ~₹9 crore plus ₹15-17 crore investment). Machinery in place; qualifications and departmental approvals pending; plant to be live by January 2027. 20-odd intermediates developed for different APIs, replacing China sourcing.
- **EU GMP audit:** 4 dossiers filed for different clients; audit now expected in 2-4 months. EU auditors now require filed dossiers before inspection, a change from earlier line inspections.
- **Biosimilars:** Evaluating a capital-efficient model for manufacturing and marketing, with low upfront capital and longer gestation; strategic roadmap extends beyond 2030.
- **Overseas manufacturing:** Evaluating an oncology manufacturing footprint in focus geographies (LATAM, North Africa, Middle East, APAC); greenfield versus acquisition to be decided country by country.
- **R&D land:** Acquired land will be disposed of, not repurposed; management is waiting for a suitable price, expected in 6 months to 1 year.
- **Nivin stake:** 66% acquired; buying the remaining ~33% is open-ended, with equity used to retain the IVF team.
- **NPPA trade margin capping:** Of FY26 branded business of ₹123 crore, orals of ₹60 crore (distributor-sold) have no impact; ₹50 crore of injectables are scheduled drugs with government-set MRP; ₹13 crore of non-scheduled injectables also unaffected. Management assesses overall impact as zero or negligible and says compliance is being maintained.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Overall revenue growth	20-25% for next 3-5 years; FY27 revenue above ₹535 crore	n/a	All verticals; management called the guidance conservative
EBITDA margin	23-24% sustained; trend toward 25%	n/a	Mix shift (branded ~70% gross margin, CMO ~50%, exports 55-60%), backward integration, operating leverage
Own brands FY27	₹150 crore, over 20% growth	n/a	H2 at ₹80 crore versus ₹62 crore in H2 FY26
Branded oncology growth	20-22% for FY27	n/a	Debottlenecking complete, optimal production at both plants
Exports FY27	₹90-100 crore	n/a	Registrations and tenders; ~30% CAGR over 3-4 years, ~₹300 crore in 3-4 years
CMO FY27	₹180-190 crore	n/a	Existing partners, new Indian partners, NDDS
Nivin growth	30-35% over 2-3 years	n/a	Penetration, prescriber base, new launches in H2
Nivin EBITDA margin	23-25% with synergies (from 18-18.5%)	n/a	Beta synergy benefits
Intermediate plant commissioning	January 2027	n/a	Machinery in place, qualifications and approvals pending
EU GMP audit	Next 2-4 months	n/a	4 dossiers filed
FSH recombinant launch	2-3 years	n/a	Phase 3 discussion with a partner

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Platin API supply	Only 1-2 manufacturers in India; orders in hand but supply is 1,000-1,500 vials against 5,000 required; growth not dependent on platins; export platins can be imported on advance licence
Export tender timing	Tender-driven business; tenders can slip from one financial year to another; guidance kept low deliberately
EU audit delay	Audit has repeatedly slipped; now contingent on filed dossiers, expected in 2-4 months
Receivables	116 days versus 113; government/institutional payments can cross 6 months when budgets are not allotted; institutional business is ₹20-25 crore of the ₹150 crore branded target
Nivin concentration	Top 5 brands are 63% of Nivin sales
NPPA capping	Management sees zero or negligible impact and says it will ensure realizations are not disturbed; orals sold through distributors, most injectables are scheduled drugs
Margin definition	Reported EBITDA margin includes other income; 22% excluding it

Q&A HIGHLIGHTS

Margin drivers and the 25% target Asked what drives margins toward 23-24% and whether CMO, API and Nivin mix change the outlook, management said branded gross margins are ~70%, CMO ~50% and exports 55-60%, so mix

alone lifts EBITDA; backward integration and operating leverage add more, and called the 25% guidance conservative.

Oncology debottlenecking Asked whether the oncology supply constraints are easing, management said the debottlenecking is over with optimal production at both plants, and held branded oncology growth guidance at 20-22% for the year.

Nivin margins and growth Asked about Nivin's margin profile and FY28 growth, management said gross margin is ~50% and EBITDA 18-18.5%, rising to 23-25% with synergies, with 30-35% growth over 2-3 years supported by a ₹1,500-1,800 crore addressable market.

Platin outlook Asked whether platins will grow after a flat H1, management said supply remains constrained and it will not depend on platins for growth, but expects some growth in H2 and better realization since the government raised the MRP.

Q2 branded flatness Asked why own-brand growth was flat in Q2, management said the temporary shutdown shifted ₹6-7 crore of sales to H2, with H2 own-brand sales expected at ₹80 crore versus ₹62 crore last year.

Export guidance cut Asked why export growth guidance was reduced to 30% from 50%, management said H1 FY26 included a ₹25 crore one-off order and regular territory sales actually rose from ₹16 crore to ₹43 crore; it prefers to guide low and has 872 registrations in the pipeline.

EU GMP audit timing Asked for an update on the EU audit expected this month, management said auditors now require filed dossiers before inspection, 4 have been filed, and an audit is expected in 2-4 months.

Biosimilars and overseas manufacturing Asked for colour on the biosimilar and overseas manufacturing comments, management said it wants a capital-light biosimilar model given long gestation, and may set up manufacturing in focus geographies as localization increases, with the model decided country by country.

Entero Healthcare Solutions Limited

GROWTH TRIGGERS

Entero's bull case rests on a stronger H1 FY27 than the original FY27 guidance implied, a MedTech mix that is now about 15% of revenue, and a still-active acquisition pipeline. If H2 sustains organic growth and the 5% EBITDA margin, the company can exceed its stated FY27 guidance without a formal upgrade. The main proof points are cash conversion and MedTech margin.

1. H1 FY27 beat leaves room to exceed FY27 revenue guidance

H1 FY27 revenue grew 35% to ₹4,028 crores, with Q2 growth of 32.9% and organic growth of 18.2%. Management said H1 was ahead of internal expectations and it is comfortably positioned to deliver better than the 23% FY27 revenue guidance, though it did not give a revised number. If H2 organic growth holds, the full-year revenue base can exceed the original plan.

2. Management indicates FY27 EBITDA margin can exceed 5%

Q2 FY27 EBITDA margin was 5.3% and H1 was 5.2%, already above the 5% FY27 guidance. Management said it expects to do better than the stated guidance on both growth and margin. Margin expansion came from scale-led procurement, a higher MedTech share and deliberate exits from low-margin accounts, not a single one-off gain.

3. MedTech crosses ₹1,000 crore FY27 revenue and supports mix

MedTech was about 15% of H1 FY27 revenue, roughly ₹600 crores, and management expects more than ₹1,000 crores for FY27. The segment carries a higher-margin commercial role where Entero adds demand generation, but management has not disclosed segment margin. Scale here would lift the consolidated mix and deepen manufacturer relationships.

4. Active acquisition pipeline can add FY27 revenue

No acquisitions closed in H1 FY27, but management is evaluating multiple opportunities, including some that can close in FY27, and is more excited by product expansion than new geography. It says it is not looking at small acquisitions. Any deal would be outside the 23% FY27 guidance and could add revenue, but would also add integration and funding needs.

5. Acquisition debt repayment starts in Q3 FY27

Management said repayment installments on last year's acquisition debt begin in Q3 FY27, after which interest cost should decline as debt reduces. The company will prioritize growth investments over debt repayment while keeping net debt to EBITDA below 2x. Interest relief is therefore back-ended but now has a stated start date.

6. Government receivable collection normalizes working capital

Q2 FY27 NWC days rose to 64 because about ₹55 crores of Maharashtra government collections were delayed by drought-related fund reallocation. The collection was received in November, and adjusted NWC would have been 61 days, similar to the prior quarter. That supports the FY27 working capital and OCF conversion plan if no new collection delays emerge.

7. Trade margin cap has limited portfolio exposure

About 137 molecules notified by NPPA represent only about 2% of Entero's portfolio. Management said the MRP reduction is likely to be absorbed largely by hospital margins, so distributor margin percentage should not change materially. The exposure is therefore a top-line risk rather than an immediate margin threat.

8. Network scale supports organic share gains

In H1 FY27 Entero served more than 92,200 retail customers and 2,900 hospitals across about 500 districts, distributing more than 90,400 SKUs from more than 3,200 manufacturers. Management said organic growth came from customer base expansion, higher wallet share and new product categories. That breadth is the mechanism behind organic growth of 18.2%.

INVESTMENT THESIS

Entero Healthcare Solutions is an Indian healthcare products distributor, primarily of pharmaceuticals, with a growing MedTech arm. The business buys from more than 3,200 manufacturers and supplies over 90,400 SKUs to more than 92,200 retail pharmacies and 2,900 hospitals in H1 FY27. It is not a factory business; the economics come from procurement scale, working capital efficiency, warehouse density and an increasingly valuable commercial role for manufacturers.

Q2 FY27 showed the operating leverage working. Revenue was ₹2,087 crore, up 32.9% year on year, and H1 revenue was ₹4,028 crore, up 35%. Q2 gross margin was 11.5%, up 126 basis points, and EBITDA margin was 5.3%, up 135 basis points. EBITDA grew 78%, faster than revenue, and PAT was ₹61 crore, up 66%. PAT attributable to owners was ₹46 crore, up 44%, because non-controlling interest took about ₹15 crore, roughly 25% of profit before minority. The margin expansion came from three disclosed levers: scale-led procurement, a larger MedTech share and deliberate exit from low-margin accounts. Those are structural, not one-off, though Q2 also carried an about ₹12 crore receivable provision at a subsidiary that reduced margin.

The growth mix needs care. Q2 organic growth was 18.2%, or 20% like-for-like, and inorganic growth was 14.7% from calendarization of FY26 acquisitions. No acquisitions closed in H1 FY27. The 14.7% inorganic contribution will taper in Q3 and Q4, so H2 reported growth depends more on organic momentum. H1 organic growth of 18.2% is above the roughly 12% organic rate implied by the original FY27 guidance. Management has not formally raised guidance. It reiterated approximately 23% consolidated revenue growth excluding new acquisitions, a 5% EBITDA margin and 50% EBITDA-to-OCF conversion, then said H1 was ahead of internal expectations and it is comfortably positioned to do better than the stated guidance. That is a positive signal, but it is not a new number and should not be treated as one.

MedTech is the clearest mix driver. It was about 15% of H1 revenue, roughly ₹600 crore, and management expects more than ₹1,000 crore for FY27. The segment can carry higher margins where Entero performs demand generation rather than plain distribution, but the company does not disclose segment margin because cost allocations are not prepared. So the revenue scale is visible; the margin benefit remains an inference until disclosed. That distinction matters because the bull case depends partly on MedTech lifting group margin, not just adding revenue.

The cash story is the main near-term test. Q2 NWC days were 64 because about ₹55 crore of Maharashtra government collections were delayed by drought-related fund reallocation. The collection was received in November; adjusted NWC would have been 61 days. H1 operating cash flow was negative ₹46.5 crore on the same timing. Management reaffirmed the 50%

EBITDA-to-OCF conversion target for FY27. If the collection normalizes and no new government receivable delay appears, the target is reachable; if H1's negative OCF repeats in H2, the cash conversion promise becomes the central falsifier.

Interest cost has a dated path. Management said repayment installments on last year's acquisition debt start in Q3 FY27, after which interest should decline as debt reduces. The company will prioritize growth investments over debt repayment while keeping net debt to EBITDA below 2x. That means interest relief is back-ended and conditional on how much cash is redeployed into acquisitions or minority buyouts. The acquisition pipeline is active. No deal closed in H1, but management is evaluating multiple opportunities, including some that can close in FY27, and is more excited by product expansion. It says it is not looking at small deals. Any transaction would be outside the 23% guidance and would add revenue but also integration and funding needs.

Regulatory exposure looks contained on current disclosure. About 137 NPPA-notified molecules are only about 2% of Entero's portfolio, and management expects the MRP reduction to be absorbed largely by hospital margins, not distributor margins. The risk is top-line deflation if manufacturers cut prices, not an immediate margin hit. Government business is about 3% of revenue, but the Q2 delay shows it can still move quarterly working capital.

The 18-24 month earnings path is therefore a function of three variables: organic growth holding near the H1 rate as acquisition calendarization fades; the 5% EBITDA margin proving sustainable after the Q2 provision; and H2 converting EBITDA into cash at the promised 50% rate. If those hold, FY27 can exceed the stated guidance and FY28 can grow from a higher margin base. If MedTech margin remains undisclosed and OCF conversion misses, the operating leverage thesis weakens even if revenue growth stays strong. The key falsifiers are a full-year OCF conversion below 50%, organic growth slowing materially in H2, and a new acquisition adding integration or funding strain before the FY26 deals are fully absorbed. No price target or valuation conclusion is implied.

RESEARCH REPORT

What Entero Healthcare Solutions Limited does

Entero Healthcare Solutions is an Indian healthcare products distribution company. It buys pharmaceutical and medical products from more than 3,200 manufacturers and resells them to retail pharmacies and hospitals. In H1 FY27 it served over 92,200 retail customers and more than 2,900 hospital customers across approximately 500 districts in more than 20 states, distributing over 90,400 SKUs (Q2 FY27 concall, Nov 2026). FY26 annual report context: 105,300+ retail pharmacies, 3,600+ hospitals, 523 districts and 136 warehouses; FY26 consolidated revenue was ₹6,591 crores with like-for-like growth of 31.5% (Q4 FY26 concall, Jun 2026).

The business is built on a simple structural insight: India's healthcare supply chain is one of the most fragmented in the world, with roughly 90% of distribution still serviced by small, region-specific distributors. Entero is a roll-up play that acquires these regional players and integrates them onto a common technology and operational platform. It has completed about 45 acquisitions since founding, including 7 in FY26. No acquisitions were completed in H1 FY27; management says it is evaluating multiple opportunities, including some that can close in FY27, and is more excited by product expansion than geography (Q2 FY27 concall, Nov 2026).

The core asset is the two-sided network. On one side, manufacturers want access to Entero's retail pharmacy customer base because it gives them one-touch national distribution. On the other side, pharmacies and hospitals buy from Entero because it carries a broad SKU range from thousands of manufacturers, so they can consolidate purchases from a single supplier with frequent delivery. In H1 FY27 the platform served over 92,200 retail customers and more than 2,900 hospitals and distributed over 90,400 SKUs sourced from more than 3,200 manufacturers (Q2 FY27 concall, Nov 2026). This creates a reinforcing loop: more manufacturers join because of the customer base, and more customers join because of the product range.

Pharmaceutical distribution

Pharmaceutical distribution is the core business, roughly 85% of consolidated revenue. Entero distributes branded pharmaceuticals, trade generics, and specialty drugs to retail pharmacies, hospitals, and wholesalers. The company's same-day or next-day delivery model, with warehouses running 24/7 and a proprietary ordering app (Entero Direct), gives it an advantage over smaller regional distributors who carry thinner product ranges and deliver less frequently.

Gross margins in pharma distribution are thin - the company's blended gross margin across all segments was 10.3% in FY26, up 78 basis points year-on-year (Q4 FY26 concall, Jun

2026). The economics work because of scale. Entero negotiates procurement terms centrally but receives supplies locally at each of its 136 warehouses, which avoids the cost of redistributing products across the country (Q3 FY26 concall, Feb 2026).

MedTech / medical devices distribution

MedTech is the strategic growth bet. In FY26 the company closed three MedTech acquisitions - Anand Chemiceutics (IVD and diagnostics, 51.51% stake), Ace Cardiopathy (cardiology devices, 60% stake), and Bioaide Technologies (interventional cardiology, ENT, wound management, neuropsychiatry, 80% stake). Together with earlier MedTech acquisitions like Peerless Biotech, the segment contributed more than ₹1,000 crores in annualized revenue, roughly 15% of the business (Q4 FY26 concall, Jun 2026). In H1 FY27, MedTech was about 15% of revenue, around ₹600 crores, and management expects more than ₹1,000 crores for FY27; it has not disclosed segment margin because cost allocations are not given (Q2 FY27 concall, Nov 2026).

The economics are materially different from pharma distribution. MedTech distributors play a value-added commercial role, not just a fulfillment role. They are responsible for demand generation - marketing, promotion, sales, installation, and creating distributor networks - so manufacturers pay meaningfully higher margins. Management stated that most MedTech distributors enjoy 10%+ EBITDA margins versus roughly 4% for pharma distribution (Q2 FY26 concall, Nov 2025). The denominator matters too: the Indian MedTech market is estimated at USD 14-16 billion, growing 12-14% per annum, versus the pharma market growing roughly 10%.

The segment is also structurally underpenetrated. There are very few specialized pan-India MedTech distributors, so global manufacturers looking to enter India have limited options. Entero uses its pharma distribution infrastructure - 130+ warehouses, existing manufacturer relationships (Abbott, Roche, and others have both pharma and diagnostics/device businesses), and cold chain capabilities - to win exclusive pan-India distribution deals. An example: Anand Chemiceutics serves 1,500+ customers including corporate hospital chains, standalone hospitals, diagnostic lab chains, and sub-distributors (FY26 annual report).

One operational difference: some IVD distribution uses a reagent rental model where Entero places analyzers and equipment in labs against 5-year revenue contracts, which is why depreciation has increased (Q4 FY26 concall, Jun 2026). This is a capital-heavier business model than pharma distribution.

Trade generics

Trade generics is a smaller segment focused on unbranded generic medicines sold mainly to wholesalers who supply to retailers. It was added via the Ramson Medical Distributors acquisition in FY26 (70% stake). Trade generics is higher growth and margin-accretive

compared to branded distribution, and it expands Entero's coverage into a segment that operates differently from the branded generic market (Q2 FY26 concall, Nov 2025).

GLP-1 distribution

A notable product category within the pharma business is GLP-1 receptor agonist drugs (Mounjaro, Wegovy). Entero distributes for Eli Lilly and other manufacturers and does approximately ₹10-12 crores of GLP sales per month, roughly 5% of the Indian GLP market (Q4 FY26 concall, Jun 2026). The company's share of GLP drugs is higher than its overall market share because these are high-value drugs requiring cold chain infrastructure and because distribution is concentrated among a few players. Semaglutide patent expiry in March 2026 is expected to bring generic entrants and expand the market significantly. The domestic GLP-1 market is projected to grow nearly fivefold from approximately ₹1,000-1,200 crore in 2025 to ₹4,500-5,000 crore by 2030 (FY26 annual report).

Business segments

Pharmaceutical Distribution

Entero's core business is pharmaceutical distribution: buying branded medicines, generics, and allied healthcare products from manufacturers and supplying them to retail pharmacies, hospitals, and wholesalers across India. The capability that took eight years to build is a national fulfillment network that combines scale with product breadth. As of FY26, the platform serves 105,300+ retail pharmacies and 3,600+ hospitals across 523 districts, supported by 136 warehouses (FY26 Annual Report). The product portfolio spans 97,500 SKUs sourced from 3,300+ manufacturers (FY26 Annual Report).

What makes the network defensible is the two-way dependency it creates. Hundreds of manufacturers come to Entero because it reaches over 100,000 pharmacies; thousands of pharmacies buy from Entero because it stocks products from 3,300 manufacturers. Neither side can easily replicate the other half of the equation. Management describes this explicitly:

> *"More companies come to you because we have so much of customers and more customers come to you because we have so many companies, right? So it's a 2-way moat."*
>
> **MD & CEO, Q4 FY26 CONCALL (JUN 2026)**

The segment's products fall into two broad categories. The first is branded pharmaceuticals, the largest portion of revenue, where doctors prescribe specific brands and pharmacies must stock them. The second is generics, which includes both branded generics sold through the same retail channel and trade generics sold to wholesalers and retailers. The product range also extends to wellness, OTC products, surgical consumables, and specialty pharma (FY26 Annual Report). The company handles cold-chain logistics, which matters for products like

GLP-1 drugs. In Q4 FY26, Entero reported GLP sales of approximately INR10-12 crores per month, about 5% of the overall GLP industry value (Q4 FY26, Jun 2026).

Customers buy from Entero for three reasons: range, reliability, and speed. A typical retail pharmacy needs roughly 6,000 different items from 300-400 companies; Entero lets it consolidate buying through a single supplier (Q2 FY26, Nov 2025). The company delivers 2-3 times per day, runs warehouses 24/7, and offers a direct ordering app, meaning a pharmacy can order at night and receive goods before opening the next morning (Q2 FY26, Nov 2025). Hospital customers, which are institutional buyers with different procurement patterns, are served from the same warehouses. This value proposition has translated into consistent market share gains: organic like-for-like growth was 15.6% for FY26, roughly 1.6x the IPM growth of ~10% (Q4 FY26, Jun 2026). In Q2 FY26, organic growth hit 13.4%, which was 1.8x the IPM growth rate of 7.3% (Q2 FY26, Nov 2025).

The competitive landscape is fragmented. Around 90% of the distribution market is still served by small, region-specific distributors (FY26 Annual Report). The listed peers and e-commerce entrants management references include PharmEasy, which has historically acquired businesses in the space, and Amazon, which discontinued a partnership with a listed peer. Management does not see quick-commerce players like Zepto as a serious threat, citing three structural challenges: the range problem (a 10-minute delivery model cannot fulfill a prescription of 4-5 drugs), low average order values, and the cost of prescription generation (Q1 FY26, Aug 2025). Amazon is treated differently because its value proposition is selection, not speed, and Entero supplies to organized retailers on those platforms (Q1 FY26, Aug 2025).

Pharmaceutical distribution drives the group's financial engine and provides the infrastructure for the MedTech segment. The same warehouses, customer relationships, and delivery network serve both. The MedTech acquisitions, which contributed over INR1,000 crores in annualized revenue post-FY26, rely on the existing distribution backbone (Q4 FY26, Jun 2026). On a revenue mix basis, management's guidance implies pharma distribution is roughly 85% of consolidated revenue, with MedTech targeted at approximately 15% post-integration.

Performance across FY26 showed steady improvement. Full-year revenue grew 31.5% on a like-for-like basis to ₹6,591 crores, with organic growth of 15.6% (Q4 FY26 concall, Jun 2026). Gross margin expanded 78 basis points to 10.3%, driven by scale-led purchasing and a shift toward commercial roles where Entero handles demand generation in addition to fulfillment (Q4 FY26 concall, Jun 2026). EBITDA margin reached 4% for the year, up 67 basis points (Q4 FY26 concall, Jun 2026). Working capital days improved to 59 by Q4 FY26, down from 70 in FY25 (FY26 annual report), helping generate operating cash flow of ₹96.2 crores for the year (Q4 FY26 concall, Jun 2026). For FY27, management guided to 23%

consolidated revenue growth excluding new acquisitions, with EBITDA margin at 5% and 50% EBITDA-to-OCF conversion (Q4 FY26 concall, Jun 2026). After Q2 FY27, H1 revenue was ₹4,028 crores, up 35%, with gross margin 11.5%, EBITDA margin 5.2%, NWC at 66 days and operating cash flow negative ₹46.5 crores; management said H1 was ahead of internal expectations and it is comfortably positioned to exceed the FY27 guidance, without giving a revised number (Q2 FY27 concall, Nov 2026).

Q2 FY27 update: revenue was ₹2,087 crores, up 32.9%; gross margin was 11.5%, up 126 basis points; EBITDA margin was 5.3%, up 135 basis points; EBITDA grew 78%; PAT was ₹61 crores, up 66%; PAT attributable to owners was ₹46 crores, up 44%; non-controlling interest was about ₹15 crores, about 25% of profit before minority. A customer default at a subsidiary led to an about ₹12 crore receivable provision in other expenses, without which margin would have been higher; part of the amount was already provided (Q2 FY27 concall, Nov 2026).

The operating model is not capital-intensive: warehouses are leased, and the fixed asset base is minimal relative to revenue (Q2 FY26, Nov 2025). The economics are driven by working capital management, which management called "the lower hanging lever" among optimization opportunities (Q1 FY26, Aug 2025). The MedTech margin accretion of 50-75 basis points on EBITDA, guided after the FY26 acquisitions close, will layer on top of the pharma distribution base (Q3 FY26, Feb 2026).

MedTech / Medical Devices Distribution

Entero's MedTech business distributes diagnostic reagents and equipment, cardiology devices, orthopaedic products, imaging equipment, medical consumables and specialty devices to hospitals and diagnostic laboratories. The model differs from the pharma arm in one key way: in MedTech, Entero often does demand creation, not just order fulfillment. Its sales and marketing teams promote products, launch brands and build channel networks for manufacturers, and those manufacturers pay higher margins for that commercial role.

The infrastructure behind it took years to build, but it is the same platform that serves the pharma division: 136 warehouses with cold chain, relationships with over 3,300 manufacturers, and a customer network of more than 105,300 retail pharmacies and 3,600 hospitals. The moat is two-sided. Manufacturers give Entero exclusive India distribution because it reaches customers that regional distributors cannot touch, and hospitals and labs consolidate purchases because Entero carries drugs and devices under one contract.

The acquired companies map to specific categories. Anand Chemiceutics anchors the IVD side with Abbott Alinity analyzers, GeneXpert PCR systems, BD BACTEC microbiology and Sysmex hematology analyzers, plus chemistry, immunoassay and blood gas instruments used across hospital and standalone labs. Ace Cardiopathy covers cardiology with Medtronic

Resolute Onyx stents, Asahi guidewires, Terumo stents, balloon catheters and CPAP sleep therapy systems. Bioaide Technologies adds interventional cardiology, ENT, wound management and neuropsychiatry, carrying cochlear implants from MED-EL and deep transcranial magnetic stimulation from BrainsWay. Anand Chemiceutics also runs an Applied Genomics division doing next-generation sequencing for oncology, infectious disease and rare disorders.

Customers are corporate hospital chains, standalone hospitals, chain and standalone diagnostic laboratories, and sub-distributors. Anand Chemiceutics alone serves more than 1,500 customers across India. The addressable market is roughly US$14-16 billion, growing 12-14% annually, with 75-80% of device consumption by value imported, which makes the distributor's role heavier than in pharma: devices need installation, service, cold chain and clinical relationships.

Competition is fragmented regional distributors, and management argues that almost nobody can offer pan-India exclusive distribution deals, which is why manufacturers approach Entero. PharmEasy is the only named competitor in the race to consolidate regional distributors, and management dismissed the threat because the supply of acquisition targets is large relative to the two or three active buyers.

The FY26 acquisitions were deliberately weighted toward MedTech: roughly 60% of M&A went to the segment. Deals closed at single-digit EV/EBITDA with blended ownership around 63%, plus call options to buy the remaining stake over 2 to 5 years at predetermined valuations.

Revenue mix: post-integration, MedTech crosses INR1,000 crore in annualized revenue, about 15% of the group. In Q1 FY26, before the big deals closed, it was 4-5% of sales, so the mix shift is fast. Management guided a pro forma impact of 70 to 90 basis points on gross margin and 50 to 75 basis points on EBITDA margin. In the parts of the business where Entero takes a full commercial role, margins run at least double the normal distribution margin.

Fit within the group: MedTech shares warehouses, cold chain and customer relationships with pharma distribution. Several manufacturers, including Abbott and Roche, run both pharma and diagnostic lines, so existing supplier relationships open the door. Trade generics adds volume; MedTech is the margin story. The FY27 guidance embeds it: 23% revenue growth excluding new acquisitions with 5% EBITDA margins, up from 4% in FY26.

> *"in MedTech segment, you can grow much faster without a lot of inorganic acquisitions because unlike pharma in MedTech, you can do a lot of pan-India exclusive distribution deals with a lot of companies because there are not many specialized distributors in this space in India."*
>
> **MD AND CEO, Q3 FY26 CONCALL (FEB 2026)**

> *"in the MedTech segment, the distributors not only play only the demand fulfillment part, but they also play an active role in demand creation part."*
>
> **MD AND CEO, Q3 FY26 CONCALL (FEB 2026)**

Trade Generics

Trade generics is the smallest of Entero's three distribution segments, and the one Entero entered through acquisition rather than organically. In FY26, Entero acquired a 70% stake in Ramson Medical Distributors, whose business the annual report describes as "distribution of trade generic medicines to wholesalers, retailers and also acts a C&F for multiple pharma companies for this product segment" (Annual Report FY26).

The core capability is not the product - trade generic medicines are simple, low-cost, unbranded or lightly branded drugs - but the distribution backbone behind it. Trade generics sell at lower prices than branded generics and depend on high volume and thin margins, so they only work at scale. Entero's platform, built across eight years through roughly 45-plus acquisitions, gives the segment what a standalone regional distributor cannot: 136 warehouses across 21 states and union territories, delivery to more than 105,000 retail pharmacies and 3,600 hospitals in 523 districts, and a product catalogue of 97,500 SKUs (Annual Report FY26, Q4 FY26 concall). A trade generic manufacturer can get pan-India stocking and forwarding through one partner instead of a patchwork of regional C&F agents.

The products inside the segment are trade generic medicines - tablets, syrups, and other formulations sold to chemists at a discount to branded equivalents - and the carrying-and-forwarding service that pharma companies pay distributors to run on their behalf. In a C&F arrangement, Entero holds stock, invoices wholesalers and retailers, and manages the logistics on the manufacturer's behalf. Ramson's business spans both roles. The customers are therefore two-sided: wholesalers and retailers who buy low-cost generics to sell to price-sensitive patients, and pharma companies who outsource their stocking and distribution to Entero rather than run their own network.

Why customers buy from Entero rather than a local distributor comes down to fill rates and breadth. When management was asked about the trade generics segment in Q3 FY26, the rationale given was that the segment is both faster-growing and structurally higher-margin than mainstream pharma distribution. Management stated its internal guidance is to chase exactly those segments: "our internal guidance is that we should chase those business segments which can deliver higher growth as well as a higher margin" (Q2 FY26 concall, Nov 2025). In India, branded generics are the dominant form of pharmaceutical retail, but trade generics have been gaining share as patients and chemists trade down. A distributor who can combine trade generics with branded pharma and MedTech in one basket keeps the retailer's

wallet share - the retailer buys all three categories from one supplier with one delivery schedule.

The competitive position is defined less by named rivals than by fragmentation. The annual report states that "approximately 90% of the market is still serviced by small, region-specific distributors," a structural fact that applies to trade generics more than to branded pharma, since trade generics distribution has historically been even more localised. Entero's advantage against a local trade generic stockist is the same platform advantage it holds elsewhere: the 3,300-plus manufacturer relationships, the 97,500-SKU range, and the ability to integrate a regional C&F network into a national one. The sources do not name specific trade generics competitors, and Entero does not disclose the segment's revenue mix separately.

The segment fits the group through procurement and logistics synergies. The 136-warehouse network is shared across all three segments, so adding trade generics volume does not require proportional warehouse investment - management has said warehouse capex runs at roughly INR30-40 lakh per warehouse, with nearly all facilities leased (Q3 FY26 concall, Feb 2026). Trade generics also feeds the same retail customer base that buys branded pharma, and the C&F operations deepen relationships with manufacturers who already distribute branded products through Entero. Management flagged the segment as one of the margin-accretive categories that helped lift gross margin to 10.3% in FY26, up 78 basis points year-on-year, alongside procurement efficiencies and a richer product mix (Q4 FY26 concall, Jun 2026).

On guidance, trade generics is bundled into the 23% consolidated revenue growth target for FY27, which excludes any new acquisitions, and the 5% EBITDA margin target (Q4 FY26 concall, Jun 2026). Management's positioning of the segment is consistent across the year:

> *"we also acquired a distributor in trade generic, which again enjoys a higher growth profile and a higher margin profile."*

> **PRABHAT AGRAWAL, Q2 FY26 CONCALL (NOV 2025)**

The trade generics business is, in effect, a bet that the lower end of the Indian pharma market will consolidate the same way branded distribution did - and that a national platform can capture that consolidation without owning a single factory.

Customers

Entero operates purely in B2B. Its customers are businesses that resell or dispense healthcare products to end patients - it does not sell directly to consumers.

Retail pharmacies

Retail pharmacies are the largest customer group: 105,300+ in FY26 (FY26 annual report). India has more than 1 million pharmacy stores, of which roughly 97-98% are independent mom-and-pop operations. The organized chain retail in India is tiny - the largest chains (Apollo, MedPlus) together operate roughly 10,000-12,000 stores and add only 500-600 stores per year (Q4 FY26 concall, Jun 2026).

The buying decision for an independent pharmacist comes down to three things: product availability, service reliability, and working capital efficiency. A typical pharmacy needs roughly 6,000 different items sourced from 300-400 different manufacturers. Entero's value proposition is consolidation: one supplier, one delivery, one order placement through its app. The company delivers 2-3 times per day, so a pharmacist can place an order at night and receive goods before opening the next morning. Delivery frequency matters because pharmacies don't have large storage capacity and lose sales when they are out of stock.

Switching costs for a pharmacist are moderate. The account relationship and the convenience of one-stop ordering create inertia, but a pharmacist can in principle buy from any other distributor. The moat is breadth: no other distributor carries 97,500+ SKUs with national coverage, so for a significant portion of a pharmacy's requirements, Entero is the most efficient option.

Hospitals and institutions

Entero serves 3,600+ hospital customers (FY26 annual report). This segment includes hospitals, nursing homes, and clinics, with specialty drug supply to hospitals a focus area of several acquisitions (Sai RK Pharma, Well Wisher Pharma). Institutional sales involve longer credit cycles than retail pharmacy sales, which is why accounts receivable management is a focus area.

The FY26 annual report notes that the data classification between hospitals and retail pharmacies is imprecise, because many hospitals have OPD and IPD pharmacies, some of which are outsourced to third parties and would be counted as retail pharmacies (Q1 FY26 concall, Aug 2025). The company is increasing wallet share from existing hospital customers rather than just adding new ones, and hospital consolidation is making exact counts less meaningful.

Healthcare manufacturers as commercial partners

Beyond distribution, Entero runs marketing and promotion agreements for select manufacturers, including Abbott, Roche, and Servier. In these arrangements, Entero deploys dedicated sales and marketing teams to promote the manufacturer's brands in India. The distribution and demand generation roles are separate: even after a competitor complained that Entero was exclusively supplying all stockists for a Servier brand, the resolution was that

Servier's CFAs could also supply the stockists, while marketing and promotion remained exclusively with Entero (Q1 FY26 concall, Aug 2025). The company deployed around 150 people to promote and market Abbott and Servier drugs.

These commercial roles are strategically important for two reasons. First, the margins are meaningfully higher than pure distribution, and management stated that roughly 10-15% of sales now come from full commercial role arrangements where Entero manages marketing, promotion, and distribution (Q4 FY26 concall, Jun 2026). Second, they deepen manufacturer relationships that lead to new product launches and exclusive distribution rights.

Customer concentration

Customer concentration is low by design. The business serves over 100,000 customers, and no individual customer accounts for a meaningful share of revenue. The only notable concentration item is a single client contract where the revenue recognition basis was changed to net margin, which impacted reported growth by about 3% in Q1 FY26 (Q1 FY26 concall, Aug 2025). That client decided to change how services were structured, so Entero now bills for services rather than taking title to goods.

Competitive landscape

India's pharmaceutical and healthcare distribution market is structurally fragmented. The total addressable market for pharmaceutical and medical device distribution was approximately USD 33 billion in FY23, growing at 10-11% CAGR through FY28, with roughly 90% serviced by small regional distributors (FY26 annual report).

The fragmentation problem

The industry is characterized by thousands of regional and local players operating in fragmented geographies and categories. Most distributors are family-owned businesses covering a single city or district with a limited product range. This fragmentation is the reason Entero exists - there is a large gap between the scale of the market and the scale of the typical participant.

The key competitive insight is that the supplier base and customer base are both fragmented. There are 300,000+ pharmacies and tens of thousands of healthcare product manufacturers in India. Any consolidation play needs scale on both sides simultaneously, which is why building a national network takes years and dozens of acquisitions.

Direct competitors

Entero's direct competition falls into three groups:

- **Other large organized distributors.** The only other significant organized pan-India players would be PharmEasy's distribution operations (via its acquisitions) and a few large regional players. PharmEasy had gone through financial difficulties and stopped acquiring, though

it was showing signs of recovery. Management said that even if PharmEasy returns aggressively to acquisitions, there are enough targets and only 2-3 buyers, so it would not materially change dynamics (Q3 FY26 concall, Feb 2026). One unnamed listed peer discontinued its Amazon partnership, which management said benefits Entero (Q3 FY26 concall, Feb 2026).

- **Regional and local distributors.** These are the day-to-day competitors. They have deep local relationships but limited product ranges and service capabilities. Entero wins these accounts by offering a broader portfolio, more frequent delivery, and better service levels. The competitive advantage of a national platform is that a local distributor can rarely match the product range and delivery frequency at comparable working capital efficiency.
- **E-pharmacy and quick commerce.** Amazon India sells medicines and has expanded its serviceable pincodes. Zepto launched a pharmacy in major metros in August 2025. Management's view is that quick commerce faces structural challenges in pharma: the 10-minute delivery value proposition only works for a limited range of medicines, prescription fulfillment requires a much wider range than quick commerce can carry, the average order value on quick delivery is low, and the cost of generating prescriptions through doctor calls eats into margins (Q1 FY26 concall, Aug 2025). Amazon's value proposition is selection rather than speed, which is why Entero supplies to organized retailers including Amazon. The company sees itself as a supplier to these platforms, not a direct competitor.

Competitive advantages

The moat Entero has built is the combination of customer base and product range, which management describes as a two-way closed-loop system: more manufacturers come to Entero because of its customer base, and more customers come because of its product range. This reinforces itself as the company grows.

- **Scale in SKUs and customers.** 97,500+ SKUs, 105,300+ retail customers, 3,600+ hospitals. No competitor has comparable breadth. This is the primary reason manufacturers sign exclusive distribution deals.
- **Technology platform.** Entero built its own ERP system, which is integrated with its customer-facing app (Entero Direct), enabling real-time inventory visibility, order tracking, and efficient order management. The technology is also the integration tool for acquisitions: when Entero acquires a distributor, one of the first steps is mapping the acquired company's product codes onto Entero's centralized system. Management stated the tech investments are already in place and no significant new investment is needed (Q1 FY26 concall, Aug 2025).

- **Cold chain infrastructure for high-value drugs.** The company has cold chain facilities in all warehouses, which is a key requirement for GLP-1 and other temperature-sensitive products. This gives it an edge in distributing high-value drugs where cold chain compliance is non-negotiable.
- **Brand and vendor relationships.** After 45+ acquisitions, Entero has a track record of integrating distributors and creating value. This matters for the acquisition pipeline: regional distributors looking to exit prefer selling to a buyer with a proven integration process.

Where the competition is less intense

MedTech distribution is Entero's most favorable competitive position. The segment is growing faster (12-14% per annum), margins are structurally higher (10%+ EBITDA), and there are very few specialized pan-India MedTech distributors. Global manufacturers entering India have limited options for national distribution partners, which is why Entero has won exclusive pan-India distribution deals for multiple global brands.

Industry

Market size and growth

India's healthcare supply chain industry is valued at over USD 33 billion, growing at 10-11% CAGR through FY28 (FY26 annual report). The Indian pharmaceutical market reached roughly ₹2.56 lakh crore in FY26, growing approximately 10% year-on-year, with expectations of reaching USD 120-130 billion by 2030 (FY26 annual report).

The structure of the market favors organized players. India's retail pharmacy base is over 1 million stores, of which 97-98% are independent mom-and-pop operators. The organized chain pharmacy segment is still small, which means the independent retail channel remains the primary route to market for pharmaceutical manufacturers. The organized distribution share of the market is less than 10%, creating a multi-decade consolidation opportunity.

Growth drivers

Demand growth. Rising chronic disease prevalence, increased healthcare spending, growing urbanization, and improved medicine affordability are expanding the underlying market. The Indian pharma market has been growing in the high single digits to low teens, with recent quarters at 10-12%.

GLP-1 expansion. The GLP-1 category is an emerging growth engine. The domestic market is expected to grow from approximately ₹1,000-1,200 crore in 2025 to ₹4,500-5,000 crore by 2030, driven by patent expiry in March 2026, falling drug prices (declining more than 50% post-expiry), and expanding therapeutic applications. Type 2 diabetes is projected to account for 60-70% of the market, with weight management driving the balance (FY26 annual

report). This creates incremental distribution volume for companies with cold chain infrastructure and national reach.

MedTech growth. The Indian medical devices market is estimated at USD 14-16 billion, growing 12-14% per annum. The market is heavily import-dependent (75-80% of device consumption by value), and government policy is pushing domestic manufacturing through the PLI scheme for medical devices and the National Medical Device Policy 2023. As domestic manufacturing scales, distribution infrastructure becomes more important.

Consolidation. The distribution sector is structurally underpenetrated by organized players. Rising compliance standards, technology adoption, and consolidation imperatives are shifting share from small regional players to organized national platforms. This is the core structural tailwind for Entero's acquisition-led strategy.

Regulatory environment

Several regulatory factors shape the industry:

- **GST rate reduction on medicines** from 12% to 5% effective September 22, 2025. This is cash flow positive for distributors because receivables carry lower GST, reducing the absolute value of working capital tied up in receivables. Management estimated a 7% benefit in cash flow through lower receivables (Q2 FY26 concall, Nov 2025).
- **New Labour Code implementation** caused a one-time exceptional charge of ₹6.1 crores in Q3 FY26 for past service cost. Management stated there is no material recurring impact on margins (Q3 FY26 concall, Feb 2026).
- **Drug licensing and compliance.** Distribution is regulated under the Drugs and Cosmetics Act, Medical Devices Rules, and related legislation. One subsidiary, Atreja Healthcare Solutions, had its drug license temporarily suspended for three days in January 2026, which had no material impact on financials (FY26 annual report). Acquisitions require drug license transfers, which can cause closing delays.
- **Trade margin debates.** There are periodic industry discussions about trade margins in pharma distribution, though these have not materially affected the business model.

Cyclicality and seasonality

Pharma distribution is not highly cyclical in the traditional sense - demand for medicines is relatively stable regardless of the economic cycle. Demand even grows during downturns because healthcare is non-discretionary. Revenue does follow a seasonal pattern within the year: Q2 is typically 10-12% higher than Q1 because the rainy season spreads infectious diseases, and Q4 typically sees higher demand. Working capital also follows a seasonal pattern, with investment peaking in Q2 before being released in H2.

The one area of exposure is global supply chains. Entero is primarily a domestic player; direct imports are a very small portion of sales, and the company works with local subsidiaries of global manufacturers rather than importing directly. Management indicated that Middle East conflicts and global trade tensions have minimal direct impact on the business (Q4 FY26 concall, Jun 2026).

Growth triggers

GLP-1 market expansion - semaglutide patent expiry (March 2026) bringing generic entrants; Entero has ~10% share of GLP drugs and cold chain infrastructure

Semaglutide's Indian patent expired in March 2026, converting the GLP-1 class from a two-brand market (Eli Lilly's Mounjaro, Wegovy) into one with multiple generic entrants. The FY26 annual report sizes the domestic GLP-1 market at ₹1,000-1,200 crores in 2025, expanding to ₹4,500-5,000 crores by 2030, with drug prices falling more than 50% after the patent expiry. Type 2 diabetes accounts for 60-70% of that market; weight management makes up the rest.

Entero is already a large distributor in this category because GLP-1 drugs are high-value, need cold chain handling, and have a concentrated product set. Its warehouses carry end-to-end cold chain infrastructure, and it distributes the two incumbent brands (Q3 FY26 concall, Feb 2026). That position shows up in current sales: GLP-1 contributes roughly ₹10-12 crores per month, about 5% of total GLP value (Q4 FY26 concall, Jun 2026), and a larger share of GLP drug volume.

> *"Almost, I would say, 10% of GLP drugs is being sold by us. The reason being because we have a pan-India presence, we can enter into relationship with the companies, and at one point in time they get access to a huge market through us."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The mechanism is straightforward. Patent expiry adds generic manufacturers who need national distribution quickly. Entero already serves more than 105,300 retail pharmacies and 3,600 hospitals via 136 warehouses (FY26 annual report), and management said the cold chain base will bring "a disproportionate share of GLP-1 distribution" that is "built into our growth guidance" (Q4 FY26 concall, Jun 2026). That guidance is the FY27 plan of 23% consolidated revenue growth and a 5% EBITDA margin, both excluding any new acquisitions (Q4 FY26 concall, Jun 2026).

The trigger is in its early stage today: the patent expired in March 2026, and management said generic semaglutide entrants would arrive in the next calendar year, expanding the market significantly (Q1 FY26 concall, Aug 2025). The FY27-FY28 window is when the volume lift from new GLP-1 manufacturers lands in Entero's books.

MedTech segment scaling to >₹1,000 crores annualized revenue post-acquisition integration (Anand Chemiceutics, Ace Cardiopathy, Bioaide Technologies)

Entero closed three MedTech acquisitions in FY26: Anand Chemiceutics, Ace Cardiopathy and Bioaide Technologies. By Q4 FY26, management stated the segment was already contributing more than ₹1,000 crores in annualized revenue (Q4 FY26 concall, May 2026) - hitting the target it had guided for earlier in the year.

The economics differ from pharma distribution. MedTech distributors carry gross margins in "mid-double digits" with EBITDA margins upwards of 10%, versus Entero's overall EBITDA margin of 4% for FY26 (Q2 FY26 concall, Nov 2025). Management quantified the pro-forma impact of integrating these businesses at 70-90 bps on gross margin and 50-75 bps on EBITDA margin at the consolidated level (Q3 FY26 concall, Feb 2026).

The margin uplift exists because the role is different. In MedTech, Entero handles demand generation, not just fulfilment:

> *"the companies also depend on distributors to grow sales. And for that, they kind of -- if you grow their business, they are ready to part with more margins with distributors."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The acquired companies bring specific categories and infrastructure. Anand Chemiceutics is an IVD distributor with 1,500+ customers spanning corporate hospital chains, standalone hospitals and diagnostic laboratories, including an Applied Genomics Division focused on oncology, infectious diseases and rare disorders (FY26 Annual Report). Ace Cardiopathy distributes cardiology devices such as stents, catheters and CPAP systems (FY26 Annual Report). Bioaide covers interventional cardiology, ENT, wound management and neuropsychiatry (FY26 Annual Report).

Management chose MedTech deliberately over further pharma deals. Acquisitions in the segment can grow organically through pan-India exclusive distribution agreements with global manufacturers, because few specialized distributors offer nationwide reach (Q3 FY26 concall, Feb 2026). The segment is expected to contribute over 15% of revenue from FY27, up from 4-5% in Q1 FY26 (Q1 FY26 concall, Aug 2025), with management stating it could reach 20% over 2-3 years (Q4 FY26 concall, May 2026).

FY27 guidance: revenue growth of 23% YoY (ex-acquisitions), of which ~11% from calendarization of FY26 deals and ~12% organic growth

FY27 guidance: revenue growth of 23% YoY (ex-acquisitions), with 5% EBITDA margin and 50% EBITDA-to-OCF conversion; management says H1 puts it in a position to exceed this, without a revised number

In the Q4 FY26 earnings call (May 2026), management laid out explicit FY27 revenue guidance: consolidated revenue growth of 23% year-on-year, excluding any new acquisitions,

with 5% EBITDA margins. The number is a combination of two engines: the full-year impact of FY26 acquisitions that closed during the second half of the year, plus organic growth of the base business. In Q2 FY27, management reiterated the 23% revenue growth, 5% EBITDA margin and 50% OCF conversion guidance, said H1 performance was ahead of internal expectations and it is comfortably positioned to deliver better than the stated FY27 guidance, but declined to give a revised number. Q2 revenue growth was 32.9%, with organic growth of 18.2%, like-for-like organic growth of 20% and inorganic growth of 14.7% from calendarization; H1 revenue growth was 35% (Q2 FY27 concall, Nov 2026).

The calendarization component is arithmetic, not growth. Entero closed seven acquisitions during FY26, including three in MedTech - Anand Chemiceutics, Ace Cardiopathy, and Bioaide Technologies. Because these deals closed in H2 FY26, their revenue hit the income statement for only a partial year. In FY27, the same businesses contribute for all twelve months. Management quantified this in the FY27 guidance call:

> *"Calendarization impact is around 11%, and the rest is organic in our 22% guidance."*
>
> **MANAGING DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

The timing logic was already visible in the Q3 FY26 call (Feb 2026), where management explained that the acquisitions were back-end loaded: most deals closed in Q3 and Q4, so the full revenue impact would appear only in the next financial year. The Feb 2026 call stated that MedTech annualized revenue would cross ₹1,000 crores post-integration, which the annual report confirms: the MedTech business is expected to contribute more than ₹1,000 crores of annualized revenue in FY27.

The FY27 guidance was set at 23% consolidated growth including the full-year effect of FY26 deals. Q2 FY27 H1 organic growth was 18.2%, or 20% like-for-like, so the H1 organic run-rate is above the roughly 12% full-year organic rate implied by the original guidance. Management attributed part of the gap to the deliberate pruning of low-margin business and contracts moved to net revenue recognition. It has not revised the 23% number but says it expects to exceed it (Q2 FY27 concall, Nov 2026).

> *"While calculating the organic growth, we have also taken down some business on a net revenue margin basis also. There are certain businesses that we have added where we are only recognizing the net revenue... And also, there are certain low-margin business that we are giving up, and we are releasing the working capital to invest in more profitable or more higher return on investment generating assets."*
>
> **MANAGING DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

The like-for-like organic growth rate, before these accounting adjustments, is closer to 15%, which maintains the structural outperformance of the Indian Pharmaceutical Market. This

guidance is intentionally conservative - it excludes any new acquisitions. Management stated that revenue growth for the year is reachable through the deals already closed plus base business expansion.

Organic growth outperformance: 15.6% FY26 organic like-for-like growth (1.6x IPM); category expansion into trade generics, specialty pharma, medical devices

Entero closed FY26 with organic like-for-like growth of 15.6%, a 1.6x multiple of the Indian Pharmaceutical Market's roughly 10% growth for the year (Q4 FY26 concall, May 2026). The outperformance was consistent through the year: 17.1% in Q3, 17.1% in Q4, and 1.8x IPM in Q2 when the IPM grew just 7.3% (Q3 FY26 concall, Feb 2026; Q4 FY26 concall, May 2026; Q2 FY26 concall, Nov 2025).

Management attributes the sustained gap to a widening product portfolio and deeper wallet share rather than any single product. Prabhat Agrawal described a two-sided flywheel in the Q2 FY26 call: manufacturers come to Entero because of its customer base, and retailers come because of the product range. The platform's breadth - 97,500 SKUs across 3,300 manufacturers - lets a retailer consolidate buying through one supplier while receiving 2-3 deliveries per day, which is the practical mechanism that converts platform scale into organic revenue growth.

The category mix is shifting toward higher-margin segments. Management called out expansion into trade generics, specialty pharma, and medical devices as deliberate margin-accretive moves (Q1 FY26 concall, Aug 2025). The trade generics acquisition (Ramson Medical) plus organic builds in MedTech contributed to gross margin expansion of 78 bps to 10.3% in FY26 (Q4 FY26 concall, May 2026).

The FY27 guidance embeds the full-year effect of FY26 acquisitions plus organic growth. Q2 FY27 H1 organic growth was 18.2%, or 20% like-for-like, ahead of the organic rate implied by the original 23% guidance. Management said the deliberate exit from low-margin accounts and net-margin contracts still affects reported organic growth, and it expects to exceed the 23% revenue guidance without giving a new number (Q2 FY27 concall, Nov 2026).

Working capital optimization: NWC days from 70 (FY25) to 59 (Q4 FY26); targeting OCF/EBITDA conversion of at least 50% in FY27

Entero is a working-capital-heavy business: it carries inventory across its warehouses and extends credit to retail pharmacies and hospitals. Management's FY26 program cut net working capital days from 70 at the FY25 close to 59 by Q4 FY26. In Q2 FY27, NWC days were 64 because about ₹55 crores of government collections in Maharashtra were delayed by drought-related fund reallocation; collection was received in November, and adjusting for it NWC days would have been 61, similar to the prior quarter. H1 operating cash flow was

negative ₹46.5 crores on the same timing; management reaffirmed the FY27 target of 50% EBITDA-to-OCF conversion (Q2 FY27 concall, Nov 2026).

The cash release compounds through three mechanisms. First, the GST rate on sales fell from 12% to 5% in September 2025, permanently shrinking the gross value of each receivable - management estimated a 7% structural cash-flow benefit from the change (Q2 FY26 concall, Nov 2025). Second, MedTech suppliers grant far longer credit than the 7-21 day pharma cycle, so as MedTech scales past INR1,000 crores annualized, payables days rise and NWC days fall (Q4 FY26 concall, May 2026). Third, dedicated task forces tightened inventory ordering and receivables collection (Q2 FY26 concall, Nov 2025).

The result was a swing in operating cash flow from negative INR76.9 crores in FY25 to positive INR96.2 crores in FY26, with Q4 alone contributing INR104.6 crores on 59 days.

> *"We achieved operating cash flow of INR104.6 crores with net working capital days at 59 days versus 64 days in the previous quarter."*
>
> **Q4 FY26 CONCALL, MAY 2026**

For FY27, management set a formal conversion target:

> *"We aim to deliver EBITDA to operating cash flow conversion ratio to be at least 50% to ensure sustainable growth path for future."*
>
> **Q4 FY26 CONCALL, MAY 2026**

The released cash substitutes for debt: management sees incremental FY27 working-capital needs as small since Q4 FY26 already carried roughly ₹7,600 crores of annualized revenue in the balance sheet, and expects finance costs to stabilize and then decline as acquisition debt is repaid. In Q2 FY27, management said repayment installments on last year's acquisition debt start in Q3 FY27, so interest cost should decline as debt reduces (Q2 FY27 concall, Nov 2026).

MedTech margin contribution: 70-90 bps gross margin and 50-75 bps EBITDA margin uplift on pro-forma basis

The trigger: Entero closed three MedTech acquisitions in FY26 - Anand Chemiceutics (IVD), Ace Cardiopathy (cardiology), and Bioaide Technologies - that carry structurally higher margins than pharma distribution because the distributor role is different. In February 2026, management quantified the pro-forma impact on consolidated numbers once these entities are integrated:

> *"There will be a positive impact of 70 to 90 bps on gross margin and 50 to 75 bps on EBITDA margin on a pro forma basis after all the acquisitions are integrated with us."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The mechanism: pharma distribution is fulfillment at Entero's ~10% gross margin band, but MedTech distributors earn "10% plus EBITDA margins" because they create demand, not just fill orders. They run sales and marketing teams, hold exclusive pan-India distribution agreements with manufacturers, and own doctor and hospital relationships. Anand Chemiceutics alone runs "gross margins in mid-double digits and EBITDA margins upwards of 10%" (Q2 FY26 concall, Nov 2025). Bioaide was evaluated on adjusted EBITDA after adding back owner salaries and compliance costs, a double-digit margin business after normalization.

The higher gross margins carry higher operating costs: demand generation needs more skilled manpower and marketing spend than warehouse and delivery staff. Management was explicit that the net effect is the 50-75 bps EBITDA uplift, not the full gross spread. The own math presented in Q3: at 4% EBITDA in Q2 FY26, closing these deals should put the consolidated business at 4.5% to 4.75% EBITDA.

The stage today: the segment contributes more than INR1,000 crores in annualized revenue, roughly 15% of the business. Q4 FY26 delivered 4.5% EBITDA and a 10.9% gross margin. The FY27 guidance of 5% EBITDA margins (Q4 FY26 concall, Jun 2026) embeds the full-year effect of these deals plus scale benefits, since FY26 only captured partial-quarter contributions from the MedTech closures.

Key risks

- **Minority interest leakage will consume a fixed share of every rupee of profit at the newly acquired companies.** Entero typically buys 60-80% of each acquisition, leaving 20-49% with the selling promoters. In Q4 FY26, minority interest was an abnormal 38% of PAT because one partially-owned subsidiary shipped government equipment early; management guides that FY27 minority interest will settle at 25-27% of PAT before minority interest (Q4 FY26 concall). That means a meaningful slice of the MedTech margin uplift flows to partners, not to Entero shareholders. The offsetting mechanism is the call option written into every deal, which lets Entero buy the remaining stake at predetermined multiples over 3-5 years, but exercising it requires cash.
- **The acquisition pipeline is active again, so integration and funding risk may rise after a quiet H1.** Management completed no acquisitions in H1 FY27 but said it is evaluating multiple opportunities, including some that can close in FY27; it is not looking at small deals and is more excited by product expansion (Q2 FY27 concall, Nov 2026). The FY27

guidance excludes new acquisitions, so any deal would be additive to revenue but also add integration, working capital and funding needs. The seven FY26 deals are still being absorbed, and the company will prioritize growth investments over debt repayment while keeping net debt to EBITDA below 2x.

- **Interest costs remain material until working capital releases and the Q3 repayment cycle starts.** IPO proceeds were fully deployed into acquisitions and working capital, so interest expense is structurally higher than when the cash was parked earning income. Net debt was about ₹200 crores with cash of ₹250 crores at Q3 FY26 (Q3 FY26 concall). In Q2 FY27, management said repayment on last year's acquisition debt starts in Q3 FY27, with interest expected to fall as debt reduces; until then finance cost remains around ₹20-25 crores a quarter. The FY27 OCF conversion target of at least 50% of EBITDA depends on holding working capital and improving margins.
- **The MedTech working capital benefit is partly a payables extension that could reverse.** Management attributes the working capital day improvement partly to MedTech's longer credit cycles, where manufacturers grant more extended payment terms than the 7-21 day pharma cycle (Q4 FY26 concall). Payables days rose as MedTech revenue consolidated. That is supplier-financed inventory, not operational efficiency. If MedTech suppliers tighten terms, or if the mix shifts back toward pharma, the working capital tailwind reverses and OCF conversion falls below the 50% target.
- **GLP-1 is a high-value, politically sensitive, and structurally shifting category.** Entero sells ₹10-12 crores of GLP drugs per month, about 5% of the Indian GLP market (Q4 FY26 concall). Semaglutide patent expiry in March 2026 brings multiple generic entrants, which expands the market but also changes distribution economics: generic GLP-1 products carry thinner margins and spread across more manufacturers. Management expects to win a "disproportionate share" due to cold chain infrastructure and its existing manufacturer relationships, but the transition from one or two innovators to many generics is precisely the kind of margin mix change that can compress gross margin per rupee of GLP revenue.
- **Trade margin caps can cut reported revenue even when distributor margin percentage holds.** About 137 molecules notified by NPPA represent only about 2% of Entero's portfolio, and management said the MRP reduction is likely to be absorbed largely by hospital margins rather than distributor margins; the risk is top-line deflation if manufacturers cut prices, not an immediate margin hit (Q2 FY27 concall, Nov 2026).
- **New Labour Code costs are one-time, but the precedent for regulatory surprises is real.** Q3 FY26 carried a ₹6.1 crore exceptional charge for past service cost under the new labour code. Management says there is no material recurring impact. Separately, the annual report discloses a 3-day suspension of a subsidiary's drug license (Atreja

Healthcare, Jan-Feb 2026) and a ₹25,000 compounding fee under the Legal Metrology rules. Each of these was contained, but the pattern shows regulatory exposure exists at the subsidiary level, and the licensing tail risk multiplies with 48 operating entities.

- **Key promoters of acquired companies hold 20-49% stakes, which creates retention upside but also dependency.** Management confirms 100% of recent acquisition promoters are still with the company, holding "skin in the game" with an upside (Q4 FY26 concall). That is the right structure, but it means a meaningful share of the organic growth at those entities is tied to the selling promoters' continued effort. When lock-in periods expire and call options mature, the relationship shifts from partnership to exit negotiation, and the customer relationships that came with the acquisition may move with the departing promoter.
- **Competition for the same acquisition targets may return.** PharmEasy went through its own financial troubles and paused acquisitions; management argues the buyer set is small and the seller pool is huge, so the dynamics do not materially change even if PharmEasy re-enters (Q3 FY26 concall). But Amazon and quick commerce players (Zepto) are expanding into pharmacy distribution from the demand side, competing for the same retail chemist wallet share Entero wants to deepen. Entero supplies organized retailers including Amazon today, so the relationship is partly cooperative, but the strategic position depends on Amazon continuing to need a middleman rather than building its own pharma distribution.
- **Scale effects cut both ways in PH1.** Salary increases and fixed manpower costs were baked into Q1 FY26 (3.6% EBITDA margin), with revenue growth of only 5% QoQ absorbing those costs. The FY27 margin guidance of 5% assumes the 23% revenue growth materializes and the cost base stays flat. If organic growth softens (the company is deliberately dropping low-margin and low-ROIC business lines, which subtracts from top-line growth), the fixed cost base compresses margins before procurement gains can offset it.

Scenarios

(Not disclosed in the sources.)

VALUATION SUMMARY

LINE ITEM	FY25	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	5,096	6,591	8,437	10,124	12,149
Revenue growth	+29.9%	+29.3%	+28.0%	+20.0%	+20.0%
EBITDA (₹ Cr)	172	266	447	567	741
EBITDA margin	3.4%	4.0%	5.3%	5.6%	6.1%
Depreciation (₹ Cr)	30.70	43.30	52.50	60.00	68.00
Interest (₹ Cr)	41.60	54.40	87.00	89.00	88.00
Other income (₹ Cr)	39.50	19.20	14.00	15.00	17.00
PBT (₹ Cr)	139	179	322	433	602
Tax (₹ Cr)	31.30	33.50	72.40	104	151
Tax rate	22.6%	18.7%	22.5%	24.0%	25.0%
PAT (₹ Cr)	94.80	115	185	247	343
PAT growth	-	+21.3%	+60.3%	+33.8%	+39.1%
EPS (₹)	21.80	26.40	42.40	56.70	78.90
P/E	86.4x	71.4x	44.4x	33.2x	23.9x
PEG	2.4x	2.0x	1.2x	0.9x	0.7x

CAGR FY27E-FY29E: Revenue +20.0% · EBITDA +28.7% · PAT +36.4%

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Q2 FY27 concall notes

TLDR

Entero reported Q2 FY27 consolidated revenue of ₹2,087 crores, up 32.9% YoY (34.7% like-for-like), with organic growth of 18.2% (20% LFL) and inorganic growth of 14.7% from calendarization of prior-year acquisitions; no acquisitions were made in H1. Gross margin expanded 126 bps to 11.5% and EBITDA margin 135 bps to 5.3%, with EBITDA up 78% YoY. PAT was ₹61 crores (+66%), PAT attributable to owners ₹46 crores (+44%), and non-controlling interest ₹15 crores (~25% of pre-minority profit). A ₹11.67 crores receivable provision on a customer default at one subsidiary was taken in other expenses. NWC days were 64, or 61 adjusting for ~₹55 crores of Maharashtra government collections received in November. ROCE and ROE were 22.0% and 22.4%. Management says H1 was ahead of internal expectations and that FY27 will beat the stated guidance of ~23% revenue growth, 5% EBITDA margin and 50% EBITDA-to-OCF conversion, without giving revised numbers.

WHAT CHANGED SINCE Q1 FY27

- **Guidance direction upgraded, number withheld.** In Q1 management said it "may revise guidance upward after Q2 if first-half performance supports." In Q2 it said it is "in a comfortable position to deliver better than our stated FY27 guidance" on both growth and margin, but declined to give a revised figure. The stated guidance itself (23% growth, 5% margin, 50% OCF conversion) is unchanged.
- **EBITDA margin beat the 5% full-year target.** Q1 delivered 5.0% (+143 bps YoY); Q2 came in at 5.3% (+135 bps YoY), with H1 at 5.2%.
- **M&A stance reversed within two quarters.** Q1: large acquisitions deliberately paused for FY27, "open to compelling deals, particularly in Q4FY27." Q2: "we are looking at multiple opportunities even today," evaluating deals that "can be closed in this year itself," not looking at anything below ₹100 crores, and "hopeful something will happen this year."
- **Working capital guidance held despite the miss.** Q1 NWC was 61 days. Q2 reported 64 days on a Maharashtra government payment delay (~₹55 crores received in November); management said adjusted NWC would have been 61 days and kept the 50% OCF conversion guidance. H1 operating cash flow was negative ₹46.5 crores.
- **New disclosure: a receivable provision.** Q2 carried ₹11.67 crores provided on a customer default at one subsidiary, in other expenses, part of it from the opening provision balance. Management said margin would have been higher without it. No comparable item in Q1.
- **New disclosure: debt repayment schedule.** Q1 said interest cost would be "broadly stable" on ~₹200 crores of acquisition debt. Q2 disclosed that repayments on the acquisition debt commence from Q3, after which interest cost should come down.
- **MedTech guidance raised in effect.** Q1: MedTech revenue "on track to cross ₹1,000 crores in FY27 on an organic basis." Q2: MedTech is 15%+ of revenue (about ₹600 crores in H1) and "of course we will be more than ₹1,000 crores in this year."
- **Tone on IPM unchanged.** Q1 management could not isolate the cause of the IPM acceleration; Q2 repeated that it "couldn't figure out much what's the root cause" of IPM at ~15% and has no view on sustainability.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹2,087 crores	+32.9% YoY (34.7% LFL)	Organic 18.2% (20% LFL) plus 14.7% inorganic from calendarization of FY26 acquisitions; no acquisitions in H1
Gross margin	11.5%	+126 bps YoY	Scale-led procurement economies, higher MedTech share, exit from low-margin accounts
EBITDA	Not disclosed in rupees	+78% YoY	Margin expansion of 135 bps
EBITDA margin	5.3%	+135 bps YoY	Same three levers as gross margin
PAT	₹61 crores	+66% YoY	PAT margin 2.9%
PAT attributable to owners	₹46 crores	+44% YoY	Non-controlling interest ₹15 crores, ~25% of profit before minority interest
Net working capital days	64 days	QoQ from 61 in Q1	Timing of trade receivables on government contracts; funds reallocated due to drought in Maharashtra; ~₹55 crores collected in November, which would have put NWC at 61 days
ROCE	22.0%	Up from 21.1% in Q1	Management did not attribute a driver
ROE	22.4%	Up from 20.4% in Q1	Management did not attribute a driver
H1 operating cash flow	Negative ₹46.5 crores	n/a	Maharashtra government payment delay; would have been positive had the money arrived on time
H1 revenue / EBITDA margin	₹4,028 crores / 5.2%	+35% YoY revenue	Gross profit ₹461 crores at 11.5% margin
MedTech share of revenue	15%+	n/a	About ₹600 crores in H1; management did not disclose segment margin

SEGMENTS & GEOGRAPHIES

- **Pharmaceutical distribution (core):** Organic growth of 18.2% (20% LFL) came from customer base expansion, higher wallet share and new product categories. Management describes pharma as largely covered in terms of categories, with remaining expansion in MedTech.
- **MedTech:** 15%+ of total revenue, about ₹600 crores in H1, and management says FY27 will exceed ₹1,000 crores. Margin depends on the value added rather than the product: plain distribution earns pharma-like margins, demand-generation roles earn more. Segment margin was not disclosed because of cost allocation across segments.
- **Government business:** About 3% of total revenue, long-standing rather than new. The Q2 working capital miss came from delayed government collections in Maharashtra.
- **Geographic reach:** 92,200+ retail customers, 2,900+ hospital customers, ~500 districts, 20+ states and union territories, 90,400+ SKUs from 3,200+ manufacturers in H1.

STRATEGY & COMPANY-SPECIFIC

- **M&A:** Evaluating multiple opportunities in portfolio expansion, product categories not currently handled, and new geographies, with more interest in product expansion than geography. No deal below ₹100 crores; large targets

exist in both pharma and medtech. Management is hopeful of closing something this year. Calendarization of prior acquisitions tapers in Q3 and more in Q4 absent new deals.

- **Capital allocation:** Priority is deploying operating cash flow into growth opportunities rather than repaying debt, on the view that higher-return businesses can be built versus the cost of debt. The board mandate caps net debt to EBITDA at 2x. If opportunities are not found, debt will be repaid.
- **Debt repayment:** Installments on the acquisition debt begin in Q3, after which interest cost should decline.
- **Minority interests:** Call options remain in place. Management declined to give a path for the minority share, saying it depends on how cash flow is split between acquisitions, minority buyouts and organic growth.
- **Subsidiary structure:** Subsidiaries are retained because they carry 30-40 years of local customer recognition; merging them into the parent may be evaluated later, and management sees the benefit as not outweighing the disruption now.
- **Deferred consideration:** ₹166 crores paid in H1 relates to deferred consideration from prior deals, not call or put options, drawn from the ₹309 crores balance outstanding at March.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	~23% excluding new acquisitions, but management expects to beat it	Maintained, with direction upgraded	H1 growth of 35%; no specific revised number given
FY27 EBITDA margin	5%, but management expects to beat it	Maintained, with direction upgraded	H1 margin of 5.2% and Q2 of 5.3%
FY27 EBITDA-to-OCF conversion	50%	Maintained	H1 OCF negative on a one-off government delay; collections received in November
Interest cost	To decline as acquisition debt repayments start in Q3	Improved from "broadly stable"	Scheduled repayment installments
MedTech FY27 revenue	More than ₹1,000 crores	Raised in effect from "on track to cross ₹1,000 crores"	H1 MedTech revenue of about ₹600 crores
FY28 revenue growth	No number; management expects high teens to 20%+ organically is the endeavor if no acquisition closes	n/a	Organic opportunities; formal view deferred to Q4
Net debt to EBITDA	Not to exceed 2x	Maintained	Board mandate

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Customer credit default	₹11.67 crores provided in Q2 on a customer default at one subsidiary, in other expenses; legal recovery rights, postdated cheques and security are held; part of the amount came from the opening provision balance
Government receivable delays	NWC rose to 64 days from 61 on Maharashtra government contracts where funds were reallocated due to drought; ~₹55 crores collected in November; management treats it as one-off
Trade margin / MRP regulation	137 molecules notified by NPPA are 2% of the portfolio. Margin percentage is not expected to change; top-line could fall if manufacturers cut prices. Management says the large part of the MRP-to-manufacturer gap was captured by hospitals, not distributors, and expects most of any reduction to be absorbed there

RISK	WHAT MANAGEMENT SAID
IPM growth sustainability	IPM at ~15% versus a historical 7-10%; management cannot identify the cause, says growth is volume-led, and has no view on how long it lasts
Minority interest dilution	~25% of profit before minority interest; buyout timing and amount depend on capital allocation decisions and were not quantified
Acquisition execution	Deals under evaluation may not close; management deferred FY28 guidance to Q4 because of this uncertainty
Interest cost	~₹20-25 crores per quarter until repayments reduce the balance from Q3

Q&A HIGHLIGHTS

Guidance upgrade Asked whether H1 growth above 30% means the 23% guidance is being raised, management said it is in a comfortable position to beat the guidance on both growth and margin but is not giving a revised number on the call.

Trade margin caps On whether hospital margin regulation or MRP cuts threaten Entero, management said distributors were not earning those margins (gross margin is 11.5% overall), the margin percentage has not changed through DPCO or MRP reductions including 2019, and the 137 notified molecules are 2% of its portfolio. Any top-line impact depends on whether manufacturers cut prices.

Minority interest path Asked what the minority share would be in two years without acquisitions, management said operating cash flow can go to acquisitions, minority buyouts or organic growth, so the percentage depends on the mix and no number was given.

MedTech size and margin MedTech is 15%+ of revenue, about ₹600 crores in H1, and will exceed ₹1,000 crores for FY27. Segment margin was not disclosed because of cost allocations; management said margin depends on value added, not the product.

The ₹12 crores provision Management confirmed the amount was provided in Q2 in other expenses for a customer default at a subsidiary, that part was already in the opening provision, and that margin would have been higher without it. Recovery rights, postdated cheques and security are held.

Debt repayment and capital allocation Repayments on the acquisition debt start in Q3, after which interest cost should fall. Cash flow will go to growth opportunities first while net debt to EBITDA stays within 2x; debt repayment happens if opportunities are not found.

Acquisition size and timing Management is evaluating deals that could close this year, is not looking below ₹100 crores, sees large targets in pharma and medtech, and is more interested in product expansion than new geography.

FY28 without acquisitions Asked whether 20% growth with better profitability is achievable organically in FY28, management said that is the endeavor but deferred a number to Q4 given the opportunities under evaluation.

Navin Fluorine International Limited

GROWTH TRIGGERS

The bull case is that Navin Fluorine's earnings base is already larger and more profitable, and the next leg is supported by contracted visibility and a dated commissioning wave: the Solstice HFO extension to 2032, the CDMO $100 million FY27 target, MPP debottlenecking already commissioned, HFC/R32 commissioning shortly, cGMP4 Phase 2 by end-Q4 FY27 and Chemours/Kemos in Q3 FY27. Operating leverage on qualified assets is the central mechanism.

1. HFO contract extension protects the HPP base through December 2032

The Solstice Advanced Materials HFO supply contract was extended by four years to December 2032 and carries approximately US$180 million of additional revenue potential on the same asset base. Management says the prior seven-year contract becomes an eleven-year contract and that the base beyond FY28 is protected. Pricing is pass-through and management expects larger volumes, so the economic test is volume and cost recovery rather than a simple annual revenue division.

2. CDMO $100 million FY27 target is within reach

Management says the FY27 CDMO target is well within reach, supported by the Fermion base and new qualification campaigns. cGMP4 Phase 1 and Phase 2 are dedicated to Fermion; Phase 2, a ₹125 crore capex, is expected operational by end-Q4 FY27. Management puts combined peak revenue potential at about ₹900-1,000 crore by FY28-29, with one molecule approved in China and on FDA fast track and another tied to darolutamide label expansion.

3. R32/HFC capacity commissioning shortly adds HPP volume

The HFC expansion is progressing as planned and remains on track for commissioning shortly. Management says HFC pricing is firm, realisations improved sequentially and customers are showing interest in the upcoming capacity. It expects some incremental HPP volume in the commissioning quarter and full ramp in the next quarter.

4. MPP debottlenecking is commissioned and specialty order visibility extends through FY27

The Dahej MPP debottlenecking was commissioned in September 2026. Management says specialty order visibility is healthy for H2 FY27 and beyond, five new molecules have campaign orders through end-FY27 and beyond, and Nectar is guided at 60-65% of par in FY27 with the balance in FY28. That gives the specialty business volume visibility while new molecules move into commercial campaigns.

5. Advanced materials platform has dated commissioning and customer purchase orders

The Chemours/Kemos advanced cooling project is progressing to commissioning in Q3 FY27, with purchase orders in hand from Chemours. The separate advanced-materials adoption capacity is expected by Q2 FY28 and targets data centres, electronics, semiconductors and

defence. Management allows about 15 months after Kemos commissioning to judge adoption, market size and follow-on capex, and frames advanced materials at 10-15% of the expanded pie by 2030.

6. FY27 margin runs near 34% while long-term guidance stays at 30%

Q2 FY27 operating EBITDA margin was 34.2% and management says FY27 will be worked in the same range as H1. Pricing actions, operating leverage and operating efficiency offset raw-material inflation in HCl, sulphur, gas and power. Long-term EBITDA margin guidance remains 30%, so the FY27 level is not being presented as a new long-term anchor.

7. Capex is funded within a ₹700-1,000 crore annual frame

Management reaffirms a ₹700-1,000 crore annual capex frame, with FY27 at about ₹700 crore and H1 spend of ₹300-310 crore. It says growth to FY28 is largely baked in from projects already under way, with some contribution to FY29. Net operating working capital was 72 days in H1 FY27, within the 70-75 day framework, and management cites 60-65% sustainable EBITDA conversion.

INVESTMENT THESIS

Navin Fluorine International is a fluorochemicals manufacturer that converts fluorspar and anhydrous hydrofluoric acid into three commercial businesses: High Performance Products, including refrigerants and inorganic fluorides; Specialty Chemicals, including campaign-based fluorinated intermediates for crop science and life sciences; and CDMO, contract development and manufacturing for global pharma innovators. A fourth advanced-materials vertical is being built for data centres, electronics, semiconductors and defence, anchored by the Chemours/Kemos immersion cooling project and a separate adoption facility. The investment case is operating leverage on assets already commissioned or being commissioned, with the HFO contract extension and CDMO target providing longer visibility.

The Q2 FY27 result shows the earnings base is already larger and more profitable. Revenue was ₹1,191 crore, up 57% year on year; operating EBITDA was ₹407 crore, up 66%, at a 34.2% margin; PAT was ₹269 crore, up 81%. H1 FY27 revenue was ₹2,236 crore, up 51%, EBITDA ₹765 crore, up 69%, and PAT ₹513 crore, up 93%, with EPS of ₹100. For a fluorochemicals manufacturer, a 34.2% operating margin is high, and it was earned with raw-material inflation in HCl, sulphur, gas and power. Management attributes the margin to pricing actions, operating leverage and operating efficiency. The long-term guide is lower, at 30%, which is the right anchor for normalised economics.

The business economics rest on integration and qualification. AHF is the base input for refrigerants, inorganic fluorides and specialty fluorochemicals, and the Dahej AHF plant has improved utilisation, contributing to HPP growth. In refrigerants, HFC pricing is firm and realisations improved sequentially. In Specialty Chemicals, the MPP debottlenecking was commissioned in September 2026, and management says MPP1 and MPP2 will exceed their prior bar by end-FY27. In CDMO, cGMP4 Phase 1 and Phase 2 are dedicated to Fermion, which creates customer lock-in but also concentration. The company is not a generic chemical capacity supplier; it is selling qualified fluorine chemistry into regulated or specification-driven applications.

The growth path has four dated pillars. First, the Solstice HFO supply contract was extended by four years to December 2032 and carries about US$180 million of additional revenue potential on the same asset base. Management says the prior seven-year contract becomes eleven years and that the base beyond FY28 is protected. Pricing is pass-through, so the economic test is volume and cost recovery rather than a simple annual revenue division. Second, CDMO is targeting $100 million in FY27 and management says the target is well within reach. cGMP4 Phase 2, a ₹125 crore capex, is due by end-Q4 FY27; combined Phase 1 and Phase 2 peak revenue potential is about 3x capital, or ₹900-1,000 crore by FY28-29. That is a management estimate, not a contract. Third, the HFC/R32 expansion is on track for commissioning shortly, with customer interest in the upcoming capacity and a ramp

expected through the next quarter. Fourth, the Chemours/Kemos advanced cooling project is due in Q3 FY27, with purchase orders in hand; the separate advanced-materials adoption capacity is due Q2 FY28. Management allows 15 months after Kemos commissioning to judge adoption and follow-on capex.

The near-term earnings path is therefore a combination of already commissioned MPP capacity, a commissioning R32 plant, a CDMO facility reaching its target year, and a small but strategically important advanced cooling plant. The capex frame is ₹700-1,000 crore a year, with FY27 at about ₹700 crore and H1 spend of ₹300-310 crore. Management says growth to FY28 is largely baked in from projects already under way, with some contribution to FY29. Working capital was 72 days in H1 FY27, within the 70-75 day framework, and management cites 60-65% sustainable EBITDA conversion. The company declared an interim dividend of ₹8 per share while continuing the capex programme.

Management delivery is mixed but improving. The Q2 P&L was delivered, the MPP debottlenecking was commissioned, and the HFO contract was extended. The Chemours/Kemos project slipped to Q3 FY27, although management says the delay was a deliberate process choice and that purchase orders are in hand. The CDMO $100 million target is still open until the full-year print. The long-term margin guide remains 30% even though FY27 is running near 34%, which leaves a normalisation question rather than a new higher-margin anchor.

The thesis is not that every project will succeed on schedule. It is that the installed base and contracted visibility can support a higher revenue and profit base over the next two to three years, with operating leverage doing more of the work than price. The milestones to watch are R32 commissioning and placement, cGMP4 Phase 2 commissioning and CDMO revenue, Chemours/Kemos adoption, HFO volumes under the extended contract, and specialty utilisation of the MPP and Nectar assets. The falsifiers are equally specific: a CDMO approval or label-expansion delay, slower Chemours adoption, weak R32 placement, or a margin slide toward 30% without volume support would break the operating-leverage case. The HFO extension protects the base but does not by itself prove the incremental return on the new capacity.

RESEARCH REPORT

What Navin Fluorine International Limited does

Navin Fluorine International Limited is a specialty fluorochemicals manufacturer founded in 1967 and part of the Padmanabh Mafatlal Group, one of India's oldest industrial houses. The company has spent nearly 60 years building expertise in fluorine chemistry, which is the common thread across all three business verticals. It operates four manufacturing units: Surat and Dahej in Gujarat, Dewas in Madhya Pradesh, and Manchester Organics in Runcorn, UK, plus three R&D centres.

The business splits into three verticals with distinct customers and economics:

- High Performance Products (HPP): ₹1,615.38 crores revenue in FY26, 48.75% of total
- Specialty Chemicals: ₹1,152.09 crores, 34.76%
- CDMO: ₹546.43 crores, 16.49%

Consolidated FY26 revenue was ₹3,313.90 crores, up 41.05% year on year. Operating EBITDA was ₹1,081.68 crores, up 102.67%, with margin expanding to 32.64% from 22.72%. Net profit was ₹663.55 crores, up 129.94%. The company delivered six consecutive quarters of revenue and profitability growth.

Q2 FY27 update (30 October 2026). Consolidated operating revenue was ₹1,191 crores, up 57% year on year, operating EBITDA ₹407 crores, up 66%, at a 34.2% margin, and PAT ₹269 crores, up 81%. First-half revenue was ₹2,236 crores, up 51%, EBITDA ₹765 crores, up 69%, and PAT ₹513 crores, up 93%, with EPS of ₹100 and net operating working capital at 72 days. The Solstice Advanced Materials HFO supply contract was extended by four years to December 2032, adding approximately US$180 million of revenue potential. Management guides FY27 EBITDA margin in the same range as H1 and long-term margin at 30%; it reaffirmed a ₹700-1,000 crores annual capex frame, with FY27 at about ₹700 crores and H1 spend of ₹300-310 crores.

HPP: refrigerants, inorganic fluorides, and the value chain behind them

HPP is the largest vertical and the company's original business. Navin Fluorine introduced refrigerants to India in 1967, was the first Indian company to manufacture R22, and remains the first and only producer of next-generation HFO refrigerants in India. The products sell under the Mafron brand, which the report describes as trusted by leading air-conditioning OEMs and aftermarket customers.

The vertical includes refrigerants (R22, R32/HFC-32, HFOs and blends), anhydrous hydrofluoric acid (AHF), diluted hydrofluoric acid, ammonium bi-fluoride, potassium fluoride and sodium fluoride. Navin Fluorine is among India's largest producers of AHF and diluted

HF, among the largest producers of the inorganic fluorides, and one of the largest boron trifluoride (BF3) manufacturers globally.

Backward integration is central to how HPP works. The Surat facility produces sulphuric acid and hydrofluoric acid, which are critical inputs for the Mafron refrigerants. In February 2026 the company commissioned a new 40,000 MTPA AHF plant at Dahej, an investment of over ₹450 crores that the Board's Report calls a landmark milestone strengthening the fluorochemicals value chain. The new plant can accept fluorspar of varying grades, which gives procurement flexibility. On the raw material side, the company is a joint venture partner with Gujarat Mineral Development Corporation and Gujarat Fluorochemicals in Swarnim Gujarat Fluorspar, formed to beneficiate fluorspar ores supplied by GMDCL from its mines.

The AHF plant matters beyond refrigerants. The company is using it to pursue downstream opportunities including high-purity electronic grade HF for semiconductor applications, part of a broader push into niche chemistry across semiconductor manufacturing, renewable energy and defence.

Specialty Chemicals: complex fluorinated molecules for agro and life sciences

Specialty Chemicals manufactures complex, multi-stage fluorinated molecules. The product list includes fluorobenzene and benzotrifluoride series, trifluoroacetic acid, trifluoroethanol and other fluorinated intermediates. These go into crop science, life sciences and performance materials.

The Dahej site houses a Fluoro-specialty plant commissioned in December 2024 and an MPP. The company invested ₹75 crores to debottleneck the Dahej MPP to support commercialisation of a new molecule in the crop protection space for a global innovator customer; the debottlenecking was commissioned in September 2026.

Growth in FY26 came from scale-up of existing molecules, new molecule launches and improved asset utilisation. Revenue grew 43.94% to ₹1,152.09 crores.

CDMO: contract development and manufacturing for global pharma

The CDMO vertical, branded Navin Molecular, offers contract development, scale-up and manufacturing for complex fluorinated and non-fluorinated compounds to global pharma innovators. It operates cGMP-compliant facilities at Dewas in India and Manchester Organics in the UK, covering the full lifecycle from pre-clinical to commercial scale.

The vertical's edge is fluorination chemistry applied to pharma. The report says the company has proven capabilities for fluorination chemistries with precision and seamless scale-up from research to pilot to manufacturing. It has working relationships with a majority of the top 20 global pharma innovators. During FY26 the Dewas site received over 40 audits and visits from pharma companies with no major observations.

In December 2025 the company commissioned cGMP4 Phase 1 at Dewas, with commercial supplies starting in January 2026. Revenue grew 59.39% to ₹546.43 crores, the fastest of the three verticals, driven by scale-up of commercial molecules and increasing traction with European CDMO customers.

Advanced materials: the Chemours Opteon partnership

In FY26 Navin Fluorine signed a strategic partnership with Chemours to manufacture Opteon, a two-phase immersion cooling fluid for hyper data centres. This is the company's entry into advanced materials. The initial capacity has a capex outlay of US$14 million, of which US$5 million is contributed by Chemours. The project, referred to on the Q2 FY27 call as Kemos, is now expected to commission in Q3 FY27; management says the delay was a conscious choice to select the right process for the initial capacity and that purchase orders are in hand from Chemours.

> *"The partnership with Chemours, to establish an initial capacity at a capex outlay of US$ 14 million, of which US$ 5 million has been contributed by the customer, for manufacture of their new-age liquid coolant catering to hyper data centres signals our foray into advanced materials."*
>
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The structure is notable: Chemours contributes capital and brings the proprietary product, Navin Fluorine brings manufacturing capability.

Financial position and capacity

The company raised ₹750 crores via a Qualified Institutional Placement in July 2025, allotting 16,02,564 shares at ₹4,680 each. The proceeds were used to repay borrowings of the company and its subsidiary NFASL, and for general corporate purposes. Net debt to equity stood at 0.01 as of March 31, 2026, and working capital days came down from 89 to 74 days.

The balance sheet supports an ongoing capex programme. In addition to the AHF plant and cGMP4, the company approved ₹236.50 crores for an additional 15,000 MTPA of R32-equivalent HFC capacity. It also set up a Group Captive arrangement with Prozeal Green Power for renewable power at Surat, expected to take the site's renewable footprint above 50% when commissioned in FY27.

Business segments

High Performance Products (HPP)

HPP is Navin Fluorine's largest vertical, contributing 48.75% of total revenue in FY 2025-26. It makes refrigerants and inorganic fluorine chemicals, built on nearly six decades of fluorine chemistry. The company introduced refrigerants to India in 1967 and was the first Indian

company to manufacture R22 gas. It remains the first and only producer of next-generation HFO refrigerants in India.

The product line splits into two groups. Refrigerants sold under the Mafron brand cover R22, the HFC R32, HFOs, and blends, serving air-conditioning OEMs, mobile and stationary cooling, and the aftermarket. The inorganic chemicals side produces anhydrous hydrofluoric acid (AHF), diluted hydrofluoric acid, ammonium bi-fluoride, potassium fluoride, and sodium fluoride, which feed pharma, solar, electronics, steel, glass, and oil and gas. The portfolio also reaches niche chemistry for semiconductor manufacturing, renewable energy, and defence, and the company is among the largest boron trifluoride manufacturers globally.

Backward integration is the structural advantage. The Surat complex produces sulphuric acid and hydrofluoric acid in-house as critical inputs for the Mafron refrigerants. In February 2026, the company commissioned a new 40,000 MTPA AHF plant at Dahej, adding a second AHF source with flexibility to accept fluorspar of varying grades. That reduces reliance on a single site and secures supply for downstream operations at both Dahej and Surat.

Customers are global. The annual report names leading air-conditioning OEMs and aftermarket buyers in India, plus exports to the Middle East, the US, the Far East, and North Africa. The customer base also includes petrochemical majors, stainless steel manufacturers, and Fortune 500 firms across downstream fluorochemical users. Multi-year partnerships with global majors in the HPP segment provide revenue and growth visibility.

Why customers buy comes down to three things: the Mafron brand has become a generic name for refrigerants in India, the company holds first-mover position on low-GWP products like R32 and HFOs, and backward integration into AHF secures supply. The Kigali Amendment and Montreal Protocol are shifting global demand toward lower Global Warming Potential refrigerants, which favors the HFO and R32 portfolio.

The annual report does not name direct competitors, so positioning must be read from disclosed claims: the only Indian manufacturer of HFOs, among India's largest producers of inorganic chemicals, and one of the largest manufacturers of AHF and diluted HF in India. Gujarat Fluorochemicals Limited appears in the source only as a joint venture partner, alongside Gujarat Mineral Development Corporation, in Swarnim Gujarat Fluorspar Private Limited, a fluorspar beneficiation venture.

The segment anchors the group's fluorine value chain. The new AHF capacity at Dahej feeds downstream operations and underpins the Specialty Chemicals and CDMO businesses, which also depend on fluorination chemistry. The Chemours partnership to manufacture Opteon, a two-phase immersion cooling fluid for hyper data centres, marks the entry into advanced materials, with a US$14 million capex of which US$5 million comes from the customer. A

Group Captive renewable power arrangement with Prozeal is expected to lift the renewable share at Surat above 50% once commissioned in FY 2026-27.

Segment revenue rose to ₹1,615.38 crores in FY 2025-26 from ₹1,206.14 crores, a 33.93% YoY increase on higher volumes and improved realisations across domestic and export businesses. Export was 55.62% of segment revenue, domestic 44.38%. The second R-32 plant, commissioned in March 2025, ran at optimal capacity through the year.

Management's forward view centers on capacity and regulation. The board approved a ₹236.50 crores capex for additional HFC capacity of nearly 15,000 MTPA R32 equivalent, earlier targeted for commissioning in Q3 FY 2026-27. On the Q2 FY27 call management said the expansion is on track for commissioning shortly, with some incremental volume in the commissioning quarter and full ramp in the next quarter. On the AHF commissioning, management said:

> *"Successfully commissioned the new HF Plant in February 2026 and commenced commercial supplies, marking a significant milestone in strengthening our manufacturing capabilities and backward integration"*
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On the segment's growth drivers:

> *"HPP segment revenue increased to ₹ 1,615.38 crores in FY 2025-26 from ₹ 1,206.14 crores in FY 2024-25, a 33.93% YoY growth, driven by higher volumes and improved realisations across domestic and export businesses"*
>
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Specialty Chemicals

Navin Fluorine's Specialty Chemicals business manufactures complex, multi-stage fluorinated molecules for crop science, life sciences, and performance materials customers. The core capability is fluorination chemistry - adding fluorine atoms to organic compounds - which is difficult to do safely and consistently at industrial scale. Fluorine chemistry is dangerous: the element is highly reactive, and handling it requires specialized equipment, process control, and waste management. Navin Fluorine has been doing this for nearly six decades, since its 1967 founding, which has built the process knowledge and safety record that customers require before they hand over proprietary molecule production.

The product portfolio spans fluorobenzene and benzotrifluoride series, trifluoroacetic acid, trifluoroethanol, and other fluorinated intermediates. These are building blocks: fluorobenzene derivatives go into agrochemical active ingredients, trifluoroacetic acid is used in pharmaceutical synthesis, and trifluoroethanol appears in anesthetics and solvents. The

group's Navin Research and Innovation Centre (NRIC) at Surat develops and scales these chemistries, and the business model runs from research through development, scale-up, and commercial manufacturing. The annual report describes the capability as a "one-stop fluorine provider" that can move from gram scale to multi-hundred-tonne quantities.

The customers are global innovators in crop protection, pharmaceuticals, and specialty chemicals. They buy from Navin Fluorine because the company has proven it can absorb new technology and replicate it at commercial scale with precision - a capability the annual report lists as a business edge. The customer relationships are long-term and collaborative, often involving co-development of molecules. The Dewas site received over 40 audits and visits from pharma companies during the year with no major observations, which signals the quality standards customers demand and confirms Navin Fluorine meets them.

The segment is the group's second-largest revenue contributor. In FY 2025-26, Specialty Chemicals generated ₹1,152.09 crores, a 43.94% year-on-year increase, representing 34.76% of total group revenue. The growth came from ramp-up of new molecules, improved capacity utilization across Dahej and Surat, and the Fluoro-specialty plant commissioned in December 2024. Exports accounted for 70.77% of segment revenue, with domestic at 29.23%.

The competitive position rests on backward integration and scale. Navin Fluorine has integrated production of key raw materials, including anhydrous hydrofluoric acid (AHF), which is the foundational input for all fluorochemistry. The company commissioned a new 40,000 MTPA AHF plant at Dahej in February 2026, strengthening supply resilience for downstream operations across both Dahej and Surat. The new plant is built with flexibility to accept fluorspar of varying grades, which reduces raw material supply risk. The annual report notes the global fluorination segment is "dominated by a few prominent players," and Navin Fluorine positions itself among India's largest producers of specialty fluorochemicals.

The segment benefits from group synergies. The HPP business consumes AHF produced at Dahej, and the CDMO business shares the NRIC's R&D infrastructure and fluorination expertise. A ₹75 crore debottlenecking of the Multi-Purpose Plant at Dahej was commissioned in September 2026 to support commercialisation of a new molecule for a global innovator customer in the crop protection space, aimed at sweating assets.

Management acknowledged pricing pressure in the crop protection end-market during the year, driven by intense competitiveness among customers. The response was to deepen collaboration with global majors and focus on new molecule launches. The MD described the segment's approach in the annual report:

> *"Strong partnerships with global innovators, ensuring higher asset utilisation while also successfully capitalising on new product launch opportunities. Maintaining a strong focus on disciplined asset utilisation, we expect steady growth in this FY business vertical."*

The strategic partnership with Chemours to manufacture Opteon, a two-phase immersion cooling fluid for hyper-scale data centers, was announced during the year. The project has a total capex outlay of US$14 million, with US$5 million contributed by Chemours. It is now expected to commission in Q3 FY27, after the prior Q1 FY27 target; management says the delay was a conscious choice to select the right process for the initial capacity and that purchase orders are in hand from Chemours. The company is monitoring technology adoption over the 15 months following commissioning. The order book remains supported by long-term contracts, and the product pipeline is led by scale-up across existing molecules and new molecule launches secured during the year.

Contract Development and Manufacturing Organisation (CDMO)

Navin Molecular is the group's contract development and manufacturing arm. It sells fluorination chemistry services to global pharma and biotech innovators: process development, scale-up and commercial production of complex fluorinated and non-fluorinated compounds, from pre-clinical gram scale to multi-ton commercial supply. The segment runs cGMP-compliant facilities at Dewas in Madhya Pradesh and, through the wholly owned Manchester Organics Limited (MOL), at Runcorn in the UK. The two sites work as one platform: MOL handles early-phase work close to European customers, Dewas scales molecules to commercial volumes.

The core capability is fluorination at commercial scale, built over nearly six decades. The cGMP infrastructure was added in stages: a CRAMS facility at Dewas in 2015, a third cGMP multi-purpose plant in 2020, and the cGMP4 Phase I block commissioned in December 2025 with commercial supplies starting the same month. MOL was acquired in 2011, giving the group a UK chemistry base. What competitors cannot easily copy is the combination of fluorine expertise and the willingness to build dedicated capacity ahead of demand - cGMP4 Phase I was announced as capex

Customers

HPP: OEMs, aftermarket, and industrial buyers

The Mafron refrigerant brand serves two distinct customer groups: air-conditioning OEMs and the aftermarket. OEMs buy on specification and reliability, because a refrigerant change in a production line is costly. Aftermarket customers (service technicians and equipment owners) buy on brand trust and availability. The report says Mafron has become a generic name for refrigerants in India, a form of brand equity that makes switching hard.

The vertical also sells inorganic fluorides and AHF to pharma, solar, electronic, steel, glass and oil and gas industries. The BF3 business serves chemical and pharmaceutical industries. Export markets include the Middle East, US, Far East and North Africa.

Specialty Chemicals: global innovators with long-term contracts

Customers are global innovators in crop science, life sciences and performance materials, including Fortune 500 firms. The buying relationship is built on co-development: customers bring molecules, Navin Fluorine brings fluorine chemistry and scale-up capability. The report says continued scale-up in ongoing products is supported by customer confidence and long-term contracts.

The MPP debottlenecking investment of ₹75 crores is tied to a specific novel molecule in the crop protection space for a global innovator customer, which shows how capacity investment follows committed customer demand. The debottlenecking was commissioned in September 2026.

CDMO: top 20 global pharma innovators

The CDMO vertical has working relationships with a majority of the top 20 global pharma innovators. The buying decision sits with pharma companies' supply chain and development teams, who evaluate cGMP compliance, process safety, regulatory readiness and scale-up capability. The 40+ audits at Dewas with no major observations in FY26 is the evidence that matters to these customers.

The report describes a balanced portfolio spanning early-stage innovation to late-stage and commercial pipeline, across oncology, respiratory, cardiovascular, neurology and animal health. The company also notes anticipated final readouts for a couple of molecules in the pipeline, which would drive commercial-scale demand.

Chemours: a customer that pays for capacity

The Opteon partnership is a different customer structure. Chemours contributes US$5 million of the US$14 million capex, which means the customer is effectively pre-paying for manufacturing capacity. This is the report's example of how the company deepens engagement with global innovators by partnering in their growth journey.

Export mix

FY26 revenue was 67.15% export and 32.85% domestic. Export revenue was ₹2,225.40 crores. The company says it has enhanced market reach with the capability to place products across the Americas, Europe and the Far East.

Competitive landscape

The annual report does not name direct competitors, so the competitive picture has to be assembled from the positioning claims the company makes about itself and the market

dynamics it describes.

Refrigerants: first-mover position, now in a transition

Navin Fluorine's competitive position in refrigerants rests on being first. It introduced refrigerants to India in 1967, was the first Indian company to manufacture R22, and is the first and only producer of HFOs in India. The Mafron brand has become a generic name for refrigerants in India, which the report says makes it the preferred choice for leading AC OEMs, service technicians and equipment owners.

The Kigali Amendment is reshaping this market. The transition from high-GWP refrigerants to lower-GWP HFCs like R32 and HFOs favours producers with the chemistry capability to make the new molecules. Navin Fluorine has R32 capacity, is ramping a second R32 plant, and is the only Indian HFO producer, which positions it ahead of the regulatory curve. The new 15,000 MTPA HFC capex is a bet that this transition continues.

> *"New capex of ₹ 236.50 crores to establish additional HFC capacity, equivalent to nearly 15,000 MTPA, planned for commissioning in Q3 will drive further growth in FY 2026-27 and beyond"*
>
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AHF and inorganic fluorides: scale and backward integration

The company is among India's largest producers of AHF and diluted HF, and among the largest producers of ammonium bi-fluoride, potassium fluoride and sodium fluoride. The new 40,000 MTPA AHF plant at Dahej adds capacity and, with its flexibility on fluorspar grades, procurement optionality. The BF3 business is described as one of the largest globally.

Specialty Chemicals: competition sits in the customers' end markets

The competitive pressure in Specialty Chemicals shows up in the customers' markets, not directly in Navin Fluorine's. The report says pricing pressures persisted in the crop protection space, driven by intense competitiveness witnessed by customers in their end markets. That means Navin Fluorine's customers are under margin pressure, which flows through to their willingness to pay for intermediates. The company's response is to deepen collaboration with global majors and move up the value chain, which is why the MPP and Fluoro-specialty investments matter.

CDMO: fluorination as a differentiator

The CDMO market is crowded, with Indian and global players competing for pharma outsourcing contracts. Navin Fluorine's differentiator is fluorination chemistry, which is technically difficult and relatively rare. The combination of cGMP facilities in India and the UK gives customers a dual-geography option, and the relationships with a majority of the top 20 global pharma innovators are a barrier to entry that took years to build.

The report also notes the company's backward integration into fluorine reagents enables cost-effective key starting material development, a cost advantage in a price-sensitive outsourcing market.

Honest limits

The source documents do not name specific competitors in any vertical. What the report establishes is relative position: first and only HFO producer in India, largest BF3 globally, largest AHF and inorganic producers in India, and a CDMO with relationships across the top 20 pharma innovators. The competitive dynamics described are the Kigali transition in refrigerants, pricing pressure in crop protection, and the technical difficulty of fluorination chemistry as a moat in both Specialty and CDMO.

Industry

Demand drivers

The industry backdrop is India's chemical sector, which a McKinsey report cited by the company projects will nearly triple to US$1 trillion by 2040. The specific demand drivers for Navin Fluorine's products:

- Cooling demand. Rising temperatures and increasing air-conditioning penetration in India as incomes rise drive refrigerant demand. The Kigali Amendment and Montreal Protocol are forcing the transition to low-GWP refrigerants, which is why HFCs like R32 and HFOs are growing categories.
- Pharma outsourcing. India's pharma sector is transforming, with rising demand for complex drug molecules and biopharmaceuticals. That supports the CDMO business, particularly for fluorinated intermediates where Navin Fluorine has specific capability.
- Emerging sectors. Renewable energy, EVs, AI-driven hyper data centres and semiconductor manufacturing all increase demand for high-performance fluorochemicals. The India Semiconductor Mission 2.0 is expected to boost domestic semiconductor manufacturing and its ecosystem of critical inputs, including gases and chemicals. The Opteon immersion cooling fluid partnership is a direct play on the data centre build-out.
- Import substitution. Government initiatives like Make in India and Atmanirbhar Bharat promote domestic manufacturing self-reliance, and the Chairman's message notes progress on trade agreements with the EU and US is creating a favourable environment for the chemical sector.

India's place in the global supply chain

The report describes India's position as a reliable alternative manufacturing destination, supported by favourable demographics, cost-competitive skilled talent and advancing technical capabilities. Geopolitical tensions and supply chain disruptions have pushed global

buyers to diversify sourcing, and India is a beneficiary. The Chairman's message notes the government's focus on infrastructure and domestic manufacturing.

For fluorochemicals specifically, India's role is growing. Navin Fluorine exports 67.15% of its revenue across the Americas, Europe, the Middle East and the Far East, which shows Indian fluorochemical production is already integrated into global supply chains.

Regulation

The Kigali Amendment and Montreal Protocol are the most consequential regulations for the refrigerants business. They set the timeline for phasing down high-GWP refrigerants, which drives demand for R32 and HFOs. Navin Fluorine's capex in HFC capacity and its HFO position are aligned with these timelines.

The DPDP Act (Digital Personal Data Protection Act, 2023) comes into force in May 2027, and the company has started a readiness programme. Environmental regulations are tightening across emissions, waste and water, which raises compliance costs but also creates barriers to entry for smaller players who cannot afford the investment.

Cyclicality

The business has multiple cyclicality vectors. Refrigerants track cooling demand and AC replacement cycles, which are seasonal and weather-dependent. Specialty Chemicals track agrochemical demand, which follows crop cycles and commodity prices, and the report notes pricing pressure in crop protection. CDMO revenue depends on pharma customers' pipeline progression, which is lumpy: a molecule moving from clinical to commercial scale can change revenue sharply, which is why the company highlights a balanced portfolio of early and late-stage molecules.

The FY26 result shows the sensitivity of the model. Revenue grew 41.05% but operating EBITDA grew 102.67%, with margin expanding from 22.72% to 32.64%. The company attributed this to optimised product mix, improved realisations, capacity utilisation and cost discipline. That margin expansion reflects a business with high fixed costs and incremental volume flowing through at high incremental margins.

Growth triggers

Additional HFC/R32 capacity planned for commissioning shortly, with customer interest in the new capacity

During FY 2025-26 the Board approved additional HFC manufacturing capacity of roughly 15,000 MTPA, measured in R32 equivalents. On the Q2 FY27 call management said the expansion is progressing as planned and remains on track for commissioning shortly. It expects some incremental HPP volume in the commissioning quarter and full ramp in the next quarter. Management also said HFC pricing is firm, realisations improved sequentially and customers are showing interest in the upcoming capacity.

The mechanism runs through India's refrigerant transition. R32 is the low-GWP refrigerant (GWP 675) that AC OEMs are adopting as the Kigali Amendment phases down higher-GWP HFCs, which the annual report lists as a key demand driver: "Alignment with Kigali Amendment to increase demand for low-carbon, next-generation refrigerants, e.g. HFCs (R32), HFOs and blends." Navin Fluorine's second R-32 plant, commissioned in March 2025, "operating at optimal capacity throughout the fiscal year," shows current supply is already absorbing demand (Annual Report FY 2026).

The scale is material. At peak, the new capacity projects to ₹600-825 crores against the HPP vertical's FY26 revenue of ₹1,615.38 crores, a 37-51% expansion of that segment's base. Backward integration supports the economics - the new 40,000 MTPA AHF plant at Dahej, commissioned February 2026, secures the anhydrous hydrofluoric acid feedstock for downstream fluorochemical production.

On the Q2 FY27 call, management said the HFC expansion is on track for commissioning shortly and that customer interest in the upcoming capacity provides good visibility. It expects some incremental HPP volume in the commissioning quarter and full ramp in the next quarter.

> *"With a projected peak annual revenue potential of ₹600-825 crores per annum, reinforcing our leadership position in eco-friendly cooling solutions and market position for next-generation refrigerants."*
>
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Chemours Opteon™ immersion cooling fluid facility with capex outlay of US$14 million (US$5 million contributed by Chemours), now expected operational in Q3 FY27

This is a contract manufacturing deal, not a product Navin Fluorine owns. Chemours holds the Opteon™ brand and the two-phase immersion cooling fluid technology. Navin Fluorine builds and operates the plant in India and produces the fluid for Chemours, who sells it into hyper data centre cooling applications. The annual report lists the capex at US$14 million (approximately ₹120 crores), with Chemours contributing US$5 million of that cost. The facility is now expected operational in Q3 FY27, after the prior Q1 FY27 target, with management attributing the delay to selecting the right process for the initial capacity.

> *"The partnership with Chemours, to establish an initial capacity at a capex outlay of US$ 14 million, of which US$ 5 million has been contributed by the customer, for manufacture of their new-age liquid coolant catering to hyper data centres signals our foray into advanced materials."*
>
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The product is a two-phase immersion cooling fluid. Servers are submerged in a dielectric liquid that absorbs heat by boiling and carries it away, which is more efficient than air cooling

for high-density data centre racks. Opteon™ is Chemours' proprietary fluid, so Navin Fluorine's role is manufacturing execution, not technology ownership.

The facility was expected operational in Q1 FY 2026-27, the quarter that closed in June 2026. Management now expects commissioning in Q3 FY27 and frames revenue visibility as dependent on adoption of immersion cooling in the data centre market, with uptake expected to become clearer over 15 months following commissioning:

> *"The contract to manufacture new-age cooling solutions for hyper data centres also present significant opportunities and is something we continue to monitor closely as the technology adoption and its uptake becomes more visible over the next 15-18 months following the commissioning of the plant in early FY 2026-27."*
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Strategically this is Navin Fluorine's entry into advanced materials, a vertical it has been incubating alongside HPP, Specialty and CDMO. It is the clearest example of the service play in that strategy - manufacturing for a global partner's proprietary product rather than selling its own molecule. Because Chemours carries the technology and US$5 million of the US$14 million capex, the investment is partly de-risked, but the revenue scale depends on how fast hyper data centre operators adopt immersion cooling.

MPP debottlenecking at Dahej (capex ₹75 crores) to support commercialisation of a new molecule for a global innovator customer in crop protection space, commissioned September 2026

The Multi-Purpose Plant (MPP) at Dahej is Navin Fluorine's flexible manufacturing asset in the Specialty Chemicals vertical. The Board approved ₹75 crores to debottleneck it, which means removing the capacity constraints that limit throughput so the plant can run commercial volumes of a new molecule for a global innovator customer in the crop protection space. The annual report describes it as a "novel molecule" and a "new molecule launch" rather than an existing product being scaled. The debottlenecking was commissioned in September 2026.

The revenue mechanism runs through the Specialty Chemicals business. MPP is a shared plant, so debottlenecking expands the total volume it can process, and the new molecule moves from development into commercial supply. This is a product-play on an existing asset, not a greenfield build. Specialty Chemicals is the segment that grew 43.94% YoY to ₹1,152.09 crores in FY 2025-26 and contributed 34.76% of total revenue, so the ₹75 crores is a modest capacity unlock inside a business already compounding.

Management confirmed the project stage in the Board's report: the Dahej MPP debottlenecking was completed and commissioned in September 2026. On the Q2 FY27 call, management said specialty order visibility is healthy for H2 FY27 and beyond, five new

molecules have campaign orders through end-FY27 and beyond, and Nectar is guided at 60-65% of par in FY27 with the balance in FY28.

> *"the Board approved a capex of ₹ 75 crores for debottlenecking of our MPP facility at Dahej catering to demand for a novel molecule."*
>
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The Manufacturing Capital section adds that the capex was "initiated... to support the commercialisation of a new molecule for a global innovator customer." The order book for Specialty Chemicals is described as having "strong visibility supported by long-term contracts," which is the demand base this debottleneck is meant to serve.

New AHF plant of 40,000 MTPA at Dahej commissioned February 2026, strengthening backward integration and enabling downstream value-accretive opportunities including electronic grade HF

Anhydrous hydrofluoric acid (AHF) is the base intermediate for nearly all of Navin Fluorine's chemistry - refrigerants, inorganic fluorides, and specialty fluorochemicals. The company commissioned a 40,000 MTPA AHF plant at Dahej in February 2026 with commercial supplies commencing immediately, at an investment of over ₹450 crores.

The mechanism is backward integration. Dahej houses the fluoro-specialty plant, the Multi-Purpose Plant, and new HFC capacity, but previously depended on AHF produced at Surat or purchased externally. The new plant gives Dahej its own AHF source, cutting logistics costs and removing a single-point supply constraint. Management also built the plant to accept fluorspar of varying grades, a cost flexibility the Surat plant lacks.

> *"Successfully commissioned the new HF Plant in February 2026 and commenced commercial supplies, marking a significant milestone in strengthening our manufacturing capabilities and backward integration"*
>
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The second layer is downstream optionality. Management is "actively progressing" high-purity grades of HF, including electronic grade for semiconductor manufacturing - a segment the company ties to the India Semiconductor Mission 2.0. That work is at the development stage, not yet commercial. The plant also reinforces the HPP vertical, where the company is already one of India's largest AHF and diluted HF producers serving pharma, solar, electronic, steel, glass, and oil and gas customers.

The trigger is operational today. Its revenue impact is indirect - it flows through cheaper, more secure AHF supply to Dahej's downstream units and through future high-purity HF products still under incubation.

cGMP4 Phase 1 facility at Dewas commissioned December 2025 with commercial supplies starting from January 2026

The cGMP4 Phase 1 block at Dewas is new commercial manufacturing capacity for the CDMO vertical, Navin Molecular. It was commissioned in December 2025 and commercial supplies began in January 2026, making it the newest revenue-earning asset in the CDMO business, which also includes the Dewas pilot plant and the Manchester Organics subsidiary in the UK.

The mechanism is straightforward: CDMO revenue comes from manufacturing molecules under contract for global pharma innovators. A new cGMP block adds commercial-scale capacity that can be filled with molecules already in the pipeline. Management confirmed the facility was validated before supplies started: "Completed the validation of 7 molecules across different geographies" and "Secured customer product approvals for regulated markets, including the United States, Canada and Japan" (Annual Report FY 2026, Dewas Manufacturing Complex key developments). The site also received over 40 audits and visits from pharma companies with no major observations, which is the qualification work that precedes commercial supply.

The financial evidence is in the CDMO revenue line. CDMO revenues reached ₹546.43 crores in FY 2025-26, up 59.39% year on year, with management attributing the growth to "increasing customer traction" and a "balanced portfolio of late/commercial molecules" (Annual Report FY 2026). The cGMP4 Phase 1 block was commissioned partway through the fiscal year, so its full contribution lands in FY 2026-27.

> *"In the CDMO business, successful commissioning of our cGMP4 Phase 1 facility has been a landmark achievement, with supplies from the new plant commencing from January 2026."*
>
> **BOARD'S REPORT, ANNUAL REPORT FY 2026**

The facility sits inside a CDMO business that management describes as having strong traction from European customers and "anticipated final readouts for a couple of molecules from our pipeline" (Annual Report FY 2026), which points to the next wave of commercial molecules that this new capacity exists to serve.

Hybrid power project with Prozeal for Surat site, expected to enhance renewable footprint at Surat to over 50% upon commissioning in FY 2026-27

Navin Fluorine set up a group captive SPV with Prozeal Green Power Eleven Private Limited to supply renewable power to its Surat site, investing ₹6.60 crores in the project during FY 2025-26 (Annual Report FY 2026).

The business mechanism is lower input cost. As an equity participant in the generating SPV, Navin Fluorine draws power under a long-term framework that qualifies for group captive treatment, which avoids the cross-subsidy surcharges applied to ordinary open-access renewable purchases. Power is a major input at Surat, the company's largest production site,

running the energy-intensive HPP and specialty chemical lines. A cheaper per-unit power cost flows straight into operating margin, and the arrangement locks that pricing in for the long term.

The project is mid-execution. The SPV is established and the equity invested; commissioning is scheduled for FY 2026-27. On commissioning, renewable power at Surat rises above 50% of site consumption, against a group-level renewable share of 12.15% of total electricity in FY 2025-26 (Annual Report FY 2026). That step change supports the group's stated goals of a 30% cut in carbon intensity per tonne of production by 2030 and 50% renewable electricity by 2030, both driven primarily by renewable procurement.

Management's own words:

> *"Initiated investment into Hybrid Power project for Surat site, upon commissioning in FY 2026-27, this will enhance the renewable footprint at Surat to over 50%"*
>
> **ANNUAL REPORT FY 2026, MANUFACTURING & OPERATIONAL EXCELLENCE**

> *"the Company entered into a Group Captive arrangement with Prozeal Green Power Eleven Private Limited for sourcing renewable power... The arrangement enables the Company to secure reliable, cost-effective green power under a long-term framework."*
>
> **BOARD'S REPORT, ANNUAL REPORT FY 2026**

Strong European CDMO traction and two molecules in development, one with China approval and US FDA fast track, expected to support growth in FY27 and beyond

Navin Fluorine's CDMO business (Navin Molecular) grew 59.39% YoY to ₹546.43 crores in FY26, up from ₹342.82 crores, and now contributes 16.49% of consolidated revenue (Annual Report FY 2026). The export share of CDMO revenue jumped from 70.53% to 96.24% over the same period, showing the growth is coming from overseas customers, consistent with the European traction management cites.

The mechanism: CDMO revenue scales when a molecule crosses from clinical trials into commercial production. A "final readout" is the clinical trial result for a late-stage molecule; a positive readout triggers commercial launch planning, which converts into commercial-scale manufacturing orders. Navin Fluorine commissioned its cGMP4 Phase 1 facility at Dewas in December 2025, with commercial supplies starting January 2026, giving it fresh capacity to capture exactly that conversion.

Management frames the two developments as one growth story:

> *"With robust growth outlook for European CDMO customer and anticipated final readouts for a couple of molecules from our pipeline, growth prospects remain encouraging going into FY27 and beyond."*
>
> **MANAGING DIRECTOR, ANNUAL REPORT FY 2026**

Supporting evidence: the CDMO vertical logged 40 customer visits and audits in FY26, holds working relationships across a majority of the top 20 global innovators, and runs a balanced portfolio of early and late-stage molecules spanning oncology, respiratory, cardiovascular, neurology and animal health. The business review states European traction is "expected to continue to strengthen into FY 2026-27 and beyond," with a backward-integration facility in India supporting supply chain resilience as volumes scale.

Key risks

- **Geopolitical disruption to supply chains and pricing.** The company operates in a VUCA world of trade tensions and regional conflicts. Its China supply chain hub is central to raw material sourcing, and any disruption there or in shipping lanes raises input costs or blocks market access. Management's mitigation is "agility with strength" - tight business-function integration for faster decisions on securing supplies and placing products - but the exposure is structural and cannot be hedged away.
- **Process safety failure at a manufacturing site.** Navin Fluorine handles hazardous materials including bromine and hydrofluoric acid. A fire, explosion, or chemical release can cause operational shutdowns, remediation costs, regulatory penalties, and reputational damage. The company's own risk register flags this as the top operational risk. Its controls are a comprehensive Process Safety Management System, pre-startup safety reviews, and a stated target of zero harm; FY25-26 saw zero fatalities and an LTIFR of 0.19 for employees, but the consequence severity of a single major event remains high.
- **Regulatory tightening on refrigerants and emissions.** The Kigali Amendment and Montreal Protocol drive the global transition to low-GWP refrigerants, which is a growth opportunity for R32 and HFOs, but it also forces continuous capex to stay compliant. The company has already committed ₹236.50 crores for additional HFC capacity and is progressing HFO transitions. Separately, evolving environmental regulations on emissions and the DPDP Act (effective May 2027) require ongoing compliance investment. A faster-than-expected regulatory shift could strand existing capacity or raise compliance costs faster than pricing can adjust.
- **Raw material price volatility.** Key inputs - fluorspar, sulphur, boric acid, chloroform - moved in mixed trends through FY25-26, with sulphur prices rising over time. The company uses strategic long-term contracts with dynamic spot procurement to stabilise

costs, but it cannot fully control input prices. If fluorspar or sulphur spikes while refrigerant pricing softens, margins compress.

- **Pricing pressure in the Specialty Chemicals end markets.** Customers in the crop protection space face intense competitiveness in their own end markets. That pressure transmits to Navin Fluorine as demand for cost reductions and more agile innovation. The company's response is deeper collaboration and a strong product pipeline, but the risk is that volume growth comes at the expense of pricing power.
- **Concentration in the CDMO pipeline.** CDMO revenue grew 59.39% YoY to ₹546.43 crores, driven by a balanced portfolio of early and late-stage molecules. But the business depends on a handful of global pharma innovators - it has relationships with a majority of the top 20 - and on the clinical success of molecules in its pipeline. A failed Phase III readout or a customer shifting manufacturing in-house would remove a chunk of future revenue.
- **Cyber risk from increased digitisation.** The company is implementing SAP S/4HANA, LIMS, e-procurement, and API integrations across trade finance and supply chain. Each integration expands the attack surface. A breach could disrupt operations, leak confidential customer data (particularly sensitive in the CDMO business where IP protection is contractual), and damage trust. The company achieved ISO/IEC 27001 certification in FY25-26, which is a control, not an elimination of the risk.
- **Financial gearing at the subsidiary level.** NFASL, the material subsidiary at Dahej, carries external debt of ₹1,222.39 crores as of March 31, 2026, secured against its fixed assets and backed by corporate guarantees from the parent. The ₹750 crores QIP was partly used to repay borrowings, and consolidated net debt-to-equity stands at 0.01x, but NFASL's debt load remains a call on parent cash flows if its ramp-up underperforms.

Scenarios

Bull case

The refrigerant transition plays out faster than expected. The additional 15,000 MTPA R32 capacity, commissioning shortly, ramps to full utilisation and captures the projected ₹600-825 crores peak annual revenue. The Chemours Opteon™ immersion cooling fluid facility, now commissioning in Q3 FY27, proves out in hyper data centre applications, and the advanced materials vertical gains traction with follow-on orders within the 15-month adoption window. The Solstice HFO contract extension to December 2032 adds about US$180 million of revenue potential and protects the base beyond FY28. The CDMO pipeline delivers: cGMP4 Phase 1 is fully utilised, a couple of late-stage molecules get positive readouts and move to commercial scale, and European CDMO traction continues. The MPP debottlenecking at Dahej was commissioned in September 2026. Specialty Chemicals holds

revenue on new molecule launches. Renewable energy investments are targeted to meet more than 60% of the energy requirement. Working capital stays near 72 days, cash flow funds the next capex cycle without new debt, and all three verticals grow revenue while EBITDA margin holds above 30%.

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The company executes on its stated plan. The R32 expansion commissions shortly and ramps steadily, contributing to HPP growth but not at the full projected peak in the first year. The Chemours Opteon™ facility starts commercial production in Q3 FY27 and generates initial revenue, with meaningful scale dependent on data centre adoption over the following 15 months. The Solstice HFO contract extension to December 2032 protects the base and adds about US$180 million of potential revenue. CDMO continues to grow on the existing pipeline and European customer traction, with cGMP4 Phase 1 filling progressively and Phase 2 due by end-Q4 FY27. Specialty Chemicals grows with the MPP debottlenecking and new molecule launches. The new AHF plant operates reliably, strengthening backward integration and enabling early work on electronic-grade HF. Revenue growth normalises, EBITDA margin settles around the long-term 30% guide, and the balance sheet remains conservatively geared.

Bear case

Multiple risks crystallise together. A geopolitical shock disrupts the China supply chain hub or shipping routes, raising raw material costs and delaying the R32 expansion timeline. Simultaneously, pricing pressure in crop protection intensifies, compressing Specialty Chemicals margins. The CDMO pipeline suffers a setback - a late-stage molecule fails its final readout, or a key customer delays a commercial launch - and the anticipated European traction slows. The Chemours Opteon™ facility commissions in Q3 FY27 but data centre

adoption of two-phase immersion cooling is slower than expected, leaving the advanced materials vertical as a cost centre rather than a growth driver. The new AHF plant at Dahej encounters ramp-up issues, constraining downstream opportunities. NFASL's ₹1,222.39 crores debt load becomes more burdensome as its revenue growth slows, and working capital days creep back up from 72 days. EBITDA margin contracts toward the long-term 30% guide, and the company pauses or delays future capex commitments until cash generation recovers.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	2,349	3,314	4,710	5,646	6,539
Revenue growth	-	+41.1%	+42.1%	+19.9%	+15.8%
EBITDA (₹ Cr)	534	1,082	1,601	1,903	2,210
EBITDA margin	22.7%	32.6%	34.0%	33.7%	33.8%
Depreciation (₹ Cr)	119	149	180	210	250
Interest (₹ Cr)	77.90	118	110	80.00	65.00
Other income (₹ Cr)	43.70	65.30	88.00	90.00	92.00
PBT (₹ Cr)	380	873	1,399	1,703	1,987
Tax (₹ Cr)	91.50	210	336	426	497
Tax rate	24.1%	24.0%	24.0%	25.0%	25.0%
PAT (₹ Cr)	289	664	1,064	1,277	1,490
PAT growth	-	+129.9%	+60.3%	+20.1%	+16.7%
EPS (₹)	56.30	129	207	249	291
P/E	180.4x	78.5x	49.0x	40.8x	35.0x
PEG	9.8x	4.3x	2.7x	2.2x	1.9x

CAGR FY27E-FY29E: Revenue +17.8% · EBITDA +17.5% · PAT +18.4%

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Q2 FY27 concall notes

TLDR

Navin Fluorine reported Q2 FY27 consolidated revenue of ₹1,191 crore, up 57% YoY, operating EBITDA of ₹407 crore (66% growth, 34.2% margin) and PAT of ₹269 crore, up 81%. H1 PAT crossed ₹500 crore at an EPS of ₹100, with net operating working capital at 72 days. HPP grew on higher volumes and improved HFC realisations, helped by better utilisation of the new AHF plant, and the Solstice HFO supply contract was extended four years to December 2032 with about US$180 million of additional revenue potential. MPP debottlenecking at Dahej was commissioned in September 2026. Management said the US$100 million CDMO target for FY27 is within reach and CGMP-4 Phase 2 (₹125 crore) becomes operational by end Q4 FY27. FY27 margins are guided near the H1 level of 34.2%, long-term EBITDA margin at 30%, and FY27 capex at about ₹700 crore. Watch Kemos commissioning in Q3 FY27, the HF plant ramp and raw material inflation.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Operating revenue (Q2 FY27)	₹1,191 crore	+57% YoY	Broad-based growth across HPP, specialty chemicals and CDMO
Operating EBITDA (Q2 FY27)	₹407 crore	+66% YoY	Pricing actions against sourcing costs, operating leverage, efficiency
EBITDA margin (Q2 FY27)	34.2%	YoY change not stated	Management cited efficiency rather than pricing alone at a 34% level
Operating PBT (Q2 FY27)	₹336 crore	+87% YoY	Revenue and margin expansion
PAT (Q2 FY27)	₹269 crore	+81% YoY	Operating performance
Operating revenue (H1 FY27)	₹2,236 crore	+51% YoY	Momentum across all three businesses
Operating EBITDA (H1 FY27)	₹765 crore	+69% YoY	Margin expanded 367 bps to 34.2%
PAT (H1 FY27)	₹513 crore	+93% YoY	Against ₹320 crore operating PBT in H1 FY26
EPS (H1 FY27)	₹100	Not stated	On H1 PAT of ₹513 crore
Net operating working capital	72 days	Not stated	Management said within its 70-75 day framework
Interim dividend	₹8 per share (face value ₹2)	New	Declared by the board

SEGMENTS & GEOGRAPHIES

- **HPP:** Revenue grew on higher volumes and improved realisations, with HFC pricing firm and realisations up sequentially. The new AHF plant saw better utilisation, and merchant HF sales are running ahead of the number originally planned, including exports and high-pure HF; management declined to give a utilisation rate and said the large plant will take more time to reach full capacity. R32 capacity is on track to commission shortly. Management expects HFO volumes to rise as construction and chiller demand improve, and said the US$180 million contract figure is based on minimum expected quantities from the customer.

- **HFO contract (Solstice Advanced Materials):** Tenure extended by 4 years to December 2032, taking the contract from 7 to 11 years, with roughly US$180 million of additional revenue potential on the same asset base. Management said the extension guarantees larger volumes than before and that pricing is a pass-through mechanism.
- **Specialty chemicals:** Management said order visibility covers the second half of FY27 and beyond, with campaign orders on five new molecules running to the end of the year and beyond. MPP1 and MPP2 will exceed the stated bar by end FY27 through more campaigns per plant and fewer process steps. Nectar is expected at 60-65% of peak annual revenue in FY27, with the balance in FY28.
- **CDMO:** The US$100 million FY27 target is within reach, described as on time rather than early. Growth came from the Fermion base business and new qualification campaigns. Two molecules have positive developments: one approved in China and on fast track for US FDA approval, the other tied to label expansion for darolutamide.
- **Kemos (advanced cooling):** Commissioning is targeted for Q3 FY27 with purchase orders already in hand for future quarters. The delay was described as a deliberate choice between partners on the process route for the initial capacity. Management said 15 months from commissioning are needed to judge adoption, market size and the eventual capex, and declined to give project numbers under an NDA.
- **DRDO specialty material:** The project is on schedule. The molecule has dual use, and management said the pharma application will be accelerated ahead of defence qualification. At 50% share, the Indian pharma market alone is about ₹400 crore.
- **Advanced materials:** A new vertical targeting data centres, electronics, semiconductors and defence, with capacity commissioning by Q2 FY28. Management expects it to be 10-15% of an expanded revenue base by 2030 on 20-25% annual growth.

STRATEGY & COMPANY-SPECIFIC

- MPP debottlenecking at Dahej was commissioned in September 2026 and is not reflected in Q2 numbers.
- CGMP-4 Phase 2 involves capex of about ₹125 crore and becomes operational by end Q4 FY27; both Phase 1 and Phase 2 are dedicated plants for Fermion.
- The company has built warehouse capacity up to Phase 6 and effluent treatment up to Phase 5, which management said allows CGMP-4 Phase 5 to be added quickly once utilisation of the two GMP plants reaches 70-80%.
- FY27 capex is about ₹700 crore, at the low end of a ₹700-1,000 crore annual frame; H1 spend was ₹300-310 crore. Further capex will be announced as projects pass stage gates.
- HFO varieties other than the Solstice product remain open to the company through partnership or product models, provided they do not conflict with that contract.
- Management said it is investing in renewable energy across plants to meet more than 60% of energy requirements, and is applying digital tools and AI in research and process optimisation.
- The board declared an interim dividend of ₹8 per equity share.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 EBITDA margin	Same range as H1 FY27 (34.2%)	n/a	Working toward the H1 run rate for the year

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Long-term EBITDA margin	30%, unchanged	n/a	Management said it will not change the long-term figure given volatile geopolitics
Growth	20-25% annually	n/a	Stated in the context of the 2030 revenue mix
Capex FY27	About ₹700 crore	n/a	H1 spend of ₹300-310 crore; low end of the ₹700-1,000 crore frame
Capex frame	₹700-1,000 crore every year	n/a	Project pipeline and five-year growth targets
R32 capacity	Commissioning shortly	n/a	Capex progressing as planned
Kemos project	Commissioning in Q3 FY27	n/a	Project progressing; purchase orders in hand
Advanced materials capacity	Commission by Q2 FY28	n/a	Progressing per schedule
CGMP-4 Phase 2	Operational by end Q4 FY27	n/a	₹125 crore capex progressing as planned
CDMO FY27 revenue	US$100 million	n/a	Order book visibility; described as on time
CGMP-4 Phase 1 plus Phase 2 peak revenue	₹900-1,000 crore by FY28-29, about 3x capital	n/a	Dedicated Fermion plants
Nectar	60-65% of peak annual revenue in FY27, balance in FY28	n/a	Ramp plan
Advanced materials share	10-15% of expanded revenue by 2030	n/a	New vertical under incubation
Working capital	70-75 days	n/a	Financial framework
EBITDA conversion	60-65% on a sustainable basis	n/a	Balance sheet and working capital discipline
HFO contract	About US$180 million additional revenue over four years to December 2032	n/a	Minimum expected quantities from the customer

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Geopolitical volatility	"I don't think we are out of the woods yet" on geopolitics; teams must stay agile and respond
Raw material and power cost inflation	HCl, sulfur, gas and power costs are up; a 34% EBITDA cannot come only from pricing and must come from efficiency
HFO contract economics	Pricing is a pass-through mechanism; management said the revenue cannot be divided by the number of years and the answer differs once capex is recovered
Kemos commissioning timing	Commissioning in Q3 FY27 after a deliberate process-route change; 15 months needed after commissioning to judge market adoption and size
HF plant ramp	Large plant, still ramping and not at full capacity; utilisation rate not disclosed
CDMO customer concentration	CGMP-4 Phase 1 and Phase 2 are dedicated plants for Fermion
HFC demand dependency	Volumes depend on construction and chiller demand improving in the global market
Margin guidance disclosure	Management said it cannot forecast margins five to six years out and will hold the long-term figure at 30%

Q&A HIGHLIGHTS

HFO contract revenue per year Asked whether the implied US$45 million annual run rate for the next four years is below the earlier US$58 million. Management said the contract cannot be divided by years: pricing is pass-through, and the deal extends an 11-year term on the same assets while guaranteeing larger volumes than before.

Own HFO commercialization Asked whether supplying Solstice beyond 2028 delays Navin's own HFO plans. Management said there are about 40 varieties of HFOs and no conflict with the contract, and that other HFOs will be pursued through partnership or product models.

Kemos delay and qualification Asked whether the delay pushes back customer qualification. Management said the delay was a deliberate choice between partners on the process route for the initial capacity, that material is already being supplied, and that orders are in hand as the asset nears commissioning.

CDMO capacity build-out Asked whether CGMP-4 Phase 2 serves Fermion or new molecules. Management said both phases are dedicated plants, that Phase 5 can be added quickly given existing utilities, and that it will trigger the next phase when the two GMP plants reach 70-80% utilisation.

Gross margin in an inflationary market Asked how gross profit was held despite cost inflation. Management cited pricing actions offsetting sourcing impacts, operating leverage and efficiency gains, and said the 34% EBITDA cannot come from pricing alone.

HF utilisation Asked for the utilisation rate of the HF plant. Management declined to give one, said the plant is being ramped and not at full capacity, and that merchant sales including exports and high-pure HF are running above the planned quantity.

Capital allocation Asked whether surplus cash flow goes to capex or shareholders. Management said the ₹700-1,000 crore annual capex frame is enough for the project pipeline and five-year growth targets, that growth to FY28 is largely covered by existing capex, and that new projects will be announced as they clear stage gates.

HFO pricing after patent expiry Asked how HFO pricing evolves as patents expire. Management said each HFO serves a different application with a qualification route held by the patent owner, that global HFO capacity is about 10% of global demand, and that the product commands a premium as a cleaner product.

Gala Precision Engineering Ltd.

GROWTH TRIGGERS

Gala's next leg is driven less by new product invention than by filling Chennai Phase 2, converting a record order book and extending qualified spring and fastener positions into railway safety, offshore wind, mining and electrolyzers. The 25% FY27 revenue guidance is supported by H1 growth of 26%, while the 17-19% EBITDA band still needs to be demonstrated.

1. Chennai Phase 2 fills the next capacity block

Phase 1, about ₹60 crore annual capacity, is running near full and generated ₹15 crore of Q2 revenue. Phase 2 adds about ₹50 crore, is targeted operational by January and available in Q4, taking total capacity to about ₹110 crore. Management expects 80-90% Chennai utilisation in FY28, which would absorb fixed costs and support the 17-19% margin band.

2. Record order book gives near-term visibility

The order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter, against Q2 revenue of about ₹94 crore. Management reaffirmed 25% revenue growth for FY27 after H1 growth of 26%, with support from organic growth, new components at existing customers and new customers each contributing about 10%.

3. New approvals widen the application base

Customer approvals were received for critical applications in railway safety, offshore wind and mining equipment. New product development across offshore wind, electrolyzers and railway safety represents an estimated annual customer potential of about ₹100 crore, giving Gala a route beyond its legacy disc spring and wind fastener base.

4. Wada land can double capacity in phases

The 10-acre Wada parcel is described as sufficient for about ₹450 crore of additional capacity, potentially taking the company from ₹450 crore to ₹900 crore in two to three phases. Part of the new capacity is targeted operational in Q4 FY28, and about ₹100 crore of capacity is intended to take total capacity to ₹550 crore for FY28.

5. Electrolyzer and emerging applications add a new revenue stream

Gala expects about ₹2 crore of electrolyzer sales in FY27 and has started dispatches. Management sees ₹40-50 crore of revenue over 2-3 years across electrolyzer, railway safety and offshore applications, and is in advanced sample discussions with two other electrolyzer companies.

6. Margin recovery has a visible cost lever

H1 EBITDA margin improved 110 bps to 16.56%, and Q2 was 16.76%, helped by lower manpower and other expenses. The 1.2 MW solar plant commissioned on 30 October 2026

is expected to save about ₹1.3 crore a year after interest, with a 4.5-year payback, supporting the reaffirmed 17-19% margin band.

7. Exotic materials extend existing products into gas turbines

Gala already supplies Inconel disc springs and precision stamp parts for high-temperature turbocharger applications and is extending exotic-material capability to fasteners, wedge-lock washers and springs, starting with gas turbine. This uses existing products and customers rather than a new aerospace qualification cycle.

INVESTMENT THESIS

Gala Precision Engineering is a compounder whose next leg depends less on inventing new products than on filling capacity it has already built and converting a record order book into repeat supply. The company makes safety-critical disc, strip, coil and spiral springs and high-tensile fasteners such as studs, bolts, nuts and wedge-lock washers. It sells to OEMs and Tier 1 suppliers in renewable energy, industrial and mobility end-markets across India, Europe and the USA. In H1 FY27, disc springs were 53% of revenue, special fastening solutions 31% and coil springs 16%; renewable energy was 42%, industrial 33% and mobility 25%, with exports about 36%.

The economics rest on qualification and cross-selling. A new customer typically takes 12-24 months of audits, sample approval and pilot lots before volume; once approved, wallet share can grow from 5-10% to 50-75%. Gala sells more than 800 SKUs to about 175 active customers. The same wind OEM that buys ₹5-10 crore of disc springs a year buys ₹50-500 crore of fasteners in the segments Gala targets, so each approved customer is a platform for bolts, nuts and wedge-lock washers. Management estimates a 10-20% cost advantage versus European producers while maintaining group margins. The historical record of no customer loss on quality or delivery over 25 years is useful context, but it is prior research context, not a current-call fact.

The near-term earnings path is visible. Q2 FY27 revenue was about ₹94 crore, up 31% year-on-year; EBITDA was ₹16 crore, up 43%, with a 16.76% margin; PAT was ₹11 crore, up 26%. H1 revenue was about ₹169 crore, up 26%, with EBITDA of ₹28 crore and a 16.56% margin. Management reaffirmed 25% revenue growth for FY27 and 17-19% EBITDA margin. The order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter. That gives roughly one quarter of revenue visibility, but the firm order book is supplemented by monthly rolling schedules.

Capacity is the main operating lever. Chennai Phase 1, about ₹60 crore annual capacity, is running near full and generated ₹15 crore of Q2 revenue. Phase 2 adds about ₹50 crore, is targeted operational by January and available in Q4, taking total Chennai capacity to about ₹110 crore. Management expects 80-90% Chennai utilisation in FY28. The Wada land adds a second lever: the 10-acre parcel is described as sufficient for about ₹450 crore of additional capacity, potentially taking total capacity from ₹450 crore to ₹900 crore in two to three phases. Part is targeted operational in Q4 FY28, and about ₹100 crore of capacity is intended to take total capacity to ₹550 crore for FY28. These are management targets, not achieved capacity.

New applications broaden the base. Customer approvals were received for critical applications in railway safety, offshore wind and mining equipment, representing an estimated annual customer potential of about ₹100 crore. The first electrolyzer order is

guided at about ₹2 crore of FY27 sales, with dispatches started, and management sees ₹40-50 crore of revenue over 2-3 years across electrolyzer, railway safety and offshore. The seatbelt retractor spring is at pilot-lot stage, with supplies planned in Q3 and Q4. Exotic materials such as Inconel are being extended from disc springs into fasteners, wedge-lock washers and springs, starting with gas turbine; management is not pursuing new aerospace development now because approvals take too long.

Capital allocation is a mix of growth and cost reduction. The Nanded solar plant was commissioned on 30 October 2026 at ₹6.2 crore, with about ₹1.3 crore annual saving after interest and a 4.5-year payback. Gala secured ₹58 crore of bank finance, including ₹28 crore of term loan, while land will be funded from internal accruals because banks do not lend for land. Working capital remains heavy: receivables are 90-100 days, inventory is around 100 days by management's calculation, and KPMG recommendations will be implemented from early FY28 with benefits expected over 1-1.5 years. The funding mix means debt and interest cost may rise before the new capacity earns revenue.

Management delivery is mixed on the evidence available. Revenue is tracking at or above the 25% guidance, Chennai Phase 1 is delivering, and the solar plant is commissioned. Margin remains below the 17-19% band at 16.56% for H1, the Wada land agreement is delayed, and the earlier 10% offshore wind fastener target was not repeated. The bundle contains only the Q2 FY27 transcript, so a full multi-year promise chronology cannot be verified here.

The thesis falsifiers are specific. Chennai Phase 2 slipping beyond Q4 would push FY28 volume out because Phase 1 is near full. Margin staying below 17% would undercut the operating-leverage case. The order book failing to convert, or another dispatch hold like the ₹3 crore Q1 item, would pull revenue growth below 25%. A working-capital increase that forces more borrowing before KPMG benefits arrive would weaken the balance-sheet case. Conversely, Phase 2 on time, 80-90% Chennai utilisation in FY28, the Wada agreement signed, and margin entering 17-19% would confirm the compounder path.

RESEARCH REPORT

What Gala Precision Engineering Limited does

Gala Precision Engineering Limited designs and manufactures precision components across two product families: springs and high-tensile fasteners. The springs side covers disc springs, strip springs, coil springs, spiral springs, and the Gallock wedge-lock washer. The fastener side covers studs, anchor bolts, cross bolts, hex bolts, and nuts. These are safety-critical mechanical parts used where load must be held, vibration resisted, or preload retained across thousands of operating cycles.

The company sells into three end-markets. Renewable energy (wind turbines, hydro, solar), industrial (electrical equipment, off-highway machinery, construction, hydrogen electrolyzers), and mobility (automotive, commercial vehicles, railways). In H1 FY27, renewable energy was 42% of revenue, industrial 33% and mobility 25%, with exports about 36% (Q2 FY27 concall, Nov 2026).

The business runs on three segments, which shift slightly in mix each quarter:

SEGMENT	PRODUCTS	H1 FY27 MIX	Q1 FY27 MIX	FY26 MIX
DSS	Disc springs, strip springs	53%	54%	49%
SFS	Studs, bolts, nuts, anchor bolts	31%	29%	34%
CSS	Coil springs, spiral springs	16%	17%	17%

SFS is the fastest-growing segment. It crossed INR 100 crore of annual revenue for the first time in FY26, reaching INR 108 crore, a 64% increase over FY25 (Jun 2026 concall). The entire company grew revenue 32% in FY26 to INR 314 crore, then 20% in Q1 FY27 to INR 75 crore. In Q2 FY27 revenue was about INR 94 crore, up 31% year-on-year, taking H1 FY27 to about INR 169 crore, up 26% (Q2 FY27 concall, Nov 2026).

DSS: Disc springs and strip springs

Disc springs are conical washers that carry high load in very little axial space while allowing controlled deflection. They are used where a bolted joint or mechanical assembly must keep its preload under thermal cycling, vibration, or settling - wind turbine blade connections, transformer bushings, switchgear, and industrial machinery. Strip springs serve precision assemblies that need flexibility and repeatable movement.

This is a niche category. Management put the entire global disc spring addressable market at roughly INR 2,000 crore (Jun 2026 concall). Gala captured 53% of H1 FY27 revenue from this segment; DSS was 54% in Q1 FY27, with sales growing 31% year-on-year that quarter. Company-level utilisation was about 80-85% in Q2 FY27, with DSS the highest and CSS lower (Q2 FY27 concall, Nov 2026).

The distinguishing feature is in-house tooling. Disc springs are stamped and formed from sheet, and the tooling must hold tolerances of 5-10 microns. Gala designs and manufactures that tooling internally on sophisticated wire-cut and machining equipment (Nov 2025 concall). That capability is what lets the company produce the Gallock wedge-lock washer, a derived product with its own global market of roughly INR 1,500 crore (Jun 2026 concall).

SFS: Special Fastening Solutions

SFS covers high-tensile fasteners: studs, anchor bolts, cross bolts, hex bolts, and nuts, ranging from M20 up to M72 in the bolt sizes developed at Chennai. These go into wind turbine tower and blade joints, hydro turbines, gas turbines, railways, construction and mining equipment, and agriculture implements. The fasteners are made to customer prints with specific thread rolling, machining, and coating requirements (Nov 2025 concall).

This is where the growth is concentrated, for a structural reason. A wind OEM buys only INR 5-10 crore of disc springs a year but INR 50-500 crore of fasteners in the segments Gala targets (Aug 2026 concall). Wind turbine fasteners alone made up about 25-26% of Gala's total Q1 FY27 revenue (Aug 2026 concall). The Chennai plant was built specifically to capture this: 4,600 metric tons of installed capacity across two phases, with Phase 1 about ₹60 crore a year (₹5 crore a month) and Phase 2 adding about ₹50 crore, taking combined capacity to about ₹110 crore (Q2 FY27 concall, Nov 2026).

The fastener business is also where the company's kitting capability sits. For critical applications, Gala manufactures the studs and bolts in-house, sources the nuts and washers, and assembles complete kits for the customer. Kitting is about 15-17% of company sales (Aug 2026 concall).

CSS: Coil springs and spiral springs

Coil and spiral springs handle repeated load cycles, compression, motion control, and return force. They go into automotive braking systems, seating, suspension components, railway assemblies, and industrial machinery. This is 100% built-to-print work sold directly to OEMs and Tier-1 suppliers (Nov 2025 concall). The customers include names like Schaeffler and John Deere.

CSS is the slowest-growing and most competitive of the three segments, with domestic competition from NHK Spring and Stumpp Schuele. Revenue was INR 125 million in Q1 FY27, 17% of the total (Aug 2026 concall). The company's stated position is import substitution: replacing European-sourced springs in the Indian market (Jun 2026 concall).

Manufacturing footprint

Gala runs three plants. Two are in Wada, Palghar district, Maharashtra: one dedicated to disc springs, one combining coil springs and fasteners. The third is a greenfield high-tensile

fastener plant in Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu, commissioned after the September 2024 IPO (Annual Report FY26).

The Chennai plant was the core of the FY26 growth story and remains the main capacity lever. It began trial production in FY25, completed customer audits through early FY26, and dispatched its first PPAP lot to Vestas at the end of July 2025 (Jun 2026 concall). Chennai revenue was ₹7 crore in Q1 FY27 and ₹15 crore in Q2, taking H1 to ₹22 crore versus ₹0.64 crore in H1 FY26 (Q2 FY27 concall). Phase 1, about ₹60 crore annual capacity, is running near full. Phase 2 adds about ₹50 crore, is targeted operational by January and available in Q4, taking total capacity to about ₹110 crore; management expects 80-90% utilisation of Chennai in FY28 (Q2 FY27 concall, Nov 2026).

In Q1 FY27 the company also commissioned a hot-dip galvanized (HDG) coating plant at Chennai. This matters commercially beyond margins: several customers said they would only start business with Gala once the HDG facility was in-house (Aug 2026 concall). Bolt production for industrial construction equipment was developed in the same quarter.

Q2 FY27 operational update

Gala commissioned a 1.2 MW AC open-access solar plant at Nanded, Maharashtra on 30 October 2026, built for ₹6.2 crore and expected to save about ₹1.3 crore a year after interest on a ₹5 crore term loan, with a payback of about 4.5 years (Q2 FY27 concall, Nov 2026). SAP HANA went live across all plants on 7 October 2026. The company also secured ₹58 crore of bank finance: ₹15 crore fund-based working capital, ₹10 crore non-fund-based working capital and ₹28 crore term loan.

The precision capability

What separates Gala from a generic fastener maker is the combination of tolerances, testing, and qualification. The company manufactures 800+ SKUs, holds ISO 9001, ISO 14001, ISO 45001, and IATF 16949 certifications, and is qualified as a source by global OEMs after 12-24 month approval cycles involving plant audits, sample testing, and pilot lots (Annual Report FY26; Jun 2026 concall).

The economics of entry work in Gala's favor once approved. Management states it offers European customers 10-20% cost savings while keeping its own margins in the 17-19% band, and that it has not lost a customer to quality or delivery failure in 25 years (Jun 2026 concall; Nov 2025 concall). Customers do not switch quickly, but when they do, they tend to deepen the relationship over time.

> *"We delivered robust order booking growth of approximately 40% year-on-year, providing greater visibility for the quarters ahead."*
>
> **MANAGEMENT, Q1 FY27 CONCALL (AUG 2026)**

Business segments

DSS (Disc Springs & Strip Springs)

Disc springs sit at the core of Gala Precision Engineering Limited. They are conical steel washers that carry heavy loads in tight spaces while deflecting only slightly, which makes them essential for maintaining preload in bolted joints that expand, contract, or vibrate. The capability that took years to build is tooling design: the company designs and manufactures its own dies in-house to tolerances of 5 to 10 microns depending on the end product requirement, as described in the Q2 FY26 concall (Nov 2025). That precision is what allows a disc spring to deliver a predictable load at a controlled deflection, and it is the technical barrier that keeps smaller competitors out.

The segment also includes strip springs, which provide flexibility and repeatability in compact precision assemblies. The most closely related product inside this family is the Gallock wedge lock washer, a vibration-resistant washer that locks bolted joints under cyclic loading. Management counts it within the DSS product family because it shares the same tooling-intensive manufacturing process and the same customer base. In H1 FY27, DSS contributed 53% of company revenue; in Q1 FY27 it was 54% and grew 31% year-on-year (Q2 FY27 concall, Nov 2026). For FY26 as a whole, the segment contributed approximately 49% (Annual Report FY26).

Customers are diversified across renewable energy, industrial, and electrical equipment, with sales split between OEMs, Tier-1 suppliers, and fastener distributors. At company level across all products, roughly 50% to 55% of sales go directly to OEMs, 25% to 30% to Tier-1 companies, and 10% to 15% to distributors (Q2 FY26 concall, Nov 2025). Top five customers contribute about 30% to 35% of total sales, and roughly 80% to 82% of revenue comes from existing customers buying existing parts (Q2 FY26 concall, Nov 2025). For disc springs specifically, management said in the Q1 FY27 call that about 75% to 80% goes to OEMs, with the rest going to fastener distributors that buy standard DIN 2093 disc springs.

Why customers buy from Gala rather than from European producers comes down to a cost advantage that management quantifies at 10% to 20% saving to the customer while maintaining its own margins (Q1 FY27 concall, Aug 2026). But price alone does not win the business. Entry into a new customer takes 12 to 24 months, starting with plant audits, sample approvals, and a small share of business that grows over time. Management stated in the Q1 FY27 call that in some customers Gala started with 5% to 10% share and now holds 50% to 75%. The company also noted it has not lost a customer in 25 years due to quality or delivery issues, which matters in safety-critical applications where a failed spring can shut down a wind turbine or an electrical switchgear assembly.

The competitive field is concentrated and German-heavy. In disc springs, management named Mubea, Schnorr, and Christian Bauer as the main European producers, with Key

Bellevilles as a US competitor (Q2 FY26 concall, Nov 2025). These are the incumbents Gala displaces when it wins export business. The DSS segment's exports rose from 44% to 51% of segment revenue in Q3 FY26 (Q3 FY26 concall, Feb 2026), which management attributed to taking share from European manufacturers. The market itself is niche: the global addressable market for disc springs is only about INR2,000 crores, which is why management frames growth as share gain rather than market expansion (Q2 FY26 concall, Nov 2025).

The segment also functions as a wedge into the rest of the company's product line. Management described cross-selling in the Q1 FY27 call: the wide base of disc spring customers across industrial, renewable, and mobility sectors gives Gala a registered vendor status that opens doors for fasteners and Gallock washers. The first bulk commercial order from a leading Indian electrolyzer manufacturer, announced in Q1 FY27, validates that strategy in an emerging sector. Disc springs are used in electrolyzer stack compression frames to maintain load as the stack heats and cools, so the DSS segment is the product that gets Gala into the door for SFS and other fastening products.

Management reaffirmed guidance of 25% revenue growth for FY27 and 17-19% EBITDA margins (Q2 FY27 concall, Nov 2026). Disc spring growth was 31% in Q1 FY27, ahead of the group, and DSS was 53% of H1 revenue. The order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter (Q2 FY27 concall).

> *"Our Disc Springs DSS business continue to perform well, with sales growing 31% year-on-year, with the 54% contribution in Q1 FY27."*
>
> **WHOLE-TIME DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

SFS (Special Fastening Solutions)

Gala's Special Fastening Solutions segment makes high-tensile fasteners: studs, bolts, nuts, anchor bolts and cross bolts, sold mostly into wind turbines, industrial machinery and mobility. SFS posted INR22.3 crores in Q1 FY27, 29% of group revenue, after closing FY26 at INR108 crores and a 34% revenue share, up 64% year-on-year (Q1 FY27 concall; Q4 FY26 concall). In H1 FY27 SFS was 31% of revenue, with DSS at 53% and CSS at 16% (Q2 FY27 concall, Nov 2026).

What took years to build is not the machining. It is the qualification to supply safety-critical joints into a wind turbine. Management puts the customer entry cycle at 12 to 24 months: plant audit, sample approval, a pilot lot, then a small initial share of 5-10% that grows to 50-75% as the customer's confidence builds (Q1 FY27 concall). The Chennai plant, with 4,600 metric tons of installed capacity, ran that gauntlet in sequence: first dispatch of a PPAP lot to Vestas in July, then monthly production ramp-ups of INR1 crore, 2, 3, 4 and 5 crores,

reaching Phase 1's full INR5-crore-per-month capacity by January (Q4 FY26 concall; Q2 FY26 concall).

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Customers buy on cost and reliability. Gala can offer European buyers a 15-18% saving versus regional producers. That saving looks small against a turbine's total bill - fasteners run 3-4% of turbine cost - but the relevant buyer is the fastener commodity manager inside each OEM, who carries his own cost-reduction target:

> *"If you see that commodity level, then fasteners become very critical for the fastener commodity manager to reduce the cost, because at the end of the day, everywhere they have to reduce the cost by 3%, 4%, 5% to sustain in the marketplace."*
>
> **WHOLE-TIME DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

The same logic explains the long qualification cycle: commercially attractive, but technically a slow sale. Once inside, the business is sticky - management states Gala has not lost a customer on quality or delivery grounds in 25 years (Q1 FY27 concall).

Competition in India comes from Sundaram Fasteners and Randack, a German company with a plant in Pune. For exports into Europe, the benchmarks are German manufacturers such as August Friedberg, Norway's Dokka Fasteners, and UK-based Cooper & Turner (Q2 FY26 concall). Gala sells roughly 95% of its SFS output directly to OEMs or end users; under 5% goes through distributors (Q1 FY27 concall).

The segment is also the group's biggest cross-selling engine. Gala already sells disc springs to the same OEMs, so fasteners and Gallock wedge-lock washers ride into an approved vendor. The order book reflects that: INR110 crores on 1 July 2026 versus INR80-85 crores a year earlier (Q1 FY27 concall). Wind turbine fasteners alone were 25-26% of total Q1 FY27 sales. The company concluded price agreements with four leading wind OEMs for the new bolt products during Q3 FY26 (Q3 FY26 concall).

SFS is where most of the new-market bets sit. The first bulk commercial order from an Indian electrolyzer manufacturer came in Q1 FY27. Offshore wind fasteners, developed for global

OEMs in FY26, began export to partners in Q2 FY27; management's earlier target of 10% of fastener sales by end-FY27 was not repeated on the Q2 call and remains an open historical target (Q2 FY27 concall, Nov 2026). A hot-dip galvanizing plant was commissioned at Chennai in Q1 FY27, in part because specific customers required in-house galvanizing before awarding business (Q1 FY27 concall). The total addressable market has widened with the bolt range: studs alone addressed roughly USD1 billion; adding bolts and nuts moved the addressable market to USD2.5 billion (Q3 FY26 concall).

Margins sit with the group: management reaffirmed the 17-19% EBITDA band and 25% revenue growth for FY27 on the Q2 FY27 call, after printing 16.76% in Q2 and 16.56% in H1. Growth has costs attached. Receivables are 90-100 days, with exports at 38% of Q2 revenue versus 33% earlier, and management targets a 10% reduction in inventory; KPMG recommendations are to be implemented from early FY28 with benefits expected over 1-1.5 years (Q2 FY27 concall, Nov 2026).

CSS (Coil Springs & Spiral Springs)

CSS is Gala's smallest segment, contributing 17% of revenue in Q1 FY27 (INR125 million) and 17% in FY26. It makes coil springs, spiral springs and precision springs for mobility, railway and industrial applications: braking systems, seating, suspensions, control arms, traction motors and other assemblies that need controlled compression, return force or resistance to repeated load cycles.

The core capability is custom engineering. Every coil spring Gala sells is manufactured to the customer's drawing. Management told the Q2 FY26 call that coil springs are 100% custom, unlike disc springs where half the range is made to the German DIN 2093 standard. That means Gala owns tooling design, material selection, heat treatment and fatigue testing for each spring. It is a capability built over 30 years of precision component manufacturing, and the company holds IATF 16949 automotive quality certification (annual report).

Products inside the segment:

- Coil springs for compression, tension and torsion in mobility systems
- Spiral springs for return-force applications
- Seatbelt retractor springs, a safety-critical item developed over years and now approved for a European customer

Customers are direct users only. All coil springs go to OEMs or Tier 1 suppliers, per the Jun 2026 call. They include automotive Tier 1 names like Schaeffler and Valeo, plus Tier 1 suppliers feeding Indian Railways. Mobility is 29% of total company revenue (Q2 FY26 call). Of the entire customer base, the top 5 account for 30-35% of sales and the top 10 around 50%; 80-82% of revenue is repeat business on existing parts for existing customers.

Why customers buy from Gala: a spring that fails in a braking or safety application is a liability, so OEMs audit and test a supplier for 12-24 months before granting volume. Once approved, customers rarely leave. Management stated in the Q1 FY27 call that the company has not lost a customer in 25 years on quality or delivery grounds. That lock-in matters more than the price advantage, which management puts at 10% to 20% savings versus European competition.

The competitive map is narrow. In CSS, Gala names two main competitors: NHK Spring (Japanese, with plants in Aurangabad and Gurgaon) and Stumpp, Schuele & Somappa (Indian, multiple plants, Bangalore headquarters). European producers still export springs into India, and Gala targets that import substitution, per the Q2 FY26 call.

The segment fits the group through shared facilities and cross-selling. CSS runs out of plot 295 at Wada, alongside DSS and SFS operations. The retractor spring shows the mechanics: Gala already supplied this customer disc springs, and the retractor spring is a new product sold into the same account. Once Gala is approved with one OEM, it approaches other customers who buy the same spring from the same German competitor, per the Q1 FY27 call.

Management's commentary on CSS across the concalls centres on the retractor spring, the segment's main product development. The Feb 2026 call said testing and validation at the customer were complete and pilot orders were expected. The Q1 FY27 call confirmed the final step, and by Q2 FY27 the customer was at pilot-lot stage, with supplies planned in Q3 and Q4; Gala had also begun discussions with other Tier 1 companies for similar applications (Q2 FY27 concall, Nov 2026).

> *"This visit happened in July, and they approved Gala as the source for this spring, because they've completed all the formal process audit, sample approval. And now we will start with small batches of supplying to them, which they will get the approval through the OEM."*
>
> **SATISH KOTWANI, WHOLE-TIME DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

Management also flagged that the ramp-up will be slow because it is the customer's first move away from a German producer. Guidance at group level was reaffirmed at 17% to 19% EBITDA margin and 25% revenue growth for FY27 (Q2 FY27 concall, Nov 2026). CSS, at 16% of H1 FY27 revenue, is the stable revenue base that funds the faster-growing SFS and DSS segments.

Customers

Gala sells to three tiers: OEMs (50-55% of revenue), Tier-1 suppliers (25-30%), and fastener distributors or channel partners (10-15%) (Nov 2025 concall). Named customers include Vestas, ABB, Siemens, Schaeffler, and John Deere, and management confirms it bills these

OEMs directly, delivering products to their factories or warehouses (Aug 2026 concall). Around 85% of products are customized to customer drawings; roughly 15% are standard series products sold through distributors (Nov 2025 concall).

Customer concentration is moderate. Top 5 customers contribute 30-35% of sales and top 10 around 50% (Nov 2025 concall). Repeat business from existing customers with existing parts runs at 80-82% of sales, with the balance split between new parts sold to existing customers and entirely new customers (Nov 2025 concall). The company has about 175 active customers across 25 countries (Annual Report FY26).

The buying relationship is built around qualification, not price shopping. A new customer goes through plant audits, sample approval, a small share of business, then gradual expansion over 12-24 months. Management describes starting with customers at 5-10% share of wallet and growing to 50-75% over time (Aug 2026 concall). Several specific customer wins illustrate the pattern:

- Vestas: first PPAP dispatch from Chennai at end of July 2025, followed by monthly ramp-up (Jun 2026 concall).
- A global wind OEM in India: began receiving high-tensile bolts from Chennai in Q4 FY26, following price agreements concluded in Q3 FY26 with four leading wind OEMs (Feb 2026 and Jun 2026 concalls).
- An Indian electrolyzer manufacturer: first bulk commercial order received in Q1 FY27, the company's entry into the green hydrogen stack supply chain (Aug 2026 concall).
- A European seatbelt retractor spring customer: visited in July 2026, approved Gala as a source, and is moving pilot orders of about 1,000 springs to ramp up from a German producer (Aug 2026 concall). This is a safety-critical component where the customer is deliberately diversifying away from a single European source.

The fastener customer economics are what make this model attractive. Each wind OEM buys disc springs worth only INR 5-10 crore per year, but fasteners worth INR 50-500 crore in the addressable segments (Aug 2026 concall). Cross-selling is the operating logic: Gala enters a customer through disc springs or studs, then offers bolts, nuts, and Gallock washers to the same approved vendor relationship.

Order visibility improved. In Q2 FY27 the order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter, plus monthly rolling schedules from customers (Q2 FY27 concall, Nov 2026). This supports the reaffirmed 25% revenue growth guidance for FY27.

Competitive landscape

Gala competes against European, Japanese, and Indian producers, with a different competitor set for each product line (Nov 2025 concall):

PRODUCT LINE	COMPETITORS
Fasteners (domestic)	Sundaram Fasteners, Randack (German, plant in Pune)
Fasteners (export)	August Friedberg (Germany), Dokka Fasteners (Norway), Cooper and Turner (UK)
Disc springs	Mubea, Schnorr, Christian Bauer (Germany), Key Bellevilles (USA)
Coil springs	NHK Spring (Japan, plants in Aurangabad and Gurgaon), Stumpp Schuele (India)

The fastener market is enormous but fragmented. Management pegs the global fastener market at roughly USD 100 billion, encompassing all materials and applications, with Gala's serviceable slice at USD 2.5 billion after adding bolts and nuts to its original studs focus (Jun 2026 concall). The disc spring market is much smaller, around INR 2,000 crore globally, plus about INR 1,500 crore for wedge-lock washers (Jun 2026 concall).

Gala's core competitive argument is a 15-18% cost advantage over European producers on fasteners, achieved through Indian manufacturing costs, while matching on quality certifications and offering 10-20% savings to customers (Jun 2026 concall). This is the entry wedge. But the cost advantage alone does not win orders, because fasteners are only 3-4% of a wind turbine's cost. A commodity buyer may not prioritize a sub-1% saving on total turbine cost. What forces the switch is that each OEM's commodity purchasing team has its own cost-reduction target, and fasteners are one of the categories they must squeeze (Aug 2026 concall). The approval process exists precisely because the cost saving is worth chasing but the product is safety-critical.

Where Gala loses, it typically loses on qualification cycles and conservative customer behavior, not on price or quality. The company states it has never lost a customer on quality or delivery in 25 years (Jun 2026 concall). The weakness is that entry into a new OEM takes 12-24 months of audits and approvals, which means Gala's growth is lumpy until a wave of qualifications matures. The wind turbine business follows exactly this shape: approvals in FY25-FY26 convert to ramp-up in FY27.

There is one active legal dispute. Gala has a pending patent case regarding the Gallock wedge-lock washer, with the next hearing scheduled around June 2026; arguments have not yet taken place (Jun 2026 concall). Management treats it as procedural but it remains an open item on the competitive calendar.

The competitive moat is a combination of three things: in-house tooling capability at micron tolerances, 25 years of qualification history with the global OEMs, and a product portfolio that lets Gala deepen wallet share once inside a customer. Competitors in each individual

product line are strong, but few offer the same cross-product coverage of springs plus fasteners to the same customer set.

> *"As you rightly mentioned, we are competing with European producers, and which has very long legacy. And every new customer, the entry time and getting to a certain level of share of business takes between 12 to 24 months."*
>
> **MANAGEMENT, Q1 FY27 CONCALL (AUG 2026)**

Industry

The structural demand story is India's energy transition, with wind power as the immediate engine. India added 6.05 GW of wind capacity in FY26, its highest-ever annual addition, roughly 46% above FY25, taking cumulative installed wind capacity past 56 GW (Annual Report FY26). The medium-term outlook is 7-10 GW per year, with Reuters reporting expectations of 57 GW of additions by 2032, around 8 GW annually. The OEM ecosystem Gala sells into includes Suzlon, Inox Wind, Vestas, Envision, GE Vernova, Nordex, Senvion India, Adani Wind, and Enercon/Wind World India (Annual Report FY26).

The broader renewable picture supports it. India added 55.3 GW of non-fossil capacity in FY26, taking total installed non-fossil capacity to 283.46 GW as of March 31, 2026. In July 2025, renewables met 51.5% of India's total electricity demand, the highest share ever recorded (Annual Report FY26). Each GW of wind and solar capacity needs fasteners, springs, and washers that hold under vibration and thermal cycling.

Beyond wind, four other demand pools matter:

- Railways: INR 2,65,200 crore of capital expenditure was earmarked for Indian Railways in FY26, including INR 57,693 crore for rolling stock and INR 1,16,514 crore for safety-related works like track renewal and signaling (Annual Report FY26). Springs and fasteners go into track systems, couplers, traction motors, and braking assemblies.
- Construction and off-highway equipment: India's construction equipment market was valued at INR 69,046 crore (USD 7.91 billion) in 2025 and is projected to reach INR 1,02,827 crore (USD 11.78 billion) by 2030 (Annual Report FY26, citing IBEF). Gala completed development of a bolt for industrial construction equipment in Q1 FY27.
- Green hydrogen: the National Green Hydrogen Mission targets 5 million metric tonnes of annual production by 2030, with 8,000 tonnes per annum already commissioned by February 2026 (Annual Report FY26). Electrolyzer stacks need compression and load-retention fasteners, which is why Gala's first bulk electrolyzer order in Q1 FY27 matters.
- Mobility and EVs: EV sales grew from about 50,000 units in 2016 to 2.08 million units in 2024, with a national target of 30% EV share by 2030 (Annual Report FY26). Component localization for battery packs and chassis drives domestic fastener demand.

India's position in the global supply chain is one of import substitution plus export. The country's engineering exports hit an all-time high of USD 116.7 billion in FY24-25 (Annual Report FY26). Gala itself is part of the export story, with 35-40% of revenue going to Europe and the USA. The company's strategy of launching products in India first, stabilizing supply, then taking them global reflects the broader pattern of Indian precision component makers displacing European sources from within.

Trade policy cuts both ways. The EU-India FTA, expected to take effect around January 2027, will drop the 3.7% import duty on Gala's products to zero for European customers. But the Carbon Border Adjustment Mechanism (CBAM) may offset that benefit by adding a carbon cost on imports from India. On the US side, springs and fasteners fall under Section 232, and customers currently pay a 50% tariff on Indian imports, a cost that has not been relieved by the tariff reductions negotiated elsewhere, and which Gala's US customers bear (Feb 2026 concall).

The industry is cyclical through capital expenditure cycles in power, infrastructure, and railways, but it has a structural floor from the energy transition. Gala's growth guidance is 25% for FY27, with EBITDA margins of 17-19%, and management also targets 25% growth in FY28 (Q2 FY27 concall, Nov 2026). The constraints are capacity, not demand: the order book grew 44% year-on-year and crossed ₹100 crore in Q2 FY27 while the company was still ramping Chennai and negotiating the Wada land agreement.

Growth triggers

Chennai Phase 2 capacity expansion

The Chennai plant is Gala's 4,600-metric-ton high-tensile fastener facility in SIPCOT, Sriperumbudur. It makes studs and bolts from M27 up to M72, products wind OEMs buy in far larger value than the disc springs and studs Gala already supplied them. The expansion adds a second phase equal in size to the first.

Phase 1 is about ₹60 crore of annual capacity (₹5 crore a month) and was running near full in Q2 FY27, when Chennai revenue was ₹15 crore. Phase 2 adds about ₹50 crore, lifting combined capacity to about ₹110 crore; it is targeted operational by January and available in Q4 (Q2 FY27 concall, Nov 2026). Management expects 80-90% Chennai utilisation in FY28 and previously targeted roughly ₹80 crore of Chennai revenue in FY27 (Q2 FY27 and Q4 FY26 concalls). Phase 2 capex was approximately ₹9-10 crore, already planned under the IPO.

The mechanism: the same wind OEMs that approve Gala for studs need bolts in much larger volumes. Each wind customer buys fasteners worth 50-500 crores versus 5-10 crores of disc springs, per the Q1 FY27 call, so bolt capacity is what converts that existing customer base into bigger revenue per account. The added capacity also funds adjacent markets: price

agreements with four leading wind OEMs for new bolts were concluded in Q3 FY26, bolt development for industrial construction equipment was completed in Q1 FY27, and the first bulk commercial order from a leading Indian electrolyzer manufacturer was secured the same quarter. The order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter in Q2 FY27 (Q2 FY27 concall, Nov 2026).

> *"And the ramp-up of that similar fashion we are planning to do in August, September month. And in this current year, we are seeing that by 9 crores or 10 crores we will be reaching in last quarter per month. Then overall capacity, annual capacity is 120 crores per annum."*
>
> **BALKISHAN JALAN, WHOLE-TIME DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

Offshore wind fasteners reaching 10% of fastener sales

Gala entered the offshore wind segment in FY26 by developing and supplying critical fasteners to global OEMs in Europe. It was the natural extension of an established franchise: Gala built its fastener business on studs for wind turbine OEMs, and the Chennai plant, which began high-tensile bolt production in FY26, gave it the product range those same OEMs need for offshore programs.

> *"we successfully entered into offshore wind turbine segment through the development and supply of critical fasteners for global OEMs, making an important expansion of our addressable market."*
>
> **Q4 FY26 CONCALL (MAY 2026)**

The mechanism is cross-selling into an existing vendor base. Gala's export customers already bought studs; bolts in the M27 to M72 range became the second product category (Q4 FY26 concall, May 2026). In Q3 FY26, management said it had concluded price agreements with four leading wind turbine OEMs for the new bolt products built in Chennai, and in Q4 FY26 it commenced supply of high-tensile bolts to a global wind OEM in India. Offshore work is the export version of that same expansion, sold into European turbine makers.

The target of offshore reaching 10% of total fastener sales by end-FY27 was set in Q1 FY27; on the Q2 FY27 call management said it had begun exporting smart partners for offshore wind applications but did not repeat the 10% target (Q2 FY27 concall, Nov 2026). The earlier target therefore remains an open historical commitment, not a current confirmation.

> *"Currently, it will be very less, but I think by end of this year, we should reach the 10% level for total fastener sales we do in FY27."*
>
> **SATISH KOTWANI, Q1 FY27 CONCALL (AUG 2026)**

Fastener context: SFS contributed 31% of H1 FY27 revenue and 29% of Q1 FY27 revenue, INR 223 million, and crossed INR 108 crores for FY26 with 64% year-on-year growth (Q4

FY26 concall, May 2026; Q2 FY27 concall, Nov 2026). The bolt-and-nut addition opened a global addressable market of more than USD 1 billion beyond studs (Q2 FY26 concall, Nov 2025).

First bulk commercial order from an electrolyzer manufacturer

During Q1 FY27, Gala booked its first bulk commercial order from one of India's leading electrolyzer manufacturers. This moves the company from early customer adoption in green hydrogen into a paid, repeatable revenue stream.

> *"We also secured our first bulk commercial order from one of the India's leading electrolyzer manufacturer, representing an important milestone in our clean energy journey and validating our effort to diversify into a high-growth emerging sectors."*
>
> **BALKISHAN JALAN, WHOLE-TIME DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

The business mechanism is concrete. An electrolyzer stack is a set of cells clamped between end plates that must be held under precise, even compression. Gala's disc springs supply the preload and compression retention, while high-tensile fasteners (studs, bolts, nuts) secure the stack frame. The FY26 annual report says the company's "disc springs, studs, nuts, bolts and high tensile fasteners are relevant for stack compression frames, end-plate assemblies and other mechanical fastening applications in electrolyzer systems" (FY26 annual report, MD&A).

The trigger had been building for a year before the order landed. In February 2026, management said the company had "added new customers in electrolyzer segment where they use fasteners and our disc springs" (Q3 FY26 concall, Feb 2026). The Q1 FY27 order confirms those early accounts converted into volume.

India provides the addressable scale. The annual report notes India targets 5 million metric tonnes per annum of green hydrogen production by 2030, with 19 companies allocated 862,000 tonnes of annual production capacity and 15 firms awarded 3,000 MW of annual electrolyzer manufacturing capacity (FY26 annual report, MD&A). Gala expects about ₹2 crore of sales from the first electrolyzer order in FY27 and has started dispatches; management sees ₹40-50 crore of revenue over 2-3 years across electrolyzer, railway safety and offshore applications (Q2 FY27 concall, Nov 2026).

Land acquisition at Wada for capacity expansion (MoU signed for 10.15 acres)

In August 2026, Gala Precision signed an MoU to buy 10.15 acres of land at Wada, in the Palghar district, directly adjacent to its existing Wada plants. Management stated the purpose plainly:

> *"we signed an MoU for the acquisition of 10.15 acre of land at Wada, adjacent to our existing facility, which will support our long-term capacity expansion and future growth plans."*
>
> **BALKISHAN JALAN, WHOLE-TIME DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

Why this matters: Wada is the company's largest operating base, housing its disc spring, coil spring and fastener lines across Plots 295 and 302. It is also full. Management said in the Q4 FY26 call that the disc spring line runs at roughly 80% utilization and that no additional buildable FSI remains on the existing plots. The adjacent parcel is the only way to keep growing Wada output without a greenfield site.

The plan is a roughly 50,000 square foot factory shed on the new land, dedicated mainly to fasteners and partly to disc springs. The 10-acre parcel is described as sufficient for about ₹450 crore of additional capacity, potentially taking Wada from ₹450 crore to ₹900 crore in two to three phases (Q2 FY27 concall, Nov 2026). Management targets part of the new capacity to be operational in Q4 FY28 and expects about ₹100 crore of capacity to take total capacity to ₹550 crore to meet the FY28 number. The capex will be in the range of INR 40-45 crore, timed for the next fiscal year once ownership transfers.

Current stage: legal due diligence is almost finished and the draft agreement has been shared with the seller; management attributes the delay to legal details taking longer than anticipated. Broad plant design has already started. Management expects the majority of the capex to land next year once the land parcel is fully owned. A backup plan uses rented premises if government approvals delay the new capacity (Q2 FY27 concall, Nov 2026).

New products: bolts for industrial construction equipment, seatbelt retractor spring (pilot orders)

Two product launches are expanding Gala Precision's addressable market beyond its legacy stud and disc spring base. Both use existing customer relationships and the new Chennai facility's fastener capacity.

The industrial construction equipment bolt is the direct output of the Chennai plant. The plant was built to make high-tensile fasteners from M27 to M72, and Gala already serves off-highway and construction customers with disc springs and studs. A new bolt SKU can be cross-sold into those existing accounts without winning new customers. Management confirmed the development was complete:

> *"We also successfully completed the development of the bolt for the industrial construction equipment applications, further expanding our product portfolio and opening up new business opportunities."*
>
> **Q1 FY27 CONCALL (AUG 2026)**

The in-house hot-dip galvanized plant commissioned in the same quarter removes a critical coating bottleneck, letting Gala supply finished, coated fasteners rather than outsourcing that step.

The seatbelt retractor spring is a safety-critical automotive component aimed at replacing a German supplier. Samples completed testing in India and at the customer's European facility. The customer approved Gala as a source in July 2026; by Q2 FY27 the programme was at pilot-lot stage, with supplies planned in Q3 and Q4, and Gala had begun discussions with other Tier 1 companies for similar applications (Q2 FY27 concall, Nov 2026). Ramp-up will be slow because it is a safety item, but approval opens the door to other OEMs buying the same spring from the same German competitor.

Both products follow the same mechanism: develop a component, win approval, start small, then grow wallet share within an approved vendor base.

Price agreements with four leading wind OEMs for new bolt products

In Q3 FY26, Gala concluded price agreements with four leading wind turbine OEMs for the new bolt products manufactured at the Chennai facility. This was the commercial bridge that turned the Chennai bolt line from a product-development project into contracted demand.

> *"During the period, we concluded a price agreement with four leading wind turbines OEMs for new bolt products to be manufactured at our Chennai facility, strengthening our position in the renewable energy supply chain."*
>
> **Q3 FY26 CONCALL (FEB 2026)**

The mechanism matters here. Gala's legacy wind business was built on studs - high-tensile threaded rods - which it supplied to the same OEMs for years. The Chennai plant added bolts and nuts in sizes M27 to M72, expanding Gala's addressable fastener market from roughly US$1 billion (studs only) to US$2.5 billion (studs plus bolts and nuts), as management explained on the Q2 FY26 call (Nov 2025). Price agreements with these four OEMs are how that expanded addressable market converts into revenue: each agreement fixes purchase terms for the new bolt SKUs, so the OEMs' wind-turbine build programs translate directly into Chennai plant orders.

The agreements concluded in the quarter ended December 2025, and supply followed almost immediately. In Q4 FY26, management reported the first dispatch of high-tensile bolts to a global wind OEM in India from Chennai.

> *"We also commenced supply of the high-tensile bolt to a global wind OEM in India from our Chennai facility during Q4."*
>
> **Q4 FY26 CONCALL (MAY 2026)**

The follow-through showed up in numbers by Q1 FY27: wind-turbine fasteners contributed roughly 25-26% of total sales. In Q2 FY27 the order book grew 44% year-on-year and crossed ₹100 crore for the first time in a single quarter, with order booking supported by new approvals in railway safety, offshore wind and mining (Q2 FY27 concall, Nov 2026). Gala also completed the development of a bolt for industrial construction equipment applications in Q1 FY27, applying the same bolt capability beyond wind. The price agreements are the reason the Chennai capacity ramp has committed demand behind it rather than speculative capacity.

Key risks

- **Raw material cost pass-through lags**: Steel is the primary input, and management states raw material is "100% pass through" (Q4 FY26 call). But the adjustment happens with a lag of 3-6 months, and only when prices move beyond 5-10% thresholds (Q2 FY26 call). In a sharp steel spike, margins compress for a quarter or two before prices reset. The same dynamic works against the company when steel prices fall - customers demand reductions retrospectively, so the benefit is also delayed.
- **Foreign exchange volatility on unhedged exports**: Exports are roughly 35-40% of sales, billed mostly in EUR and USD. Management reduced forward cover from 70% to 40% of estimated export collections because of high volatility, believing the rupee will weaken (Q1 FY27 call). That leaves 60% of export revenue exposed to spot rates. In FY26, forex losses of approximately INR 3.23 crores (about 1% of revenue) directly pulled EBITDA margins down from 17.1% to 16.5% (Q4 FY26 call). If the rupee appreciates against the euro, the unhedged portion becomes a margin headwind.
- **Customer concentration**: The top 5 customers contribute 30-35% of sales and the top 10 about 50% (Q2 FY26 call). These are large OEMs like Vestas, ABB, Siemens, Schaeffler, and John Deere. No single customer is disclosed as dominant, but a loss of one top-tier account - through a vendor consolidation, a quality dispute, or a shift to a local supplier - would be visible in quarterly results. Repeat business from existing customers runs at 80-82% of sales, which is a strength, but it also means revenue growth depends heavily on a small group of buyers increasing their wallet share.
- **Customer approval cycles delay new revenue**: Entering a new OEM takes 12-24 months from plant audit to sample approval to initial share of business (Q1 FY27 call). The seatbelt retractor spring, for example, completed testing and the customer visit in July, but supply will ramp "very slow" because it is a safety-critical part (Q1 FY27 call). This is a cost-bearing period - development, tooling, and inventory for customer trials happen before revenue. If approvals slip, the growth guidance stretches out. It also means the company's newer products (bolts, offshore wind fasteners) will contribute only gradually.

Chennai ramp-up execution risk: The Chennai plant is the main growth engine, with Phase 1 at about ₹60 crore annual capacity and Phase 2 adding about ₹50 crore, taking combined capacity to about ₹110 crore (Q2 FY27 call). Phase 1 is running near full; Phase 2 is targeted operational by January and available in Q4. Management expects 80-90% Chennai utilization in FY28. Every quarter of slippage in customer approvals, machine installation, or product qualification compresses that number. The plant also carries overhead that depresses overall margins until utilization rises.

Working capital is structurally heavy: Management says inventory is around 100 days, not the 129 days reported at September 2025, and receivables are 90-100 days, driven by multiple SKUs, minimum order quantities from steel mills, export transit time and customer credit terms (Q2 FY27 call). Management targets a further 10% reduction in inventory and has appointed KPMG; implementation is expected from early FY28, with benefits taking 1-1.5 years. If growth stays at 25%, working capital absorption will continue to consume operating cash flow regardless of the study.

- **Geopolitical and trade policy shifts**: Gala's products fall under Section 232 of US trade law, where no tariff relief has been granted - US customers pay around 50% tariff on imports from India (Q3 FY26 call). A reduction in Section 232 tariffs would open US demand, but an escalation would make Indian fasteners less competitive than domestic US supply. The EU-India FTA will reduce import duties from 3.7% to zero in January 2027, but CBAM (carbon border adjustment) costs could nullify that benefit (Q4 FY26 call). The company has no control over either variable.
- **Emerging competition in fasteners**: The fastener market is large (approximately USD 100 billion globally), which attracts both global players and Indian manufacturers. Gala competes with Sundaram Fasteners and Randack domestically, and with German, Norwegian, and UK producers in exports (Q2 FY26 call). In India, local producers can price aggressively for standard products. Management says margins are stable and the company offers 10-20% savings to customers, but the fastener segment's size and fragmentation mean pricing pressure is a permanent feature, not an occasional one.

Scenarios

Bull case

The Chennai plant executes without friction. Phase 1 is near full, Phase 2 adds about ₹50 crore by Q4, and the plant reaches 80-90% utilization in FY28. The new bolt products, priced and approved with four leading wind OEMs, scale through FY27, and offshore wind exports begin. The first bulk electrolyzer order expands into repeat business as green hydrogen capacity builds; management sees ₹40-50 crore of revenue over 2-3 years across electrolyzer, railway safety and offshore. The seatbelt retractor spring moves from pilot lots

to commercial supply. The Wada 10-acre land closes, and the ₹40-45 crore capex positions the company for FY28-FY29 growth, with part of the new capacity targeted operational in Q4 FY28.

Order booking growth of 40% year-on-year in Q1 FY27 sustains through the year, keeping revenue growth at or above the upper end of the 20-25% guidance. Margins hold in the guided 17-19% band as Chennai fixed costs get absorbed. The Wada land acquisition closes, and the INR 40-45 crores capex next year positions the company for FY28-FY29 growth without a capacity gap (Q1 FY27 call). The KPMG working capital study identifies 10 days of inventory reduction, freeing cash without slowing the ramp. Each new product family - bolts, nuts, Gallock washers - increases the addressable market from USD 1 billion to USD 2.5 billion in fasteners alone, and the company compounds at 20-25% with stable margins.

Base case

Revenue grows 25% in FY27, consistent with management guidance, after Q2 at 31% and H1 at 26% (Q2 FY27 call). Chennai ramps with quarter-to-quarter lumpiness as customers control dispatch schedules. Phase 1 is near full and Phase 2 adds capacity by Q4; management expects 80-90% Chennai utilization in FY28. EBITDA margins land at 17-19% as guided, helped by the 1.2 MW solar plant commissioned on 30 October 2026, which is expected to save about ₹1.3 crore a year.

The electrolyzer order remains a single milestone rather than a flood, contributing but not transforming the mix. Offshore wind fasteners reach the guided 10% of fastener sales but no more. Working capital stays heavy; the KPMG study produces recommendations but implementation takes through FY28. The Wada expansion progresses slowly - land due diligence and approvals push meaningful capex into FY28. Export revenue holds at 35-40% of sales. The company grows steadily, compounds earnings at a high-teens rate, and resets guidance each year to the same 20-25% range.

Bear case

The Chennai ramp stalls. Customer approvals slip, or demand from wind OEMs softens as India's wind installation pace normalizes. Phase 1 is near full, but Phase 2 is not yet operational, so a delay pushes FY28 volume out. The order book of more than ₹100 crore, up 44% year-on-year, proves to be a peak rather than a trend, as customers hold dispatches on payment delays, as happened with the ₹3 crore dispatch in Q1 FY27.

Forex moves against the unhedged 60% of exports, repeating the FY26 pattern where INR 3.23 crores of forex losses shaved a full point off EBITDA margins. The Euro weakens as the war situation and trade tensions persist, and the company's decision to cut hedging cover from 70% to 40% (Q1 FY27 call) amplifies the hit. Steel prices spike faster than the 3-6 month pass-through lag can recover. The Chennai Phase 2 capex, the Wada land purchase,

and the solar project together strain the balance sheet as working capital absorbs cash at a 20%+ growth rate. Management maintains guidance while actuals fall short, eroding credibility. The seatbelt spring and electrolyzer programs fail to convert from pilots to meaningful revenue, leaving the company dependent on disc springs - a niche market with a global addressable size of only INR 2,000 crores - for its growth.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	314	394	471	551
Revenue growth	-	+25.5%	+19.5%	+16.9%
EBITDA (₹ Cr)	51.90	68.60	86.20	104
EBITDA margin	16.5%	17.4%	18.3%	18.8%
Depreciation (₹ Cr)	10.20	13.30	16.50	19.00
Interest (₹ Cr)	2.80	2.60	4.50	5.50
Other income (₹ Cr)	5.60	4.80	4.20	4.20
PBT (₹ Cr)	43.40	57.50	69.40	83.30
Tax (₹ Cr)	7.90	10.40	13.90	17.50
Tax rate	18.2%	18.0%	20.0%	21.0%
PAT (₹ Cr)	35.50	47.20	55.60	65.80
PAT growth	-	+32.9%	+17.8%	+18.4%
EPS (₹)	27.05	37.08	43.67	51.73
P/E	41.6x	30.4x	25.8x	21.8x
PEG	2.3x	1.7x	1.4x	1.2x

CAGR FY27E-FY29E: Revenue +18.2% · EBITDA +22.9% · PAT +18.1%

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Q2 FY27 concall notes

TLDR

Gala Precision Engineering reported Q2 FY27 consolidated revenue of ₹94 crores, up 31% YoY, EBITDA of ₹16 crores, up 43% YoY at a 16.76% margin (up 135 bps), and net profit of ₹11 crores, up 26% YoY at an 11.31% PAT margin (down 45 bps). Order book grew 44% YoY, crossing ₹100 crores in a single quarter for the first time. H1 revenue was ₹169 crores (+26% YoY) with EBITDA of ₹28 crores (+35% YoY, 16.56% margin) and net profit of ₹19 crores (+26% YoY). Management maintains FY27 revenue growth guidance of 25% and EBITDA margin guidance of 17-19%. Chennai Phase 1 is running at its ₹60 crore annual capacity, with Phase 2 (₹50 crore) operational by January and available in Q4. The company commissioned a 1.2 MW AC solar plant at Nanded on October 30, 2026, expected to save ₹1.3 crores annually, and secured ₹58 crores in bank finance. Key watch points are working capital absorption, Wada land agreement timing, and the pace of new customer approvals.

WHAT CHANGED SINCE Q1 FY27

- **Revenue growth guidance narrowed from 20-25% to 25%.** In Q1, management guided 20-25% YoY for FY27 and said it was confident of achieving or crossing the range. This quarter, management stated it is "on track to grow 25% sales in this year" and separately said it is "targeting 25% growth" for next year.
- **EBITDA margin guidance maintained at 17-19%.** Q1 guided 17-19% for FY27 and FY28. This quarter, management reiterated 17-19% with "no major change." Q2 margin of 16.76% is still below the guided range.
- **Chennai Phase 2 timeline firmed up.** Q1 said Phase 2 construction (10,000 sq ft) would complete in Q2 with additional SKUs and machines by Q3/Q4. This quarter, the 10,000 sq ft mezzanine floor is expected to complete by November end, Phase 2 operational by January, and Phase 2 capacity (₹50 crores) available in Q4. Management said it will try to prepone by one month.
- **Chennai Phase 1 utilization now at capacity.** Q1 reported Phase 1 at 70-80% post-Q1, targeting 80-90% in Q2. This quarter, Phase 1 is running at almost its full ₹5 crore per month (₹60 crore annual) capacity, contributing approximately ₹15 crores in Q2.
- **Wada land agreement delayed.** Q1 said final agreement expected in 2-3 months. This quarter, management said legal details took more time than anticipated, the draft agreement has been shared with the seller, and the 10-acre parcel will support ₹450 crores of capacity, doubling total capacity from ₹450 crores to ₹900 crores, developed in 2-3 phases.
- **Working capital study timeline pushed.** Q1 said KPMG report expected in Q2 with action plans in Q3. This quarter, management said the company will form an internal team and start implementation sometime early in FY28, with benefits taking 1 to 1.5 years to accrue. No KPMG report findings were disclosed.
- **New disclosure: ₹58 crores bank finance secured.** Comprising ₹15 crores fund-based working capital, ₹10 crores non-fund working capital (NCBG facility), and ₹28 crores term loan. Management said banks do not give term loans for land, so land payment will come from internal accruals or general corporate funds.
- **New disclosure: solar plant commissioned.** 1.2 MW AC open-access solar plant at Nanded, Maharashtra, commissioned October 30, 2026, capex of ₹6.2 crores, expected annual saving of approximately ₹1.3 crores after reducing interest cost on a ₹5 crore term loan, payback in four and a half years. Q1 had said the solar project would commission in Q3.
- **New disclosure: SAP HANA go-live.** Implemented across all manufacturing plants on October 7, 2026.

- **New disclosure: ₹100 crores annual customer potential from new product development.** Across offshore wind, electrolyzers, and railway safety. Management guided ₹40-50 crores revenue over the next 2-3 years from these applications.
- **Electrolyzer order progress.** Q1 announced the first bulk commercial order from an Indian electrolyzer manufacturer. This quarter, management said dispatches started last quarter and it expects approximately ₹2 crores in sales from this customer in FY27, with advanced sample development discussions with two other electrolyzer companies.
- **Seat belt retractor spring update.** Q1 reported European customer approval with a pilot order of 1,000 springs. This quarter, management said the customer is a European company with manufacturing in India, pilot lots will be supplied in Q3 and Q4, and discussions have started with other tier 1 companies for similar applications, with inquiries and RFQs expected this quarter.
- **Tone shift on aerospace.** Management said it is not looking at aerospace for new development now due to long gestation periods for approvals, but may reconsider in the near future. This is a new explicit position.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹94 crores	+31% YoY	Volume growth from three pillars (organic, new components from existing customers, new customers), each contributing approximately 10%; includes ₹3 crores held back in Q1
EBITDA	₹16 crores	+43% YoY	Margin improvement from lower manpower cost as a percentage and other expenses down 2.2% as a percentage
EBITDA margin	16.76%	+135 bps YoY	Net impact of RM cost increase offset by manpower and other expense reductions
Net profit	₹11 crores	+26% YoY	PAT margin at 11.31%, down 45 bps YoY
EPS (Q2)	₹8.07	n/a	n/a
H1 revenue	₹169 crores	+26% YoY	Chennai SFS contributed ₹22 crores in H1 versus ₹0.64 crores in H1 FY26
H1 EBITDA	₹28 crores	+35% YoY	H1 margin at 16.56%, up 110 bps YoY
H1 net profit	₹19 crores	+26% YoY	H1 PAT margin at 11.06%; H1 EPS ₹40.30
Order book growth	+44% YoY	Crossed ₹100 crores in a single quarter for the first time	Healthy demand across all key end-user industries
Company-level utilization	80-85%	n/a	CSS slightly lower, DSS highest; ₹450 crores annual capacity across Vada and Chennai
Chennai Phase 1 revenue (Q2)	~₹15 crores	n/a	Running at almost full ₹5 crore per month capacity; ₹60 crores annual
Export share of revenue	~36% (H1); 38% in Q2	Up from 33% in Q4 FY26	Export sales increased by almost ₹5 crores QoQ, raising receivable days due to transit time

SEGMENTS & GEOGRAPHIES

- **DSS (Disc Springs):** Largest segment at approximately 53% of H1 revenue. Management said DSS and SFS are driving growth. Capacity is being added within existing space through debottlenecking, with machining and heat

treatment identified as possible outsourcing areas. DSS and SFS capacity will be added at the new Wada facility in FY28.

- **SFS (Fasteners):** Contributed 31% of H1 revenue. Chennai SFS did ₹22 crores in H1 versus ₹0.64 crores in H1 FY26. Management said some SFS volume was shifted from Wada to Chennai as the new plant became ready, and Wada SFS was capacity-constrained on some orders.
- **CSS (Coil Springs):** Contributed 16% of H1 revenue. Management said CSS growth is lower because the focus is mainly on the India market. Inconel coil springs are being supplied for heavy commercial vehicle applications in BS6 vehicles.
- **By end-user industry (H1):** Renewable energy 42%, industrial 33%, mobility 25%. Management expects renewable at 35-38%, industrial at 35-37%, and mobility at 25% over the next 2-3 years. Within mobility, automotive is expected to grow about 15% as the focus is only on India; railways is seeing new opportunities in Gallock, springs, and fasteners.
- **By product over 3-4 years:** Management expects springs and fasteners each at about 40-42% of turnover, with DSS at 10-12%.
- **Exports:** Approximately 36% of H1 revenue. Management said competitive intensity has not changed in recent quarters, existing customer growth is not much, and growth is coming from new customer additions and added resources in Europe and the US.

STRATEGY & COMPANY-SPECIFIC

- **Capacity expansion:** Current capacity is ₹450 crores annually. Phase 2 at Chennai adds approximately ₹50 crores, taking Chennai to ₹110 crores. The 10-acre Wada land will support ₹450 crores of additional capacity, doubling total capacity to ₹900 crores, developed in 2-3 phases. Management is internally targeting part of the new land capacity to be operational in Q4 FY28.
- **Capex:** FY28 capex planned at ₹40-45 crores, unchanged from Q1. Management said this will support approximately ₹100 crores plus of turnover and that similar capex should happen year on year to meet 25-30% growth. Land acquisition years carry higher capex as land is bought for 3-5 years.
- **Chennai Phase 2:** 10,000 sq ft mezzanine floor to complete by November end, Phase 2 operational by January, capacity available in Q4. No separate customer approval needed as the stud and bolt facility is already approved. Ramp-up expected within 15 days to 1 month of commissioning, subject to order flow. FY28 Chennai utilization guided at 80-90%.
- **Chennai land for FY29:** Applied twice online for a SIPCOT plot without success; exploring private channels for 3-5 acres near the plant. Backup plan is a long-lease premises in Chennai, with some shortlisted.
- **Wada land:** MoU signed June 2026 for 10 acres; legal details almost finished and draft agreement shared with seller. Delay due to legal details taking longer than anticipated.
- **Solar plant:** 1.2 MW AC open-access plant at Nanded commissioned October 30, 2026. Capex ₹6.2 crores. Expected annual saving of approximately ₹1.3 crores after interest cost on a ₹5 crore term loan. Payback in four and a half years. Management cited CBAM benefits for exports and environmental commitment alongside cost savings.
- **Bank finance:** ₹58 crores secured, comprising ₹15 crores fund-based working capital, ₹10 crores non-fund working capital (NCBG), and ₹28 crores term loan. Term loan is for incremental capex at Wada and the new plant; land will be funded from internal accruals or general corporate funds.
- **SAP HANA:** Implemented across all manufacturing plants, go-live October 7, 2026.

- **New product development:** Customer approvals received for critical applications in railway safety, offshore wind, and mining equipment. Estimated annual customer potential of approximately ₹100 crores across offshore wind, electrolyzers, and railway safety. Management guided ₹40-50 crores revenue over 2-3 years from these applications.
- **Electrolyzer:** Approximately ₹2 crores sales expected in FY27 from the customer ordered in June. Advanced sample development and approval discussions with two other electrolyzer companies, one for export and one a global company with manufacturing in India.
- **Offshore wind:** Started exporting smart partners for offshore wind applications this quarter, an addition to the onshore business. New bolt product line for tower applications, approved after Chennai implementation, is driving wind growth.
- **Exotic materials:** Already working with Inconel 177PH at the DSS facility for turbocharger applications and supplying Inconel coil springs for BS6 commercial vehicles. Plans to extend exotic material offerings to fasteners, Gallock wedge lock washers, and springs, starting with the gas turbine segment.
- **Aerospace:** Not pursuing new aerospace development now due to long approval gestation; may reconsider in the near future.
- **Working capital:** KPMG study recommendations to be implemented by an internal team starting early FY28, with benefits taking 1 to 1.5 years. Inventory to be reviewed for a further 10% reduction where possible. Receivable days at 90-100 days, higher due to export transit time and growth.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	25%	Narrowed from 20-25%	Current order booking and dispatch momentum; three growth pillars each contributing approximately 10%
FY28 revenue growth	25%	New	Current capacity plus Chennai Phase 2; Q1-Q2 FY28 met by current Vada and Chennai Phase 2 capacity, Q3 FY28 to be reviewed with possible rented space, Q4 FY28 new facility targeted
FY27 EBITDA margin	17-19%	Maintained	Further improvement expected in forthcoming quarters from cost reductions and operating leverage
FY28 EBITDA margin	17-19%	Maintained	No change from prior guidance
Chennai Phase 2 commissioning	Operational by January; capacity available in Q4 FY27	Advanced from Q3/Q4	Mezzanine floor completion by November end; no separate customer approval needed
Chennai FY28 utilization	80-90%	New	Phase 1 at capacity, Phase 2 ramp-up within 15 days to 1 month
FY28 capex	₹40-45 crores	Maintained	Supports approximately ₹100 crores plus turnover; year-on-year capex to meet 25-30% growth
New land capacity operational	Part capacity in Q4 FY28	New	Internal target; backup plan of rented premises if government approvals delay
Electrolyzer revenue FY27	~₹2 crores	New	Dispatches started last quarter to the customer ordered in June

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue from electrolyzer, railway safety, offshore wind	₹40-50 crores over 2-3 years	New	Approvals and ramp-up with customers in India and globally
Solar annual cost saving	~₹1.3 crores	New	After reducing interest cost on ₹5 crore term loan; payback four and a half years
Segment mix in 2-3 years	Renewable 35-38%, industrial 35-37%, mobility 25%	New	Current demand trends and new customer additions
Product mix in 3-4 years	Springs 40-42%, fasteners 40-42%, DSS 10-12%	New	Growth in DSS and SFS; CSS focused on India

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Wada land agreement delay	Legal details took more time than anticipated; draft agreement shared with seller; final agreement timing not specified
Working capital absorption	H1 operating cash flow modest versus reported profitability; inventory and receivables increased. KPMG recommendations to be implemented from early FY28, benefits in 1 to 1.5 years. Receivable days at 90-100 days due to export transit time and growth
Chennai Phase 2 execution	Mezzanine floor completion by November end, Phase 2 by January; management will try to prepone by one month. Ramp-up subject to order flow
Chennai land for FY29	Two SIPCOT applications unsuccessful; exploring private channels for 3-5 acres; backup is long-lease premises
Raw material cost	RM cost increased duty on product; offset by lower manpower and other expenses in H1
Employee cost	Absolute employee cost increased with additions in Europe and US market development; management expects lower percentage as the year progresses
Wind sector demand	India wind H1 demand roughly flat YoY; Gala's share with wind companies is 5% to 25-30%, leaving room to grow; offshore wind and new bolt product line added
Customer approval cycles	New product development across offshore wind, electrolyzers, and railway safety requires approvals and ramp-up; management guided ₹40-50 crores over 2-3 years
Aerospace entry	Long gestation for approvals; not pursuing now, may reconsider in the near future
Capacity constraint FY28	Q3 FY28 may require temporary rented space if new facility is not ready; backup plan in place

Q&A HIGHLIGHTS

Capacity roadmap to FY29 Question: How should capacity be viewed over three years, and when does the Wada land deal close and commercialize? Management said current capacity is ₹450 crores, Phase 2 at Chennai plus line balancing at Wada will support FY28, and part of the new 10-acre land capacity is internally targeted for Q4 FY28, taking capacity to ₹550 crores as a bridge to the ₹900 crore potential. A backup plan of small rented premises exists if government approvals delay.

Revenue growth composition Question: Is the ₹94 crores revenue growth volume-led or price-led, and what is the inventory gain? Management said growth is mainly volume, with three pillars (organic, new components from existing customers, new customers) each contributing approximately 10%, resulting in approximately 30% growth. Management disputed the 270-day inventory calculation, said inventory days are around 100 and something, and that inventory levels have reduced versus prior periods.

Chennai Phase 1 and Phase 2 economics Question: What is Chennai Phase 1 revenue this quarter and is it at optimum capacity? Management said approximately ₹15 crores in Q2, with Phase 1 capacity at ₹5 crores per month (₹60 crores annual) running at almost full. Phase 2 adds approximately ₹50 crores, taking Chennai to ₹110 crores, available in Q4, with ramp-up within 15 days to 1 month and no separate customer approval needed.

Working capital and KPMG study Question: What drove H1 working capital absorption and what are the KPMG recommendations? Management said the company will form an internal team and start implementation early FY28, with benefits taking 1 to 1.5 years. Receivable days increased to 90-100 days due to higher export share (38% in Q2 versus 33% in Q4 FY26) and transit time, plus 31% growth.

EBITDA margin bridge Question: Why have margins improved in H1 FY27 versus FY24 and FY26? Management said RM cost increased duty on product, offset by lower manpower cost and other expenses down 2.2% as a percentage, resulting in a 1.3% EBITDA margin improvement in H1. Management is confident of further improvement and maintains 17-19% guidance.

Wind sector concentration and growth Question: With India wind demand flat in H1, what is the customer concentration and how will Gala grow? Management said Gala's share with wind companies is 5% to 25-30%, leaving room to grow. Offshore wind exports started this quarter, the new bolt product line for tower applications is driving growth, and management is positive on wind for the next 1-2 years.

Electrolyzer and new application pipeline Question: How is the electrolyzer order progressing and what is the revenue potential from electrolyzers, offshore wind, and railway safety? Management said approximately ₹2 crores electrolyzer sales expected in FY27, with advanced discussions with two other electrolyzer companies. The combined potential from electrolyzer, railway safety, and offshore wind is approximately ₹40-50 crores over 2-3 years.

Segment mix evolution Question: Which segment has the strongest demand and how will the mix evolve? Management said DSS and SFS are driving growth in domestic and global markets, while CSS is focused on India. Over 2-3 years, renewable is expected at 35-38%, industrial at 35-37%, and mobility at 25%; over 3-4 years, springs and fasteners each at 40-42% and DSS at 10-12%.

Solar plant rationale Question: Why Nanded and what is the benefit? Management said open-access policy allows a remote solar park where land is cheap, with grid connection and power subtracted from Vada plant consumption. Capex is ₹6.2 crores, annual saving approximately ₹1.3 crores after interest on a ₹5 crore term loan, payback four and a half years, plus CBAM benefits for exports.

Ratnaveer Precision Engineering Limited

GROWTH TRIGGERS

The bull case is that Ratnaveer's CCL first line moves from trial to commercial output in early 2027 into a domestic shortage where prices are up over 300%, resetting first-line revenue potential to about INR500 crore at prevailing prices, while the base stainless business grows to INR1,800 crore by FY28 and the INR330 crore rights issue funds the build without further equity. The dated CCL ramp and customer contracts are the proof that matter; the price environment is the swing factor.

1. CCL price shock resets first-line economics

CCL prices have risen over 300% because of a shortage, while raw material costs rose only 40-50%. Management says a single line can generate approximately INR500 crore topline at prevailing prices, well above the earlier INR150 crore first-line guidance, and will revise the five-line INR750 crore target. The operating leverage is direct if the shortage premium persists through the first-line ramp.

2. First line has a dated commissioning and ramp path

Civil work is about 75% complete, machinery is due in India by mid-November 2026, and trial production is targeted between 15 December and 20 January. Management targets 30% utilisation in February, 60% in March and 85% by April 2027, with a Chinese CTO and 22 engineers on site. The schedule is specific enough to test against physical progress.

3. Customer orders and contracts exist before commercial output

Management reports 57 PCB customer visits, initial orders and soft commitments from Indian domestic PCB manufacturers, and signed long-term contracts. It expects order announcements in two to three weeks. Domestic PCB makers currently import CCL, so local supply has a lead-time, freight and currency advantage even at import-parity pricing.

4. Five-line build extends through April 2028

Line 1 is ready first; two more lines are to be ordered in December-January, with line two targeted for June 2027 and line three for September 2027. The final two lines are targeted for April 2028. That gives a staged capacity path rather than a single bet, and allows the first line's quality and customer acceptance to inform the later lines.

5. Base stainless business targets INR1,350 crore in FY27 and INR1,800 crore in FY28

Management set the base business at INR1,350 crore for FY27, against INR1,080 crore last year, and INR1,800 crore by FY28. It is spending about INR58 crore this year on Phase 2 capacity for fasteners, tubes and pipes, sheet metal components and clips, and says the base business is in line with the current-year projection.

6. Rights issue removes immediate equity funding risk

The INR330 crore rights issue is complete, management says proceeds provide sufficient working capital liquidity, and there is no plan for fresh equity dilution. All five CCL lines are funded through internal accruals, debt and government incentives including a 50% capital subsidy under ECMS/PLI. That is a delivered funding milestone and removes the earlier QIP timing risk.

7. Subsidy and buyer incentive improve CCL returns

Management described a 50% capital subsidy under ECMS/PLI and a 2% purchase-turnover incentive for domestic procurement. Those supports lower the net capital cost and improve the relative economics of domestic CCL versus imports. The subsidy is an explicit part of management's funding stack, not an inferred benefit.

8. Long-term CCL share aspiration leaves room after five lines

Management said five lines would serve only about 2-2.5% of Indian CCL demand and set a five-year aspiration to reach 7-8% share. The market is described as growing 50-60% with no domestic producers. This is an aspiration, not a current target, but it frames the capacity runway beyond the first five lines.

INVESTMENT THESIS

Ratnaveer Precision Engineering is a vertically integrated stainless steel component maker that is attempting to become India's first domestic producer of copper clad laminate (CCL), the substrate used in printed circuit boards. The existing business makes washers, fasteners, tubes and pipes, finishing sheets and sheet metal parts from a chain that starts with stainless scrap melting and rolling. That integration supports cost control and a broad SKU range, but the existing products are industrial intermediates with modest margins: Q2 FY27 EBITDA margin was 10.82% and PAT margin 6.22%. The investment case therefore depends less on the base business alone and more on whether CCL shifts the mix toward a product with a domestic shortage, import substitution and materially higher revenue per line.

The base business is not standing still. Management targets INR1,350 crore revenue in FY27, against INR1,080 crore last year, and INR1,800 crore by FY28. Q2 revenue grew 35.46% to INR387 crore and PAT 55.97% to INR24.07 crore. Phase 2 capex of about INR58 crore this year is aimed at fasteners, tubes and pipes, sheet metal and clips, and management links it to the move from INR1,400 crore to INR1,800 crore topline. This is guidance, not delivered FY28 revenue. The margin path is also not yet proven: gross margin excluding other income fell to 9.44% in Q2 from 10.23% in Q1 on preparatory costs, and FY27 PAT margin guidance is about 6.25%.

CCL is the operating leverage event. The planned investment is INR338 crore over two to three years, including INR86 crore of captive solar, approved under ECMS and Gujarat support. The first line is the near-term milestone: civil work about 75% complete, machinery due by mid-November, installation 45-50 days, trial production targeted 15 December-20 January, and utilisation of 30% in February, 60% in March and 85% by April 2027. The remaining lines are scheduled for June 2027, September 2027 and April 2028. Management previously guided INR750 crore revenue across five lines at 20% EBITDA and 13% PAT. It is maintaining those numbers only until revised guidance, because CCL prices have risen over 300% on shortage and a single line is now described as capable of about INR500 crore topline at prevailing prices. That is a large potential reset, but it is also a price-dependent one: raw material costs rose only 40-50%, so the incremental economics assume the shortage premium persists.

Funding has improved. The INR330 crore rights issue is complete, management says there is no plan for further equity dilution, and the five lines are to be funded through internal accruals, debt and ECMS/PLI support including a 50% capital subsidy. That removes the immediate equity-financing risk that sat in the old QIP assumption. It does not remove working capital risk: management said operating cash flow is absorbed by capex and should turn positive only once capacities stabilise, although it saw improvement from Q1 to Q2. A

CCL ramp requires inventory and receivables before revenue, so the balance sheet will be tested even with the rights issue.

Management delivery is mixed. The rights issue was completed, the base business is growing, and CCL civil work and machine ordering are progressing. But the first line has moved from an earlier November 2026 commercial production target to trial production in December-January, with commercial output after that. The five-line guidance is explicitly under revision. Customer work has produced initial orders and soft commitments from Indian PCB manufacturers, plus signed long-term contracts, but firm volumes are not disclosed. The company has a Chinese CTO and 22 engineers for installation, which supports execution but does not prove qualification.

The thesis would be falsified if the first line fails to reach commercial output and 85% utilisation by around April 2027, if PCB customer qualification does not convert soft commitments into firm orders, if CCL prices normalise faster than raw material costs, or if the five-line schedule slips beyond April 2028. It would also weaken if the base business misses INR1,350 crore in FY27 or if working capital remains absorbed after the CCL ramp. Conversely, a revised CCL guidance that capitalises the current price environment, with signed volumes and a funded five-line build, would confirm the operating-leverage case. The key distinction is between management's price-linked aspiration and the evidence of orders, commissioning and cash conversion.

RESEARCH REPORT

What Ratnaveer Precision Engineering Limited does

Ratnaveer Precision Engineering Limited, established in 2002 and headquartered in Gujarat, manufactures stainless steel components. It operates five facilities with 46,668 tonnes of process capacity and more than 800 employees, and runs an integrated chain from scrap melting and rolling to finished washers, fasteners, tubes, pipes and finishing sheets. Management describes 90% of power use as green power and exports to 31 countries with 219 customers.

The company's core claim is that it is India's largest producer of stainless steel washers. Management states this directly:

Q2 FY27 update (3 November 2026): Revenue was INR387 crore, up 35.46% year on year, EBITDA was INR42.13 crore, up 38.85%, and PAT was INR24.07 crore, up 55.97%. EBITDA margin was 10.82% and PAT margin 6.22%; gross margin excluding other income was 9.44% versus 10.23% in Q1 FY27, which management attributed to preparatory expenses for upcoming products ahead of revenue. The CCL first line was targeted for trial production between 15 December and 20 January, with commercial production after the trial and 85% utilisation by April 2027.

> *"We are the largest producers in a country for the stainless steel washers."*
>
> **MANAGING DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

Ratnaveer's integrated model works like this: stainless steel scrap is melted in-house (Unit III) into ingots, rolled into sheets and coils (Unit IV), and then fed into its finishing lines (Unit I) to produce washers, fasteners, tubes, and other components. This backward integration gives the company control over raw material quality and reduces dependence on external suppliers. Forward integration into tubes and pipes allows direct end-user delivery.

The company exports to 31 countries and holds a two-star export house status. It has ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018 certifications. The product range serves automotive, railways, defence, aerospace, marine, pharmaceuticals, chemical engineering, dairy, construction, elevator, and FMCG industries.

Business segments

Ratnaveer segments its business into five product lines, though it does not disclose revenue-mix for all of them individually. The segments are:

Stainless Steel Washers – The largest and most established segment. Ratnaveer produces plain/flat washers, spring washers, tooth lock washers (internal and external), circlips/retaining rings, and Nord-Lock type washers. It offers over 2,500 SKUs. These are

used across automotive, railways (including high-speed and bullet trains), defence, aerospace, marine, pharmaceuticals, chemical engineering, dairy, construction, and elevator industries. Management claims the company has the largest number of washer SKUs in India. No separate revenue-mix percentage was disclosed in the provided sources for this segment alone.

Fasteners (Nut, Bolt, and Washers) – This segment covers precision fasteners and assemblies. It is a newer expansion, described in the Q2 FY26 concall as a product range added in the last 1.5-2 years. The company expects value-added products in this segment (including circlips, fasteners, electropolished pipes, sheet metal) to contribute about ₹200 crore revenue by FY27. Revenue-mix not separately disclosed.

Stainless Steel Tubes and Pipes – Welded and seamless tubes and pipes, with options for electro-polishing and bright annealing. Annual capacity is 6,000 MT. Grades include Austenitic, Ferritic, Duplex, and Super Duplex. End markets include oil and gas, water treatment, food processing, pharmaceuticals, power plants, and automotive exhaust systems. This segment contributed 7% of revenue in FY25, as disclosed in the Annual Report.

Stainless Steel Finishing Sheets – Sheets with surface customisation (satin, hairline, scotch-brite, mirror). Installed finishing line capacity of 32,000 MT. Applications in architecture, building construction, elevators, kitchen equipment, process plants, and solar roof components. Revenue-mix not separately disclosed.

Stainless Steel Scrap Reprocessing (Backward Integration) – Melting and rolling divisions that convert scrap into ingots and flat products. Used for internal consumption and outside sales of coils, shades, and flat products. This segment is not a separate revenue driver but a cost advantage enabler.

Products and business detail

Ratnaveer's product catalogue spans over 2,500 SKUs of washers alone, plus tubes, pipes, sheets, and custom sheet metal components. Key products include:

Washers: Plain/flat washers distribute loads and prevent loosening. Spring washers absorb vibration and maintain tension. Tooth (internal and external) lock washers provide a locking mechanism. Circlips/retaining rings are used for shaft and housing applications. Nord-Lock type washers use wedge-locking technology to prevent loosening under vibration. End uses cover automotive, aerospace, railways, industrial machinery, and consumer goods.

Stainless Steel Tubes and Pipes: Welded and seamless formats, with electro-polishing and bright annealing. Sizes include round, square, rectangular, and U-tubes. Annual capacity is

6,000 MT. Volume produced in FY25 was 2,158 MT (Export volume 1,833 MT). These are used in oil and gas, food processing, pharmaceuticals, power plants, and automotive.

Stainless Steel Finishing Sheets: Surface finishes include satin, hairline, scotch-brite, and mirror. Installed finishing line capacity is 32,000 MT. Volume sold in FY25 was 29,000 MT. Key export regions include Europe and the Middle East. Applications in architectural cladding, elevators, kitchen equipment, process plants, and solar roof components.

Solar Roofing Hooks / Sheet Metal Components: Custom sheet metal components for solar roof mounting systems, serving residential and commercial solar PV.

Copper Clad Laminate (CCL) – New Venture: Ratnaveer is setting up a CCL plant in Gujarat, a product used in PCBs and currently imported into India. The planned investment is INR338 crore over two to three years, including INR86 crore of captive solar, and is approved under the ECMS scheme and Gujarat government support. Civil work is about 75% complete; machinery is due in India by mid-November 2026, installation is expected to take 45-50 days, and trial production is targeted between 15 December and 20 January. Commercial production follows the trial. The first line is targeted at 30% utilisation in February, 60% in March and 85% by April 2027; lines two and three are targeted for June and September 2027, and the final two lines for April 2028. Management previously guided INR750 crore revenue from all five lines at 20% EBITDA and 13% PAT but is maintaining those targets only until revised guidance is issued, after CCL prices rose over 300% and a single line was described as capable of about INR500 crore topline at prevailing prices.

The manufacturing setup comprises five units:

- Unit I (Savli): Washers and finishing sheets
- Unit II (Savli): Stainless steel tubes and pipes
- Unit III (Waghodia): Melting unit (scrap to ingots)
- Unit IV (Vatva, Ahmedabad): Rolling unit (ingots to sheets)
- Unit V (Samlay): Wire production

Quality is embedded across processes: incoming inspection uses spectrometers and hardness testers; in-process monitoring uses calibrated tools; final inspection validates surface finish, dimensional accuracy, and packaging. The company has traceability from scrap input to final product.

Customers

Ratnaveer sells to a mix of OEMs, distributors, and stockists across 31 countries. Its top 10 customers contributed approximately 72% of revenue in FY25, as disclosed in the Annual

Report. This customer concentration is notable but partially mitigated by diversification across product lines and geographies.

Geographically, key export markets include Germany, the UK, Spain, Netherlands, UAE, other European and Middle Eastern countries. Domestically, the company has sales offices in Chennai, Ahmedabad, Mumbai, Kolkata, Delhi, Kochi, Bengaluru, Thiruvananthapuram, Hyderabad, Lucknow, Pune, and Kanpur.

The buying relationship is not based on long-term contracts. Management explains it is a "plant approval base" model: customers approve the manufacturing facility, and orders are placed order-to-order. However, relationships can last for decades – the company has customers it has worked with for 15-20 years. The order book typically stands at 3-4 months, giving visibility into near-term demand.

From the Q4 FY26 concall: "We have a good order book positions."

About 80-85% of orders are covered by back-to-back order bookings – meaning the company purchases raw material for a specific sales order simultaneously, fixing the price on both sides. This mechanism largely mitigates raw material price volatility and foreign exchange risk.

Customer segments span a wide range of industries: automobile (two-wheelers to heavy vehicles), large and small transportation, high-speed and bullet trains, aerospace, oil and gas, sugar, dairy, pharmaceuticals, FMCG, home appliances, kitchen appliances, railways, marine, defence, chemical engineering, and elevator industries. No single industry contributes a dominant share; in the Q4 FY26 concall, management said for washers the top customers contribute 2-5% each, for finishing line sheets the top customers contribute around 4-5%, and for sheet metal products and tubes, 5-10% each.

Competitive landscape

The industries Ratnaveer operates in – stainless steel washers, fasteners, tubes, and finishing sheets – are highly fragmented. In India, there are many small and medium producers, particularly in the unorganised sector. Ratnaveer's primary competitive advantage is its fully integrated, large-scale manufacturing model.

For stainless steel washers, Ratnaveer claims to be the largest producer in India. The key moat is its breadth of SKUs (over 2,500 washers) combined with backward integration. This allows the company to offer a wide range under one roof while controlling costs. In the Q2 FY26 concall, management explained: "We are the largest producer for the washers in a country." An investor asked what makes Ratnaveer different, and the answer was that it houses multiple industries (fasteners, tubes, sheets, washers) under one roof, whereas competitors typically focus on a single product category.

For exports, the company benefits from labor cost advantage. Washer manufacturing is labor-intensive, and labor is expensive in European countries. Indian producers like Ratnaveer therefore have a structural cost edge in export markets.

In the tubes and pipes segment, competition includes established Indian and global tube manufacturers. Ratnaveer is a relatively recent entrant here (Unit II acquired on sub-lease in 2016, production started in 2017). It competes on the basis of integrated supply and certifications.

In the finishing sheets segment, the market is driven by construction and architecture demand. Ratnaveer positions itself as a customised surface finish provider with high capacity (32,000 MT finishing line).

The major new competitive arena is CCL. This is an import-substitution opportunity because there are no domestic producers. Ratnaveer claims first-mover status and management said Wipro and Ratnaveer are the serious domestic execution candidates after Syrma SGS postponed its CCL plant. Management described the Indian CCL market as growing 50-60% and said five lines would serve only about 2-2.5% of demand, with a five-year aspiration to reach 7-8% share. The competitive edge rests on government subsidies, a Chinese technology partner and customer relationships; the risk is that additional announced capacity compresses the 20% EBITDA assumption.

Where Ratnaveer could lose: in commoditised lower-end washer or tube segments, price pressure from Vietnamese, Chinese, or Indian unorganised producers could squeeze margins. The company addresses this by focusing on value-added products and maintaining back-to-back order booking to protect margins.

Industry

The stainless steel industry is a sub-segment of the broader steel market. Globally, the stainless steel market was valued at USD 120.2 billion in 2024 and is projected to reach USD 157.4 billion by 2030 at a CAGR of 4.6% (source: Annual Report FY25). India's stainless steel demand grew at 9% CAGR over the last three fiscal years, driven by investments in railway infrastructure, consumer goods, and process industries.

The stainless steel washer market specifically was valued at USD 2.5 billion in 2024 and is projected to reach USD 3.8 billion by 2033 at a CAGR of 5.2% (source: Annual Report FY25). The Indian stainless steel washer market is estimated to generate about USD 2 billion and grow at a CAGR of 6.2%.

Demand drivers: Infrastructure development, automotive production, railway modernisation (including bullet trains), renewable energy (solar mounting components), aerospace and

defence, pharmaceuticals, and FMCG/home appliances. Each of these sectors uses stainless steel washers, fasteners, tubes, or sheets.

India's place in the global supply chain: India is the second largest steel producer globally. In labour-intensive products like washers, India has a cost advantage over developed nations. Ratnaveer exports to Europe, where manufacturing costs are higher. The company's two-star export house status and 31-country footprint reflect India's growing role as a manufacturing hub for intermediate stainless steel components.

Import substitution: The CCL project is an import-substitution play. Management said there are no domestic CCL producers and Indian PCB manufacturers must import, creating a shortage and monopolistic pricing. The government supports domestic electronics manufacturing through ECMS and PLI, including a 50% capital subsidy and a 2% purchase incentive for domestic procurement; Ratnaveer's planned INR338 crore investment is approved under ECMS and Gujarat government support.

Regulation: The company maintains ISO certifications and BIS certification is relevant for certain products. On CCL, management said anti-dumping duty does not currently arise because there are no domestic producers and no domestic injury to establish; buyers receive a 2% purchase-turnover incentive for domestic procurement. The CCL project is approved under the ECMS scheme and Gujarat government support, with a 50% capital subsidy described by management.

Cyclicality: The stainless steel industry is cyclical, tied to industrial capex cycles and commodity prices (nickel, chromium). However, Ratnaveer has posted 25%+ CAGR growth for 14-16 consecutive quarters, indicating that its diversified product mix and back-to-back order booking have smoothed out demand fluctuations. Management stated in the Q4 FY26 concall that the recent war situation has not affected demand: "Honestly, our company and our products have not been much affected with the any kind of the war situations right now." Vulnerability exists in rising oil and gas prices affecting consumable and freight costs, but these are passed on to customers.

Growth triggers

- **CCL first line commissioning:** Machinery is expected in India by mid-November 2026, installation is scheduled for 45-50 days, and trial production is targeted between 15 December and 20 January. Commercial production follows the trial; management targets 30% utilisation in February, 60% in March and 85% by April 2027, with a Chinese CTO and 22 engineers on site for installation and quality. (Q2 FY27 concall, Nov 2026)
- **CCL five-line build-out and revised economics:** The first line is ready first; two additional lines are to be ordered in December-January, with the second line targeted for June 2027 and the third for September 2027. The final two lines are targeted for April 2028.

Management previously guided INR750 crore revenue from five lines at 20% EBITDA and 13% PAT but will revise the guidance after CCL prices rose over 300%; one line was described as capable of about INR500 crore topline at prevailing prices. (Q2 FY27 concall, Nov 2026)

- **Phase 2 stainless steel capex:** Management is spending about INR58 crore this year on Phase 2 capacity for fasteners, tubes and pipes, sheet metal components and clips. The spend was planned last year and is intended to support the base business rising from INR1,350 crore in FY27 to INR1,800 crore in FY28; management described the base business as in line with the current year projection. (Q2 FY27 concall, Nov 2026)
- **European acquisition for inorganic growth:** The company is in advanced due diligence to acquire a European precision components manufacturer with 66% gross margins and Forture 500 clients. The goal is customer acquisition and immediate entry into large automotive and corporate clientele. Completion is expected in 10-12 months. (Q4 FY26 concall, May 2026)
- **Value-added product mix:** Management said the company is moving from volume to value, with a focus on PAT margin, and linked a 13% PAT target to CCL and a richer mix. It is spending INR58 crore this year on Phase 2 fasteners, tubes and pipes, sheet metal and clips, which supports the base-business move from INR1,350 crore in FY27 to INR1,800 crore in FY28. (Q2 FY27 concall, Nov 2026)
- **Captive solar within the CCL programme:** The INR338 crore CCL investment includes INR86 crore for captive solar. Management says 90% of power used is already green power, so the solar addition is intended to support power cost and sustainability at the new plant; no separate capacity or commissioning date was disclosed on the call. (Q2 FY27 concall, Nov 2026)
- **Rights issue completed:** The INR330 crore rights issue was approved and completed. Management said the proceeds provide sufficient liquidity for working capital, that there is no plan for fresh equity dilution, and that all five CCL lines are funded through internal accruals, debt and government incentives including a 50% capital subsidy under ECMS/PLI. (Q2 FY27 concall, Nov 2026)

Key risks

- **Raw material price volatility (nickel, chromium):** The company mitigates this by booking 80-85% of its orders back-to-back, meaning purchase contracts are placed simultaneously with sale orders. This locks in margins but means the company does not benefit from falling prices either. If a sudden price spike occurs on the unhedged 15-20% of orders, margins get squeezed directly. (Q2 FY26 concall, Nov 2025)

- **New business execution risk (CCL):** The first CCL line is not yet in commercial production. Trial production is targeted between 15 December and 20 January, with commercial output after that, and management acknowledged two to three weeks of normal teething delays in synchronising machines and chemical formulations. Quality qualification by PCB customers, the Chinese technology partner's installation and the ramp to 85% by April 2027 remain execution tests. (Q2 FY27 concall, Nov 2026)
- **Working capital intensity during growth:** Management said operating cash flow is currently absorbed by capex and should turn strongly positive once capacities stabilise, with improvement already visible from Q1 to Q2. The INR330 crore rights issue is intended to fund CCL working capital, but the CCL ramp will still require inventory and receivables before revenue scales, and any delay would keep cash absorbed. (Q2 FY27 concall, Nov 2026)
- **Geopolitical risk from ongoing war situations:** The MD stated that demand has not been affected so far, but acknowledged that oil and gas price increases could raise costs of consumables (dye tools, fuel, freight). These costs can be passed on to customers, but the time lag between cost increase and customer acceptance could temporarily compress margins. (Q4 FY26 concall, May 2026)
- **Foreign exchange risk:** With exports to 31 countries, the company is exposed to currency fluctuations. The company broadly mitigates this through back-to-back order booking (purchasing raw material against export orders), which effectively locks in the margin in rupee terms. However, any mismatch in timing between invoice and settlement could still create exposure. (Q2 FY26 concall, Nov 2025)
- **Market competition in CCL:** Syrma SGS postponed its CCL plant, but Wipro and Ratnaveer are identified by management as the serious domestic execution candidates. Management said the market is growing 50-60% and five lines would serve only 2-2.5% of demand, with a five-year aspiration of 7-8% share. If more capacity is announced and demand growth slows, pricing and the 20% EBITDA assumption would come under pressure. (Q2 FY27 concall, Nov 2026)
- **Customer concentration:** The top 10 customers contributed ~72% of revenue in FY25 (Annual Report FY25). Loss of any one of these customers could materially impact revenue and profitability until new customers are onboarded.

Walk the talk

In the Q2 FY26 concall (November 2025), management gave a clear revenue guidance target:

> *"So, last year the topline would be Rs. 880 crores and we have a target to complete of Rs. 1,500 crores in two years of this span. And in a three years of the span Company can be looking forward for the 1,800 crore as a topline."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

By the Q4 FY26 concall (May 2026), the specific Rs. 1,500 crore target for FY27 was no longer repeated. Instead, management guided for Rs. 1,350 crore as the next year's target, describing it as consistent with 25% growth. When asked about the downgrade revision, the MD said:

> *"We are still on the line of the 1,500 crores. We have just given the number of 1,350 as a part of the 25% of the growing, but we're still working on to the 1,500 on the top line"*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The earlier Rs. 1,500 crore FY27 target has not been reaffirmed. On the Q2 FY27 call, management set the base business at INR1,350 crore for the current year and INR1,800 crore by FY28, while maintaining the prior CCL target of INR750 crore at 20% EBITDA and 13% PAT only until revised guidance is issued. The revised CCL guidance is now the key disclosure because CCL prices have risen over 300% and a single line is described as capable of about INR500 crore topline at prevailing prices.

On the capital expenditure front, in the Q2 FY26 concall (November 2025), management stated:

> *"the Rs. 68 crore of the CAPEX, which we have been planning out by the November end and the December first week. So, this can be starting up for the tubes, circlips, fasteners, and to make up of the solar plants"*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

By the Q2 FY27 call, management said Phase 2 capex of about INR58 crore was being spent this year on fasteners, tubes and pipes, sheet metal components and clips, after being planned last year. It linked the spend to the base business rising from INR1,400 crore to INR1,800 crore topline. That is a clearer status than the earlier Rs. 68 crore wording, but the amount is modestly lower and the schedule has moved.

Scenarios

Bull case

The CCL first line starts trial production in December-January and reaches 85% utilisation by April 2027. Customer contracts convert into firm orders, and the five lines are installed by April 2028. With CCL prices up over 300%, a single line generates about INR500 crore

topline at prevailing prices, well above the earlier INR150 crore first-line assumption, and the five-line economics are revised upward from the prior INR750 crore revenue, 20% EBITDA and 13% PAT. The base stainless business delivers INR1,350 crore in FY27 and INR1,800 crore in FY28, supported by INR58 crore of Phase 2 capex. The INR330 crore rights issue funds working capital without further equity dilution, and the consolidated business reaches the cited INR2,500 crore topline with 14% EBITDA and 11% PAT before any upward revision.

Base case

The CCL first line starts trial in December-January but commercial qualification and ramp slip by one to two quarters, with 85% utilisation reached later than April 2027. The remaining lines are installed through FY28, so the prior INR750 crore five-line revenue target is pushed beyond FY28. CCL prices remain elevated but not at the 300% peak, and revised guidance lands below the bull case. The base stainless business grows to INR1,350 crore in FY27 and INR1,800 crore in FY28, while the rights issue funds working capital but operating cash remains absorbed by capex. Consolidated revenue reaches about INR2,500 crore in FY28 with margins below the 14% EBITDA and 11% PAT cited on the call.

Bear case

The CCL first line faces commissioning or customer-qualification delays beyond the December-January trial, and the ramp to 85% by April 2027 is missed. CCL prices, up over 300% because of a shortage, normalise faster than costs, compressing the economics that management is using for revised guidance. The remaining lines slip beyond April 2028, leaving the prior INR750 crore five-line target unreachable in FY28. The base stainless business grows below the INR1,350 crore FY27 and INR1,800 crore FY28 targets as European demand softens, while working capital remains absorbed by CCL inventory and receivables. The rights issue is completed, but cash generation stays weak and the consolidated margin targets are cut.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,069	1,511	2,469	3,178
Revenue growth	-	+41.4%	+63.4%	+28.7%
EBITDA (₹ Cr)	112	153	320	475
EBITDA margin	10.5%	10.1%	12.9%	15.0%
Depreciation (₹ Cr)	25.30	31.00	44.00	58.00
Interest (₹ Cr)	20.70	29.00	32.00	38.00
Other income (₹ Cr)	10.00	17.00	14.00	12.00
PBT (₹ Cr)	76.10	110	258	391
Tax (₹ Cr)	11.90	15.40	39.90	66.50
Tax rate	15.6%	14.0%	15.5%	17.0%
PAT (₹ Cr)	64.30	94.90	218	325
PAT growth	-	+47.6%	+129.6%	+49.2%
EPS (₹)	7.66	11.31	25.95	38.71
P/E	52.7x	35.7x	15.5x	10.4x
PEG	0.6x	0.4x	0.2x	0.1x

CAGR FY27E-FY29E: Revenue +45.0% · EBITDA +76.1% · PAT +85.0%

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Q2 FY27 concall notes

TLDR

Ratnaveer Precision Engineering reported Q2 FY27 revenue from operations of ₹387 crore, up 35.46% YoY, EBITDA of ₹42.13 crore, up 38.85%, and PAT of ₹24.07 crore, up 55.97%. EBITDA margin was 10.82% and PAT margin 6.22%; net worth rose 156%, with ROE at 9.66% and ROCE at 13.31%. The base business is guided to ₹1,350 crore this year against ₹1,080 crore last year, and ₹1,800 crore by FY28, supported by ₹58 crore of Phase 2 capex across fasteners, tubes and pipes, sheet metal components and clips. The copper clad laminate project has civil work about 75% complete, machinery due mid-November, trial runs from December 15-20, and 85% utilisation of the first line targeted by April 2027. Management maintains prior targets of ₹750 crore across five lines with 20% EBITDA and 13% PAT, and says revised guidance will be announced shortly after CCL prices rose over 300%. Key watch points are CCL commissioning slippage, margin dilution from preparatory costs, and working capital absorption.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹387 crore	+35.46% YoY	Management did not give a specific driver beyond overall business growth
EBITDA	₹42.13 crore	+38.85% YoY	Not separately explained
EBITDA margin	10.82%	n/a	Gross operating margin fell to 9.44% in Q2 from 10.23% in Q1 on initial preparatory expenses for upcoming products ahead of revenue
PAT	₹24.07 crore	+55.97% YoY	Not separately explained
PAT margin	6.22%	n/a	Management guided FY27 PAT margin around 6.25%
Net worth	n/a	+156% YoY	Not explained on the call
Return on equity	9.66%	n/a	Not explained
Return on capital employed	13.31%	n/a	Not explained
Effective tax rate	~13% in Q2	n/a	Management expects around 15% for the year, citing depreciation, R&D allowances and related deductions
Base business revenue	₹1,080 crore in FY26	n/a	Guided to ₹1,350 crore in FY27 and ₹1,800 crore by FY28

SEGMENTS & GEOGRAPHIES

- **Base business (fasteners, nuts and bolts, clips, washers, tubes and pipes, finishing line, sheet metal components):** FY26 revenue was ₹1,080 crore. Management targets ₹1,350 crore for FY27 and says it is in line with that projection, then ₹1,800 crore by FY28. The finishing business is running near capacity, and Phase 2 capex is underway.
- **Copper clad laminates (CCL):** Pre-revenue. Civil work about 75% complete, machinery expected in India by mid-November, installation estimated at 45 to 50 days, trial run targeted December 15-20 with one month for trial and

product development. Management targets 30% utilisation in February, 60% in March and 85% by April 2027 on the first line.

- **Exports and domestic:** The company serves 31 countries with 89 distributor partners and 219 clients, mainly across Europe, Asia-Pacific, the Middle East and the rest of the world, and nine states in India. No country-level revenue split was given.

STRATEGY & COMPANY-SPECIFIC

- **CCL capacity buildout:** Planned investment of ₹338 crore over two to three years, approved under the Gujarat and central ECMS scheme, including ₹86 crore for a captive solar plant. Line 1 starts first; two additional lines are to be ordered in December-January, with the second line starting June 2027 and the third September 2027. The remaining two lines are targeted for order in January 2028 and commencement in April 2028, putting all five lines installed by April 2028.
- **CCL product range:** Output from 140 Tg to 180 Tg, multilayer, FR-4 and prepreg, copper foil thicknesses of 18, 35, 50 and 70 microns, and panel thicknesses from 0.8 mm to 3.2 mm. End markets cited are automotive, EVs, drones, satellite equipment, aerospace and electronic devices.
- **CCL team:** A Chief Technical Officer with 30 years of experience, a Chinese national, will oversee execution, installation, quality, product development and systems. For each machine, 22 engineers plus one person staying two years are arriving for installation, 23 people in total.
- **CCL commercial progress:** 57 customer visits so far, exhibitions in Bangalore and industry magazine advertising. Management says it has initial orders and soft commitments from Indian domestic PCB manufacturers, signed long-term contracts, and will announce order confirmations in the next two to three weeks. Contracts under discussion span one to three years.
- **Base business capex:** Around ₹58 crore of capex this year, planned last year, for Phase 2 of fasteners, tubes and pipes, sheet metal components and clips, taking topline from ₹1,400 crore to ₹1,800 crore.
- **Funding:** The rights issue raised ₹330 crore, which management says covers working capital. No equity dilution or fresh equity fundraise is planned. All five CCL lines are to be funded through internal accruals, debt and ECMS/PLI incentives, which include a 50% capital subsidy. A 2% purchase turnover incentive applies to buyers procuring CCL domestically.
- **Competition:** Management said Wipro and Ratnaveer are the companies seriously executing domestic CCL manufacturing, and that Syrma SGS postponing its CCL plant reinforces Ratnaveer's first-mover position.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 base business revenue	₹1,350 crore	n/a	In line with current projections
FY28 base business revenue	₹1,800 crore	n/a	Phase 2 capex of ₹58 crore taking topline from ₹1,400 crore to ₹1,800 crore
FY28 consolidated revenue (pre-CCL revision)	₹2,500 crore	n/a	Prior guidance, to be revised with new CCL numbers
FY28 consolidated EBITDA margin (pre-CCL revision)	14%	n/a	Prior guidance, to be revised
FY28 consolidated PAT margin (pre-CCL revision)	11%	n/a	Prior guidance, to be revised

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Five-line CCL revenue	₹750 crore	n/a	Prior guidance of ₹150 crore from the first line; maintained until revised guidance is announced
Five-line CCL EBITDA margin	20%	n/a	Prior guidance, maintained pending revision
Five-line CCL PAT margin	13%	n/a	Prior guidance, maintained pending revision; management said CCL margins could be higher
FY27 PAT margin	~6.25%	n/a	Current year expectation
FY27 effective tax rate	~15%	n/a	Depreciation, R&D allowances and related deductions
Single CCL line revenue potential	₹500 crore to ₹1,500 crore	n/a	Management cited approximately ₹500 crore at prevailing prices in one answer and ₹1,500 crore in another; formal guidance to follow
CCL trial run	December 15-20 start, one month duration	n/a	Civil work and foundation ready, machinery arriving mid-November
CCL first-line utilisation	30% February, 60% March, 85% April 2027	n/a	Installation and product development schedule
All five CCL lines installed	April 2028	n/a	Staged ordering and commissioning plan
Long-term CCL market share	2% to 2.5% after five lines, 7% to 8% over five years	n/a	Management's view of market growth and demand

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
CCL commissioning delay	Minor adjustments of two to three weeks may occur in synchronising machines and chemical formulations; significant delays beyond a couple of weeks during trial runs are not expected
CCL price and margin uncertainty	CCL prices rose over 300% in a year on shortage while raw material costs rose 40% to 50%; exact CCL margins not disclosed as commercial contracts are being finalised
Margin dilution from preparatory costs	Gross operating margin fell to 9.44% in Q2 from 10.23% in Q1 on initial preparatory expenses for upcoming products ahead of revenue; management expects QoQ improvement
Working capital and cash flow	Operating cash flows are absorbed by capex deployment; management expects cash flow to turn positive once capacities stabilise, and said it improved from Q1 to Q2
Dependence on imports for CCL	No domestic CCL producers exist in India; management said there is no scope for anti-dumping duty because no domestic industry can be injured
Chinese export restrictions on equipment and engineers	Management said there are no restrictions and engineers travel freely under ECMS and PLI support

Q&A HIGHLIGHTS

Margin expansion to 13% PAT Asked what supports the 13% PAT target, management said the shift from volume to value and higher CCL profit margins underpin it, against prior FY28 guidance of 10% consolidated, and that new guidance with a clear roadmap will follow shortly.

Base business volume Asked for base business volumes, management gave revenue instead: ₹1,080 crore last year, ₹1,350 crore targeted this year, and ₹1,800 crore by FY28.

CCL ramp-up timeline Asked when full-scale commercialisation and 60% to 80% utilisation would come, management laid out machinery arrival by November 15-20, 45 to 50 days of installation, trial run from December 15-20, then 30% utilisation in February, 60% in March and 85% by April 2027 on the first line.

CCL pricing model Asked whether margins depend on CCL prices, management said prices rose almost 300% on shortage while raw material costs rose 40% to 50%, that Indian buyers must accept the pricing, and that increases are passed on to PCB manufacturers.

Customer contracts Asked whether offtake agreements exist, management said initial orders and soft commitments have come from Indian domestic PCB manufacturers, with announcements in the next two to three weeks.

Working capital funding Asked how first-line working capital will be funded, management pointed to the ₹330 crore rights issue and said it provides sufficient liquidity.

Competition and market share Asked about new entrants, management said the market is growing at 50% to 60% CAGR with zero domestic manufacturers, that five lines would give 2% to 2.5% share, and that the five-year aim is 7% to 8%.

Equity fundraise Asked about fresh equity, management said there is no plan for dilution and that all five lines are funded through internal accruals, debt and ECMS/PLI incentives including a 50% capital subsidy.

Macpower CNC Machines Limited

GROWTH TRIGGERS

Macpower has raised FY27 revenue growth guidance to about 35% on a fully advance-backed INR476 crore order book and a 2,500-machine capacity running near 95% utilisation. The 13-acre plant under construction is the bridge to 25-30% growth for three years after FY27, and backward integration of spindle, sheet metal and telescopic cover capacity is the lever that takes EBITDA margin above the mid-teens.

1. FY27 growth guidance raised to about 35% on delivered H1

Management raised FY27 revenue growth guidance from 30% to nearly 35% after Q2 FY27 revenue grew 40.4% and H1 FY27 revenue grew 46.9% to INR215.56 crore. On the FY26 base of INR333.18 crore, 35% growth implies roughly INR450 crore for FY27, of which about half is already reported; that arithmetic is analyst inference, not company guidance.

2. Three-year growth guidance of 25-30% after FY27

Management guided 25-30% revenue growth for the coming three years, tying it to the capacity being created on the 13-acre site, which it says is sufficient to support 25-30% growth for the next three to four years.

3. Order book reaches INR476 crore, up 36%

Pending orders were INR476 crore at Q2 FY27 end, up 36% y-o-y and roughly 1.4 times FY26 revenue. Management says the book is fully advance-backed except for distributor and government orders, so the constraint on converting it is assembly capacity rather than customer commitment.

4. 13-acre plant construction started with a completion penalty clause

Compound wall and bore work are complete and architect and contractors are appointed under a contract carrying a six-month completion penalty, with operations targeted by end-Q2 FY28. INR2.89 crore of capex was spent in Q2 FY27. The capacity number and budget are still to come with Q3 results, so the revenue contribution is not yet quantifiable.

5. Backward integration equipment ordered before output ramps

About 20% of the new equipment orders are placed for spindle, sheet metal and telescopic cover capacity, where lead times are five to six months, with grinding and machining orders to follow within a month. Management ties margin expansion to this capacity arriving, and says the machines are not needed before May or June.

6. Price increase flows into the second half

Macpower raised prices two to three months before the October 2026 call, but Q2 executed older orders and old inventory, so realisations did not yet capture it. Management expects

the new price to execute from Q3 FY27, which gives a realised-price tailwind on the same machine volumes in H2.

7. Cash conversion improved as the NBFC arrangement was dropped

Working capital days fell to about 110 at September 2026 from about 138 a year earlier, and Q2 FY27 operating cash flow was about INR30 crore. Management stopped accepting NBFC commitment letters that released funds 15-20 days after dispatch, and now takes 10-20% of machine value from corporate customers after commissioning.

8. Margin stated above 20% once capacity and integration land

Management said FY28 EBITDA margin would be more than 20% in a Q&A answer, and separately that more than 20% can be sustained after 10,000 machines. Q2 FY27 EBITDA margin was 16.56% against 16.20% in Q1 FY27. Management concedes salary and operating costs rise with the new capacity, so the margin gain is a lagging effect.

9. NEXA share targeted at 50% by FY28-29

NEXA is about 40% of the INR476 crore order book, and management said it aims to reach 50% by FY28-29, with three large-series NEXA models, DCM 5 metre, V 500 G and VTX 1200, launched in Q2 FY27. A higher NEXA share supports average realisation over time.

10. Subsidies cut the net cost of the new capacity

The new capex qualifies for a 25% capital subsidy on construction, machinery and equipment and a 7% interest subsidy under the Vikshit Gujarat policy, both restated in the Q2 FY27 call. That lowers the net capital and financing burden on a business that is otherwise close to debt-free.

11. Defence orders in hand execute within FY27

Management said orders from HAL, the rifle factories and ordnance factories would all execute this financial year, and that it bids only 25-30% of the more than INR1,000 crore of released defence tenders because it lacks capacity. The Q2 FY27 bid pipeline was INR939 crore in total.

12. Distribution and service footprint being doubled

Nine branch offices and nine technical centres operate today, four more technical centres at Kolhapur, Mumbai, Chennai and Aurangabad are expected to open in Q3 FY27, and management said the sales, service and technical-centre team will be double its current size by the end of FY27, ahead of the new capacity.

INVESTMENT THESIS

Macpower CNC Machines builds computer numerically controlled metal-cutting machines at Rajkot, Gujarat, in a basket of roughly 388-390 models spanning turning centres, vertical and horizontal machining centres, double column machines, drill tap centres and a small five-axis line, priced from about INR12 lakh to INR2 crore. It sells mainly to tier 3 and tier 4 engineering firms, with a growing share of corporates and defence establishments. India consumes INR38,000-40,000 crore of machine tools and produces about INR16,000 crore, which puts Macpower at roughly 2% of consumption and 4% of domestic production.

The economics are those of a scale assembler with partial backward integration. Q2 FY27 revenue was INR120.33 crore with EBITDA of INR19.93 crore, a 16.56% margin, and PAT of INR13.48 crore at 11.20%, a thin spread over material, job work and fixed cost. Management's own comparison is with peers at 25-26% EBITDA margin, and its explanation of the gap is component capacity: spindle output of roughly 1,400-1,500 units against about 1,500 spindles purchased, which forces job work that management says raises cost. The stated route to a better spread is more in-house component manufacturing plus fixed-cost leverage on a larger volume base, which management says takes EBITDA above 20%.

Demand is not the constraint. Pending orders were INR476 crore at Q2 FY27 end, up 36% y-o-y and roughly 1.4 times FY26 revenue, of which the higher-priced NEXA line is about 40%. Management says the book is fully advance-backed except distributor and government orders, and that it refunds ten to twenty machines a month on average because it cannot deliver. H1 FY27 revenue grew 46.9% to INR215.56 crore and Q2 grew 40.4%; management raised FY27 revenue growth guidance to about 35% from the 30% committed a quarter earlier.

The near-term earnings path is therefore capacity arithmetic, not demand. Installed capacity is 2,500 machines a year. Q2 FY27 volume was roughly 591 machines and an analyst put utilisation at about 95% without contradiction; management guided 2,300-2,400 machines for FY27. That caps volume growth until the 13-acre leased site beside the existing plant is operating, which management targets for end-Q2 FY28. Construction has started, the compound wall and bore work are complete, contractors are bound by a six-month completion penalty, and INR2.89 crore of capex was spent in Q2 FY27. What management has not disclosed is the capacity the plant adds or its total cost: the number was deferred from the Q1 FY27 call to the Q3 call, and the earlier INR50 crore estimate was not restated. That omission is the largest single gap in the earnings model.

Company guidance for the following years is 25-30% revenue growth for the coming three years, which management says the 13-acre land can support for three to four years. Analyst inference, not guidance: on a FY26 base of INR333.18 crore, 35% growth implies roughly

INR450 crore of FY27 revenue, and H1 FY27 has already delivered INR215.56 crore, so the second half needs about INR234 crore.

Backward integration is the margin lever with the longest lead time. Management has placed about 20% of the new equipment orders, for spindle, sheet metal and telescopic cover capacity, where lead times run five to six months, and said grinding and machining orders with three-month lead times would follow within a month. It also set out four criteria for what to bring in-house: unavailability, accuracy, delivery and logistics time, and cost. The accounting sequence matters: management concedes that salary and operating costs rise with the new capacity, so margin expansion lags the revenue the new plant produces.

Capital allocation is conservative. The business is close to debt-free, and management describes the roughly INR30 crore of cash on the books as suppliers' money held on 90-120 day, sometimes six-month, credit terms. Working capital days fell to about 110 from 138 a year earlier and Q2 operating cash flow was about INR30 crore, helped by discontinuing an NBFC arrangement that released funds 15-20 days after dispatch. The new capex qualifies for a 25% capital subsidy on construction, machinery and equipment plus a 7% interest subsidy.

On delivery, the record is mixed. FY26 revenue landed inside the guided range, the INR50 crore EBITDA commitment was beaten, and the 30% growth promised in the Q1 FY27 call was delivered in Q2 and then raised. Against that, the 18% FY26 EBITDA margin was missed at 16.2%, and the 60-acre government land has slipped repeatedly: token money is paid and more than 32 departmental clearances are complete, but the enabling defence policy expired in February, was extended to September, and was still unreplaced at the October 2026 call.

Milestones to watch: the capacity number and capex budget with Q3 FY27 results; the four new technical centres at Kolhapur, Mumbai, Chennai and Aurangabad opening in Q3; the price increase taken two to three months before the call showing up in Q3 realisations; building completion and equipment installation at the 13-acre site through FY28; and any signed technology-transfer agreement, which management again tied to the facility being executed. The stated aim of reaching 50% NEXA share by FY28-29 and at least 10% of Indian consumption within three to four years are aspirations, not guidance.

Falsifiers: FY27 revenue growth below 30% would break the raised guidance; a Q3 capacity announcement materially below the growth guidance would leave FY28 without a volume bridge; EBITDA margin failing to move above the Q2 FY27 level of 16.56% through FY28 would show backward integration is not converting to profit; a rise in monthly refunds above ten to twenty machines would show order loss rather than deferral; and a further year

without the 60-acre allotment would push the 10,000-machine and above-20% margin framing beyond any planning horizon.

RESEARCH REPORT

What MACPOWER CNC MACHINES LIMITED does

Macpower CNC Machines Limited designs, manufactures, and sells CNC metal cutting machines. Incorporated in 2003 and headquartered at GIDC Metoda, Rajkot, Gujarat, the company started with a manufacturing unit on around 4 acres and now operates two units at Metoda. The company has capacity to manufacture 2,500 machines per annum and, as of FY25, had 850+ permanent employees with sales and service presence in 39 cities across India.

The company builds ten product categories: Turning Centers, Twin Spindle Turning Centers, VMC (Vertical Machining Centers), Twin Spindle VMC, Turn Mill Centers, HMC (Horizontal Machining Centers), VTL (Vertical Turret Lathes), DCM (Double Column Machines), DTC (Drill Tap Centers), and 5-Axis machines, across a basket of roughly 388-390 models that management says is developed entirely by its own R&D, with no paid design, collaboration or takeover. The annual report lists the end markets: Automobile, Aerospace, Agriculture Equipments, Medical Instruments, Railways, Defence Equipments, Electrical Accessories, Pumps & Valves, Die & Mould, and General Engineering. The FY25 annual report also claims 12,040+ installations and 3,000+ application solutions.

Macpower operates as a single segment. Product-wise sales in FY25 were: CNC 17,646.22 lakhs, VMC 7,189.83 lakhs, VTL 439.25 lakhs, HMC/DCM 368.81 lakhs, totaling 25,644.11 lakhs. The CNC Turning Center is the volume product, used by bearing, valve, pump, tool room, automobile, process plant, agriculture, textile, and piping industries. VMC serves tool room, die and mould, automobile, pattern, defence, power, and railways.

The NEXA series is the higher-end product line. It was about 40% of the INR476 crore pending order book at Q2 FY27 end, and that share is measured in numbers rather than value. NEXA includes machines priced from INR30 lakhs up to INR1.5 crore, while the non-NEXA order book averages INR15-16 lakhs. Management said in the Q2 FY27 call that it aims to reach 50% by FY28-29. Management segments the market into three bands: low-end machines at INR12-20 lakhs, mid-range at INR20-30 lakhs, and higher-end machines from INR30 lakhs up to INR2 crore.

The average machine realisation was INR20.36 lakh in Q2 FY27 and INR20.55 lakh on the H1 FY27 order book, against approximately INR20 lakh in FY26 and Q1 FY27. Management said in the Q2 FY27 call that average realisation would stay around the same level this year, preferring total revenue to price per machine, and that the benefit of the price increase taken two to three months earlier would show from Q3 because Q2 executed older orders and inventory. NEXA has grown from a negligible share to about 40% of the order book within roughly a year.

The core capability: in-house manufacturing and backward integration

Macpower produces a substantial portion of its machines in-house. Management said in the Q1 FY27 call that the company then did 40-45% of component manufacturing by number of components, with a target to reach 75-80% through backward integration. In the Q2 FY27 call an analyst cited the annual report as saying about 80% of components are made in-house; management did not confirm that figure, and instead described spindle capacity of about 1,400-1,500 units against roughly 1,500 spindles purchased. The company has its own spindle assembly area, sheet metal unit, powder coating plant, and machine shop.

In-house component capacity is the constraint. In the Q2 FY27 call management put spindle capacity at about 1,400-1,500 units against roughly 1,500 spindles purchased, and described the first phase of the new plant as de-bottlenecking machining and component manufacturing. These gaps force the company to outsource some component manufacturing as job work, which raises cost. The 13-acre expansion is designed to close them.

The company also maintains a deep inventory strategy. Management disclosed managing more than 20,000 component SKUs across more than 380 variants, with roughly 1,000 components per machine, and said the high variant count is why inventory is the hardest part of the model to run. Holding raw material inventory is a deliberate competitive tool - management stated they carry one year of imported component inventory, particularly ball screws and LM guideways sourced from Taiwan, to protect against the six-month lead time for imports.

Why the company exists separately

Macpower is a domestic manufacturer competing in a market where roughly 50% of consumption is served by imports. The company's positioning is import substitution: building machines in India that were previously imported, at a lower cost. Management restated the arithmetic in the Q2 FY27 call: India consumes INR38,000-40,000 crore of machine tools and produces INR16,000 crore, so Macpower's share is about 2% of consumption and 4% of Indian production. It set an aim of at least 10% of consumption within three to four years.

The company is pursuing technology transfer agreements with foreign manufacturers to expand into product categories India currently imports. Management disclosed discussions with 5 companies, with NDAs signed with 3, and said in the Q2 FY27 call that it had met a few of them again in Germany, that they are also participating in the January 2027 Indian exhibition, and that they are waiting for the new facility before the paperwork completes. The structure is a technology transfer and buyback arrangement rather than a joint venture - management declined foreign investment, offering a maximum 5% royalty.

Financial performance trajectory

The company has grown revenue from INR241.17 crore in FY24 to INR261.82 crore in FY25 to INR333.18 crore in FY26. EBITDA grew from INR35.46 crore to INR41.54 crore to INR53.90 crore over the same period. Management guided 28-30% revenue growth for FY27, raised it to 30%+ in the Q1 FY27 call, and raised it again to nearly 35% in the Q2 FY27 call, alongside 25-30% growth for the coming three years.

METRIC	FY24	FY25	FY26	Q1 FY27	Q2 FY27
Revenue (INR crore)	241.17	261.82	333.18	95.24	120.33
EBITDA margin	14.70%	15.87%	16.18%	16.20%	16.56%
PAT margin	10.00%	9.72%	10.17%	10.06%	11.20%

The Q1 FY27 quarter was the company's highest-ever first quarter, with revenue up 56.1% year-on-year. Management attributes the acceleration to strong order book conversion and the 80 finished machines that were sitting in opening inventory at the start of the quarter, waiting for customer bank loan signatures.

Q2 FY27 results update (October 2026)

Q2 FY27 was the company's highest-ever quarter on revenue, EBITDA and PAT: revenue INR120.33 crore (+40.4% y-o-y), EBITDA INR19.93 crore at a 16.56% margin (+40.8%), and PAT INR13.48 crore (+43.7%) at an 11.20% margin. H1 FY27 revenue was INR215.56 crore (+46.9%), EBITDA INR35.36 crore (+60.2%) and PAT INR23.6 crore (+65.5%), with H1 EPS of INR23.05. Management raised FY27 revenue growth guidance to about 35% from the 30% committed in the Q1 FY27 call, and restated 25-30% growth for the coming three years. Volume was roughly 591 machines on an average realisation of INR20.36 lakh; management said the price increase taken two to three months earlier starts executing in Q3 FY27 because Q2 ran on older orders and inventory. Pending order book was INR476 crore at Q2 FY27 end, up 36% y-o-y, with NEXA about 40%. Working capital days fell to roughly 110 from about 138 a year earlier and Q2 operating cash flow was about INR30 crore. The 13-acre plant's capacity number and capex budget were deferred again, to the Q3 FY27 call.

Q2 FY27 call also said four technical centres at Kolhapur, Mumbai, Chennai and Aurangabad are expected to be operational in Q3 FY27, and the sales, service and technical-centre team will double by the end of FY27.

Business segments

CNC Machines Manufacturing

Macpower CNC Machines makes computer numerically controlled (CNC) metal-cutting machines. The company started in 2003 with a four-acre plant in Rajkot and has grown to two units producing 2,500 machines a year. The core capability is in-house design:

management said in the Q2 FY27 call that the 388-390 model basket is developed by its own R&D without paid design or collaboration, while spindle capacity of about 1,400-1,500 units against roughly 1,500 spindles bought in shows component output still trailing assembly. Management said in the Aug 2026 concall that it could not wait for government land for expansion and took a 13-acre lease near its existing plant, where construction had started by the Q2 FY27 call.

The product range spans a 388-390 model basket across 10 categories: Turning Centers, Vertical Machining Centers (VMC), Horizontal Machining Centers (HMC), Vertical Turret Lathes (VTL), Turn-Mill Centers, Drill Tap Centers (DTC), Double Column Machines (DCM), Twin Spindle VMCs, 5-Axis machines, and robotic automation. In Q2 FY27 management said it had delivered and launched the DCM 5 metre, V 500 G and VTX 1200, all large-series NEXA models. End markets include automobile, aerospace, agriculture equipment, medical instruments, railways, defence, electrical accessories, pumps and valves, die and mould, and general engineering. The Drill Tap Center serves the EMS sector with a 20,000 RPM spindle; the DCM 4222 weighs about 30 tons and is valued near INR2 crore.

Customers are predominantly tier 3 and tier 4 buyers, but the mix is shifting. Management named BHEL, HAL, Ordnance Factory, Polycab, Bhagat Forge, GNA Gears, Amic Forging, Emerald Tyre, NIPHA, and Kirloskar as recent customers in the Jun 2026 concall, and in the Q2 FY27 call added Hero and Graphite India, plus a third corporate name the transcript renders as 'Kiloscar' and which is not mapped to a known company here. Defence orders from HAL, the rifle factories and ordnance factories are expected to execute within FY27. The INR20 crore defence order book is the Q1 FY27 figure and was not restated in the Q2 FY27 call. Management explicitly refuses to focus on specific segments or sectors, arguing that the cost of a distribution network for each segment would rise too much. The strategy is to sell wherever demand exists, and management claims more than 50% of orders are repeat business.

The company's competitive position is small but growing. Management stated in the Q4 FY26 concall that Macpower holds approximately 2% share of domestic production and 1% of consumption. In the Q2 FY27 call it restated the position as about 2% of consumption and 4% of Indian production, and said its first priority is to reach at least 10% of consumption within three to four years. An earlier Q2 FY26 concall claimed a 4.5% market share. The domestic market has six to seven main players, and management said in the Feb 2026 concall that "all the 6, 7 players are neck to neck" on product basket, with Macpower in the top 3 in India. Imported Chinese entry-level machines are not a threat, according to management, because of poor quality. The real competition is in higher-end machines, where 5-axis machines are largely imported because FANUC and Mitsubishi do not supply five-axis

controls in India; management said in the Q2 FY27 call it sells about one 4+1 axis machine a month and is deliberately not pushing 5-axis.

Pricing is tiered by machine complexity. Management disclosed in the Aug 2026 concall that low-end machines run INR12-20 lakh, mid-range INR20-30 lakh, and high-end machines go from INR30 lakh up to INR2 crore. The average realisation was INR20.36 lakh in Q2 FY27 and INR20.55 lakh on the H1 FY27 order book; the NEXA series has an average price of INR29-32 lakh and contributes around 40% of the pending order book. The company raised prices 4-6% effective June 2026, and management said in the Q2 FY27 call that "the price incremental growth we can see in quarter 3" because Q2 executed older orders.

The business is a single segment, so no segment reporting is required. Product-wise sales for FY25 were: CNC INR17,646.22 lakh, VMC INR7,189.83 lakh, VTL INR439.25 lakh, and HMC/DCM INR368.81 lakh, totaling INR25,644.11 lakh. The single segment structure means the company's growth, margins, and capex are all tied to this one manufacturing operation.

Management's commentary across the calls shows a consistent story: capacity is the constraint, not demand. The order book grew from INR350 crore in Q2 FY26 to INR456 crore in Q1 FY27 to INR476 crore in Q2 FY27, a 36% y-o-y increase. The company raised FY27 guidance from 28-30% to 30%+ in the Aug 2026 concall and to nearly 35% in the Oct 2026 call, and guides 25-30% for the coming three years. On margins, management said in a Q2 FY27 Q&A answer that FY28 EBITDA margin would be more than 20%, and separately that more than 20% could be sustained after 10,000 machines. The 13-acre facility was estimated at INR50 crore in the Q1 FY27 call, qualifies for a 25% capital subsidy on construction, machinery and equipment plus a 7% interest subsidy under the Vikshit Gujarat New Industrial Policy 2026, and had INR2.89 crore of capex spent in Q2 FY27.

> *"we are slightly we are increasing our growth target by 30-plus percentage in this coming year."*
>
> **RUPESH MEHTA, CMD, Q1 FY27 CONCALL (AUG 2026)**

The capacity question is the key constraint. Management said in the Aug 2026 concall that the 2,500-unit capacity would run at 90+% utilization in FY27; an analyst put Q2 FY27 utilisation at about 95% and management did not dispute it, while guiding 2,300-2,400 machines for FY27. The 13-acre plant is for de-bottlenecking, backward integration and shifting assembly to a world-class, air-conditioned facility, with operations targeted by end-Q2 FY28. The planned 60-acre government land for 10,000 machines is still pending policy approval, and management said the 13-acre site gives at least three years of visibility for 25-30% growth. How much capacity the new plant adds was deferred again to the Q3 FY27 call. The company also holds one year of inventory for imported components like ball screws and LM guideways from Taiwan, which ties up working capital in a business that is otherwise debt-free.

Customers

Macpower's customer base is predominantly tier 3 and tier 4 buyers - small and mid-sized manufacturing businesses - with a mix of MSME and large corporate customers. Management stated in the Q1 FY27 call that the contribution of tier 3 and tier 4 is the largest share of orders. More than 50% of the order book is repeat orders, which management cites as evidence of customer satisfaction and machine reliability.

The company has been deliberately expanding into larger corporates. Named customers in the Q4 FY26 call include BHEL, HAL, Ordnance Factory, Polycab, Bhagat Forge, KM, GNA Gears, Amic Forging, Emerald Tyre, NIPHA, and Kirloskar. The company also supplied machines to ISRO, and management noted a INR3 crore machine order from HAL that takes six months to build. The defence order book was INR20 crore as of the Q1 FY27 call and was not restated in the Q2 FY27 call, where management instead said orders from HAL, the rifle factories and ordnance factories would all execute within FY27.

Sector-wise, management explicitly stated they do not focus on specific segments or industries. In the Q1 FY27 call, Rupesh Mehta explained:

> *"I have not increased sector-wise or segment-wise focus much as I told Deepakji in the last concall, because sector-wise and segment-wise, the costing of the distribution network will increase a lot. Because the market is open for Macpower. India's consumption is 2%. And I take 4% of India's production. So if I work on segment-wise and sector-wise for 10%, then the cost of manpower, offices, and branches cost will increase. So, wherever you put your hand, there is an order."*
>
> **RUPESH MEHTA, Q1 FY27 CONCALL (AUG 2026)**

The order book composition is mixed, with strong orders in general engineering, die and mould, and the EMS (Electronics Manufacturing Services) sector. EMS customers buy Drill Tap Centers, which management described as mid-segment machines with high-speed 20,000 RPM spindles for fast machining of small electronic components. These tier 3 customers make electronic parts for tier 2 and tier 1 companies.

The buying decision

Customers select Macpower based on machine features, price, and service support. Management described the sales process: they present machine specifications (speed, RPM, productivity, accuracy level), service response time, spare parts cost, and consumable costs (tool cost, oil cost). If the customer is unconvinced, Macpower demonstrates the machine on a job at a nearby tech centre or at a reference customer's facility.

The reference list is a key selling tool. In the Q4 FY26 call, management explained that in Mumbai's die and mould cluster, they give prospective customers a list of 100 local customers using Macpower machines, showing cycle time and accuracy data. This peer-

reference approach is effective because customers are often competitors of existing Macpower users.

Switching costs and repeat purchases

The repeat order rate of over 50% indicates meaningful switching costs. Once a customer buys a Macpower machine, they stay within the ecosystem for several reasons: the machine has a minimum life of five years and can run for ten with good maintenance; spare parts are available at nominal rates; and service is provided at reasonable charges. Management explicitly stated they do not maximize margins on service and spares - it is a "selling tool" for brand building, not a revenue generation model for the next 2-3 years.

The company plans to generate INR5-6 crore from service charges, AMC, and spare sales in FY27, which is small relative to INR300+ crore revenue. This is a deliberate strategy to keep customers loyal and generate repeat machine purchases.

Contract structure and financing

Machines are sold with advance payments. Management stated in the Q1 FY27 call that they do not give machines without an advance - "I do not give the machine without advance, or I do not even make it." In the Q2 FY27 call management said the entire order book is advance-backed except distributor and government orders, and that "every month we are refunding ten to twenty machines average, not able to give the deliveries". Operating cash flow was about INR30 crore in Q2 FY27 and receivable days fell to roughly 110 from about 138 a year earlier.

Customer financing is a critical dependency. Many tier 3 and tier 4 customers rely on bank loans, often backed by government subsidies (25-35% capital goods subsidy and interest subsidy). This creates revenue recognition risk: in Q4 FY26, 80 finished machines were sitting in opening inventory waiting for customer bank loan signatures and subsidies. Management said these cleared within 7-10 days in Q1 FY27, and in the Q2 FY27 call said the friction had eased because the company stopped accepting NBFC commitment letters under which funds were released 15-20 days after dispatch.

To reduce this friction, Macpower had tied up with an NBFC to offer customer financing, under which the NBFC provided loans at slightly higher rates than banks and gave Macpower post-dated cheques for 60-90 days. In the Q2 FY27 call management said it no longer accepts that arrangement - "this scheme is not valid right now" - and that stopping it was part of why Q2 cash flow improved. It now takes 10-20% of machine value from corporate customers after commissioning.

Concentration

Customer concentration is low. The company serves thousands of customers across 39 cities, with no single customer dominating. The defence order book of INR20 crore, as of the

Q1 FY27 call, was the largest identifiable concentration, still under 5% of the INR476 crore pending order book at Q2 FY27. Government tender business carries longer payment terms (90 days) and slower receivables, but management considers this an acceptable trade-off for the higher margins on defence machines.

Competitive landscape

The Indian CNC machine tools market has 6-7 major domestic players who compete for roughly 90% of the domestic market. Management stated in the Q4 FY26 call that "90% of their market share, whatever has to be competed, it is mostly among these seven people." Macpower's share was put at approximately 2% of domestic production and 1% of consumption in the Q4 FY26 call; in the Q2 FY27 call management described about 2% of consumption and 4% of Indian production, and the Q2 FY26 call cited 4.5%. The differing figures indicate that the denominators are not consistent across statements.

The competitive set is dominated by established Indian machine tool manufacturers. Management did not name specific competitors in the provided sources, but the industry structure is clear: a handful of domestic players with similar product portfolios competing across the same customer segments. Management claimed in the Q3 FY26 call that "almost every manufacturer have a 90%, 95% similar product" and that Macpower is "in top 3 in India" on product basket breadth.

Where Macpower wins

Macpower's competitive advantages are: price (Indian machines cost roughly 2.5x less than imported equivalents after duty and logistics), service network (39 cities with 220 qualified engineers), and product breadth (a 388-390 model basket across 10 categories). Management also claims higher machine specifications in some models - "Our length is higher, our speed is higher. In some of the model we are number one. We are getting some of the segment market share is almost 30% to 40%."

The company's strength is in turning machines and VMC, which are the volume products where India has achieved high domestic production rates. Management noted that turning machines are almost 90% domestically produced versus consumption, and VMC is 80%. HMC is 60% domestic. These are the categories where Macpower competes most effectively.

Where competition is intense

The high-end segment is where imports dominate. Management estimated that 55-60% of machine tool imports are higher-end machines, and 90% of those are machines India does not make - primarily 5-axis machines and other specialized equipment. Imported high-end machines (INR5 crore, INR10 crore, INR3 crore price points) are beyond Macpower's current capability and focus.

China is not a significant competitive threat in the Indian market. Management dismissed Chinese machines as "tiny Chinese toys" that break down within one year, versus Indian machines that last five to ten years. Chinese market share in total value terms is less than 5%. However, Chinese CKD assembly operations exist in the entry-level segment, importing parts and assembling machines locally at roughly half the price of Indian machines.

The 5-axis conundrum

Macpower has developed a 5-axis machine but deliberately does not push it commercially. Management explained in the Q1 FY27 call that the market is niche and carries compliance risk. In the Q2 FY27 call the reasoning was sharper: it is the same vertical machining centre with a different rotary table, and the constraint is the Siemens five-axis licence, because FANUC and Mitsubishi do not supply five-axis controls to India. The Indian market is not more than 200 machines and 65-75% is imported. Management said it would focus on 5-axis only after reaching 10,000-machine capacity and meanwhile takes natural orders such as a recent INR2 crore single machine.

This is a strategic choice that cedes the highest-value segment to imports. The rationale is that the market is too small, the licence restrictions too heavy and the sanctions risk too real - management cited a prior company whose machine was sanctioned for two years after being supplied to Russia - relative to the growth available in Macpower's core segments, where the company has only about 2-4% share.

Import competition dynamics

The import share of India's machine tool consumption is around 50%, with imports averaging over INR1 crore per machine. Management's view is that the imported machines India buys are largely products India does not make - the volume domestic products have already been substituted. The import substitution opportunity is in double column machines, HMC, and other categories where Macpower has been developing products.

The DCM 4222 (double column machine, 30 tons, ~INR2 crore) and TOM 200 Y-axis Turn Mill Center (~INR1 crore) are examples of new products targeting import substitution. Management noted they previously imported double column machines from Taiwan and Japan and now manufacture similar machines themselves.

Technology partnerships as competitive response

Macpower is pursuing technology transfer agreements with foreign manufacturers to enter product categories India currently imports. Management met with more than 10 companies at the EMO exhibition in Germany, shortlisted 5, and signed NDAs with 3. In the Q2 FY27 call management said it had discussed with a few companies again in Germany, that they are also participating in the January 2027 Indian exhibition, and that they are waiting for the new

facility. The partners are the same as previously finalised, and the company plans to attend EMO Milano 2027.

The structure is a royalty-based technology transfer with a buyback arrangement - Macpower produces machines for the Asian market in its new plant, and the foreign partner provides design and technical guidance. This is a different competitive approach than building everything in-house, and it addresses the gap in high-end product categories where Macpower lacks design capability.

Competitive risks

The main competitive risks are: (1) losing share in the high-end segment to imports because Macpower is not aggressively pursuing 5-axis and other advanced machines; (2) capacity constraints preventing the company from converting its order book into revenue - management said in the Q2 FY27 call it refunds ten to twenty machines a month on average because it cannot deliver - which benefits competitors who can deliver faster; and (3) pricing pressure if competitors with new capacity become more aggressive.

Industry

The Indian machine tools industry's domestic consumption was approximately INR35,000-40,000 crore in 2026, with domestic production at INR16,000 crore. Management put consumption at INR38,000-40,000 crore in the Q2 FY27 call and cited an industry view that consumption will cross INR50,000 crore by 2030; the Q4 FY26 call had cited INR54,000 crore by 2030 and INR2,30,000 crore by 2049 from IMTMA. India ranks ninth globally in production and fourth in consumption for machine tools.

The global machine tools market is $82 billion, and India's share is only around 5%. This under-penetration is the core growth opportunity: India's consumption is growing while its domestic production base is small, and government policy is explicitly pushing import substitution.

Demand drivers

The demand drivers are government initiatives (Make in India, defense indigenization), growth in user industries (automobile, aerospace, general engineering), and the broader manufacturing push. Management cited the Indian Machine Tools Summit at Goa, which forecast consumption and demand doubling by 2030, implying roughly 25% growth per year in the segment.

The automobile sector is a key demand driver. Management noted in the Q2 FY26 call that after a GST reduction, there was no inventory available with leading auto manufacturers and component makers, and the October business in the automobile market jumped. The

company also flagged a new government policy providing INR45,000 crore for exporters as supportive for the capital goods sector.

The defence and aerospace sector is an emerging demand driver. The defence order book was INR20 crore as of Q1 FY27; management said in the Q2 FY27 call that orders from HAL, the rifle factories and ordnance factories would all execute within FY27. The bid pipeline at Q2 FY27 was INR939 crore, made up of INR745 crore of domestic bids submitted and INR194 crore of government tender bids. The Q1 FY27 figures were INR304 crore of defence tenders under evaluation and INR987 crore of domestic quotations, and the scopes are not directly comparable. Management said more than INR1,000 crore of defence bids had been released but it participates in only 25-30% because it lacks defence capacity. Tender business typically opens in Q3 and Q4, when government entities face budget utilization deadlines, and the conversion rate is roughly 10-12%.

Cyclicality

The machine tools industry is seasonal. Management described the pattern repeatedly: Q1 is 15-20% of business, Q2 and Q3 are similar, and Q4 is 30-35%. The first quarter is weak because there is no March-end balance and no financing pressure, while Q4 is strong because banks, PSUs, and customers all need to meet targets. The 40-60 split (first half 40%, second half 60%) is the industry norm.

This cyclicality creates quarterly revenue volatility. Q1 FY27 grew 56% year-on-year and Q2 FY27 grew 40.4%, with H1 FY27 up 46.9%, all ahead of the seasonal pattern, and management described delivery of 2,300-2,400 machines in FY27 as achievable. Q4 remains the strongest quarter by convention, with the first half normally 40% and the second half 60% of the year.

Import substitution

Import substitution is the central theme. The industry has moved from 60-65% import share ten years ago to roughly 50% today, with domestic production growing fastest in volume products. Management's view is that the remaining imports are concentrated in high-value machines India does not yet make, and the opportunity is to build those products domestically.

The company is eligible for subsidies under the Vikshit Gujarat New Industrial Policy 2026, restated in the Q2 FY27 call as a 25% capital subsidy on construction, machinery and equipment plus a 7% interest subsidy. The 13-acre expansion is being funded partly through these subsidies - management estimated in an earlier call that the effective interest cost after subsidy was 1.25% per year. The 60-acre government land for the larger expansion to 10,000 machine capacity remains blocked by a lapsed defence policy that was extended to September and has not been replaced.

Regulation

BIS (Bureau of Indian Standards) standards are expected to curb imports, particularly from China. Management stated in the Q3 FY26 call that BIS rules would be applicable from the next financial year, with September-October as the deadline, and that "almost this kind of import from other country and from China will stop" after implementation. This is a regulatory tailwind for domestic manufacturers.

The company also complies with IS standards and international norms (laser, ball bar, NAS testing) for machine quality. Management noted that all top five Indian players follow the same standards, which is why quality is broadly comparable across the domestic competitive set.

India's place in the global supply chain

India's machine tool industry is small relative to global leaders. The global market is $82 billion, and India's production is around INR16,000 crore (roughly $2 billion), giving India about 2% of global production. Management's view is that India's export potential is largely untapped - India's machine tool exports are less than 1% of the global market.

The company has begun exploring exports, participating in the EMO exhibition in Germany, planning EMO Milano 2027, and selling a few machines in Gulf and European markets. Management noted export margins are 5-7% higher due to government incentives and pricing. However, the company is deliberately not prioritizing exports until domestic capacity constraints are resolved, viewing the domestic market as "low hanging fruit."

The long-term structural opportunity is that India's manufacturing sector is growing while its machine tool industry is under-penetrated. Management's cited industry view is that domestic consumption will grow from INR38,000-40,000 crore to above INR50,000 crore by 2030, and it says no new domestic player has entered in a decade. Macpower's guidance of 25-30% annual revenue growth for the coming three years is consistent with capturing a modest share of that expanding market.

Growth triggers

New 13-acre facility for de-bottlenecking and capacity expansion

Macpower has secured a 13-acre plot on a 30-year registered lease adjacent to its existing Metoda plant, with 9 acres for construction and 4 acres designated as green zone. The estimated investment was INR50 crore in the Q1 FY27 call, expanded from an earlier INR30-35 crore plan after the Vikshit Gujarat New Industrial Policy 2026 became available, which provides a 25% capital subsidy and 7% interest subsidy. By the Q2 FY27 call construction had started: compound wall and bore work were complete and architect and contractors appointed under a contract carrying a six-month completion penalty. Capex of INR2.89 crore

was spent in the quarter, operations are targeted by end-Q2 FY28, and the INR50 crore budget was not restated.

The facility exists because the current 2,500-machine annual capacity is nearly exhausted. An analyst put Q2 FY27 utilisation at about 95% on roughly 591 machines delivered, and management guided 2,300-2,400 machines for FY27. The INR476 crore pending order book at Q2 FY27, up 36% y-o-y, keeps execution the binding constraint. The new plant will host a centrally air-conditioned assembly shop of 1.5-2 lakh square feet, with management stating the first move is shifting assembly operations there to free up existing floor space.

> *"we have selected 13 acres, 9 plus 4 for green zone of land on a 30 years long term, legally registered lease near our existing plant."*
>
> **CMD, Q1 FY27 CONCALL (AUG 2026)**

The mechanism is two-fold. First, de-bottlenecking: in-house component capacity lags assembly, and management said the first phase of the new plant is de-bottlenecking machining and component manufacturing, with about 20% of equipment orders already placed for spindle, sheet metal and telescopic cover capacity and the rest, including grinding and machining, to be ordered within a month. Second, capacity expansion: management did not disclose the number in the Q2 FY27 call either, deferring it again to the Q3 results, but said the 13-acre land is sufficient to support 25-30% growth for the next three to four years.

> *"In this year's capacity of 2,500, we are going to do 90 plus percent utilization."*
>
> **CMD, Q1 FY27 CONCALL (AUG 2026)**

Funding combines internal accruals and debt. The Q2 FY27 call restated the 25% capital subsidy on construction and machinery and the 7% interest subsidy, which an earlier call translated into an effective cost of roughly 1.25% on an 8.25% bank rate. Management targets operations by end-Q2 FY28, and said the new machines are not required before May or June, which leaves time for three-month delivery and one-month logistics.

60-acre government land for large-scale expansion to 10,000 machine capacity

The 60-acre government land is Macpower's planned site for a phased increase in manufacturing capacity from the current 2,500 machines per annum to 10,000 machines per annum. The company has not received the land. Management paid token money, and said in the Q2 FY27 call that "more than 32 departments clearance is completed", but the defence policy under which allocation would proceed expired in February, was extended to September, and has not been replaced. The earlier 30-acre parcel had an issue and the company is now eligible for 60 acres.

The mechanism is straightforward: the land is the physical constraint on growth. Macpower's existing 2,500-machine capacity will run at 90% plus utilization this year, leaving no room to expand production. The 10,000-machine plan is the long-term answer. Management laid out the phases in the Q2 FY26 concall (Nov 2025): phase one adds 2,500 machines for a total of 5,000, with phase two and three each adding another 2,500. The same call put the phase one investment at INR125 crore including land.

The timeline has slipped repeatedly. In Nov 2025, management expected the land by December end. By Feb 2026, they expected it in March. By the Q4 FY26 concall (May 2026), management said the government land would take another three to four months, which is why they secured the separate 13-acre lease as an interim measure. In the Q1 FY27 concall (Jul 2026), the land still had not been received:

> *"Now we don't have a 60 acre government land. I think the policies are ready from the committee and the industrial commissioner, now it is on the table of the industrial minister. And I think anytime they are releasing the new policy."*
>
> **RUPESH MEHTA, Q1 FY27 CONCALL (JUL 2026)**

The same call clarified that the original plan to add 2,000 machines on this land has been paused until the policy is announced. In the Q2 FY27 call management said the 13-acre land gives "a minimum 3 years visibility to increase the production", that no capex will start on the 60 acres until the 13-acre project is complete, and that "this both land will give us the 10,000 machines visibility".

Technology transfer / JV with foreign companies

Macpower is pursuing technology transfer agreements with foreign machine tool builders to manufacture products India does not currently produce. The mechanism is not a conventional joint venture with equity. Management has been explicit that the foreign partners will not invest. Instead, Macpower will produce machines for the Asian market in its new plants, receive technical guidance for import-substitute products, and pay a royalty.

> *"It is not like a joint venture. It is a word I am using but it is like a technology transfer and buyback systems. So they are not investing. They want to invest but I denied them for the investment... we produce some of the machine for Asian market in our new plant and some of the imposed substitute product they will guide us to produce in our new plant and we'll give some kind of percentage royalty to them."*
>
> **CHAIRMAN & MD, Q3 FY26 CONCALL (FEB 2026)**

The selection process is well advanced. At the EMO exhibition in Germany in September 2025, Macpower met with more than ten companies from Europe, Japan, Korea and Taiwan. It shortlisted five offering diverse product portfolios in medical, semiconductor, EMS, die and

mould, and electronic parts manufacturing. NDAs have been signed with three of the five, and two delegations have already visited Macpower's facility.

The deal is tied to the new facility. Management has repeatedly stated that finalization will follow the new plant, because the current plant cannot accommodate a separate production line without disrupting its own order execution. In Q3 FY26 management said it was "almost in the finalization stage"; by Q1 FY27 partner visits were expected; in the Q2 FY27 call management said it had met a few of the same partners in Germany, that they are waiting for the new facility, and that an announcement would come once capacity is executed.

> *"The discussion on the JV part is still ready. And we are still updating. Maybe there will be some visits in the next quarter. Because the facility is getting ready. So if it goes ahead, I think we will announce that along with the capacity."*
>
> **CHAIRMAN & MD, Q1 FY27 CONCALL (AUG 2026)**

Management frames the opportunity against the market gap. India consumes INR38,000-40,000 crore of machine tools and produces INR16,000 crore, and the high-value machines India cannot build are imported. The foreign partners are motivated because their own manufacturing costs in Europe, Japan and Korea are three to four times higher than India's, and they do not trust China. The stated compensation to the partner is capped at 5% royalty.

Backward integration into component manufacturing (spindles, sheet metal, etc.)

Macpower's stated goal is to move in-house component manufacturing from 40-45% today to 75-80%, measured by number of components, not value. The mechanism is direct margin improvement: components produced internally replace job work paid to outside suppliers, which management identifies as one of the largest cost lines after material. In the Q2 FY27 call management set out four criteria for what to bring in-house: unavailability in India or abroad, accuracy, delivery and logistics time, and cost.

> *"So we are doing up to 40%, 45%. In that also, for 2,500 machines, the capacity of spindle is 1,700-1,800, capacity of powder coating is 2,000. So we are doing more than 2500, we are adding it to the capacity of the in-house. So after that, the 60 acre, the remaining 30%, 35% we will gradually do backward integration, and we will go to 75% to 80% of component manufacturing by numbers."*
>
> **RUPESH MEHTA, Q1 FY27 CONCALL (AUG 2026)**

The trigger is already in motion. The company has identified specific bottlenecks, and in the Q2 FY27 call put spindle capacity at about 1,400-1,500 units against roughly 1,500 spindles bought in, with the first phase of the 13-acre plant devoted to machining and component manufacturing. About 20% of the equipment orders, for spindle, sheet metal and telescopic

cover, where lead times are five to six months, have been placed. Management confirmed that foundry will not be part of this setup.

The margin logic is explicit but back-loaded. Management cites backward integration and fixed-cost leverage as levers to move EBITDA margin above 20%, while conceding that salary and operating costs rise at the same time - "once our CapEx will added, our margin also will increase", but "our salary cost and operating cost also will increase". In the Q2 FY27 call management said FY28 EBITDA margin would be more than 20%, and separately that more than 20% could be sustained after 10,000 machines. Q2 FY27 EBITDA margin was 16.56% against 16.20% in Q1 FY27 and 16.18% in FY26.

Defence and aerospace sector bids

Macpower's defence and aerospace business runs on government tenders. The bid pipeline at Q2 FY27 was INR939 crore, of which INR194 crore was government tender bids and INR745 crore domestic bids submitted. Management said orders in hand from HAL, the rifle factories and ordnance factories would all execute within FY27. It has named HAL, BHEL, and Ordnance Factory as active tender issuers, and delivered machines to HAL and Ordnance Factory in FY26.

The mechanism is straightforward. Macpower bids on tenders floated by defence PSUs and government entities, and winning bids add to the order book. Reported pipelines across quarters were INR360 crore under evaluation in Q2 FY26, INR319 crore in Q3 FY26, INR304 crore in Q1 FY27, and INR194 crore of government tender bids in Q2 FY27 alongside INR745 crore of domestic bids for a total of INR939 crore. The quarterly descriptions and scopes differ, so the series should not be read as a single trend. Management said in the Q2 FY27 call that more than INR1,000 crore of defence bids had been released but it participates in only 25-30% at a higher price because it lacks defence capacity.

Defence machines are not off-the-shelf. Management described them as "totally customized" with a separate assembly shop planned in the new 13-acre facility, and noted a recent INR3 crore machine order from HAL that takes six months to build (Q4 FY26 concall, Jun 2026). Defence business carries the highest margins in Macpower's mix (Q3 FY26 concall, Feb 2026), which is why management cites defence as a lever for the 25% EBITDA margin target.

The realisation of tenders follows a predictable annual cycle tied to government budgets:

> *"So quarter three and quarter four is the maximum realization of opening the tender."*
>
> **RUPESH MEHTA, MD, Q1 FY27 CONCALL (AUG 2026)**

Management stated that average tender conversion is around 10% of the value bid (Q3 FY26 concall). In the Q2 FY27 call it said the orders in hand from HAL, rifle factories and ordnance

factories would execute this financial year, and that the INR194 crore of government tender bids plus INR745 crore of domestic bids make up the current pipeline. Management also said it will bid more aggressively once it has dedicated defence capacity.

Key risks

- **Capacity is effectively full, and the company is turning customers away.** An analyst put Q2 FY27 utilisation at about 95% on roughly 591 machines, and management guided only 2,300-2,400 machines for the full year against 2,500 of installed capacity. Management said it refunds ten to twenty machines a month on average because it cannot deliver, and the 13-acre plant targeted for end-Q2 FY28 is the only near-term relief. Until it runs, orders beyond capacity are either pushed out or require outsourced job work that compresses margins.

- **Customer financing delays stall revenue recognition.** Many buyers, especially tier 3 and tier 4 MSMEs, purchase machines using bank loans backed by government capital and interest subsidies. When loan disbursement or documentation lags, finished machines sit in inventory; in Q4 FY26, 80 machines were in opening inventory awaiting "customer bank loan signatures and subsidies." Management said in the Q2 FY27 call that it stopped accepting NBFC commitment letters that released funds 15-20 days after dispatch and now takes 10-20% of machine value from corporates after commissioning, which improved Q2 cash flow but leaves the MSME payment cycle dependent on bank and subsidy timing.

- **Import dependence for critical components creates a six-month supply chain risk.** Ball screws and LM guideways come from Taiwan. Management's own words: "if I import something from Taiwan, then their delivery time is three months, and logistic time is now two months. So, I will not get it before six months." In the Q2 FY27 call management described ball screws, linear motion guideways, CNC controls and bearings as imports the whole Indian industry depends on, and argued that manufacturing them in-house is not viable because global supply is concentrated in a few very large producers. The company holds a year of imported inventory to mitigate this, which ties up cash and leaves it exposed to freight disruptions, supplier capacity, or trade policy changes.

- **Competition from imported machines in the high-end segment.** The company is deliberately staying out of the 5-axis market because imported machines dominate and legal compliance is onerous. Management noted FANUC and Mitsubishi do not supply controls in India, leaving Siemens as the main option, and the BAFA agreement runs 300 pages with risk if a machine "accidentally goes to defence instead of domestic." This means the highest-value, fastest-growing niche is ceded to imports. In the mid-range, the

company competes against six to seven domestic players, and management admits "we all are neck to neck" on quality.

- **Government policy and land acquisition delays postpone the core expansion.** The 60-acre defence and aerospace land has been delayed for over a year. Token money is paid and management says more than 32 departmental clearances are complete, but the policy under which it would be allotted expired in February, was extended to September, and has not been replaced. Each quarter of delay pushes the 10,000-machine capacity and the above-20% margin goal further out. The 13-acre lease is a stopgap that management says covers three years of 25-30% growth, and the company will not start capex on the 60 acres until it is built.
- **Working capital will rise as the business scales.** Receivables increased to INR46 crore in Q4 FY26, driven by government tenders and large corporate sales with 90-day terms, and management confirmed "working capital in rupees will increase" as revenue grows. Against that, Q2 FY27 operating cash flow was about INR30 crore and working capital days fell to roughly 110 from 138 a year earlier. Inventory days are structurally high because the company runs more than 20,000 component SKUs across more than 380 variants, and the INR30 crore of cash management describes is "not my money" but supplier credit.
- **Promoter concentration and related-party transactions.** The founding family controls the company: Rupesh Mehta holds 31.52% and is Chairman and Managing Director, Nikesh Mehta holds 8.61% as Whole-Time Director and CEO, and Riya Mehta holds 18.15% as Non-Executive Director. The company buys from and sells to related entities like Modern Machine Tools and Macpower Industries. Related-party transactions are disclosed as arm's length, but the web of family control means minority shareholders rely on the audit committee's oversight for fairness in these dealings.
- **Average realisation is flat, so growth must come from volume and mix.** NEXA is 40% of the order book at an average price of INR29 lakh, but the remaining 60% sits at INR12-17 lakh. Management said in the Q2 FY27 call that average realisation would be the same this year and that it prioritises total revenue over price per machine, giving the example of choosing 800 machines at INR21-22 lakh over 700 at INR22-25 lakh. It aims for NEXA to reach 50% by FY28-29. Average realisation was INR20.36 lakh in Q2 FY27.
- **Defence and tender order conversion is unpredictable.** The Q2 FY27 bid pipeline is INR939 crore, split into INR745 crore domestic bids and INR194 crore government tenders, but management says conversion runs at 10-12% and it participates in only 25-30% of released defence bids because it lacks capacity. Tenders typically open in Q3 and

Q4 due to budget cycles. A year where tenders slip or convert at the low end of the range would leave a gap between the order book headline and actual revenue.

- **Volume growth in FY28 depends on a plant that has not yet been costed.** Management guided about 35% revenue growth for FY27, delivery of 2,300-2,400 machines, use of nearly the whole 2,500-machine capacity, and 25-30% growth for the following three years. None of that is possible without the 13-acre plant, whose capacity number and capex budget were deferred again to the Q3 call; operation is targeted for end-Q2 FY28, so the first half of FY28 has no new capacity. The 35% FY27 base also makes the 25-30% follow-on guidance a deceleration in growth rate.

Scenarios

Bull case

The 13-acre facility is operating by end-Q2 FY28, and the equipment ordered for spindle, sheet metal and telescopic cover capacity arrives for a May-June installation. Backward integration lifts internal component supply so the company converts its INR476 crore order book into 25-30% annual growth for three years without outsourcing penalties, and EBITDA margin moves up from the 16.56% of Q2 FY27 toward the above-20% level management says is achievable once the new capacity and integration are in place. NEXA reaches 50% of the order book by FY28-29, lifting average realisation, and the 60-acre land is allotted once the state policy is renewed. A technology-transfer partner is announced after the plant is commissioned, adding a product line without equity dilution, and the company moves from about 2% of consumption toward the 10% it aims for within three to four years. Defence orders from HAL, rifle factories and ordnance factories repeat annually at higher margin.

Base case

The company delivers close to its raised 35% FY27 revenue growth guidance, having already booked INR215.56 crore in H1 FY27, with 2,300-2,400 machines and close to full utilisation of the 2,500-machine capacity. The 13-acre plant is commissioned around end-Q2 FY28 with the capacity number announced with Q3 results, supporting 25-30% growth in FY28 rather than more. EBITDA margin holds in the mid-teens with modest gains from the price increase flowing into Q3 and Q4, and reaches the low-20s only as backward integration beds in. Average realisation stays near INR20-21 lakh as NEXA holds about 40% of the order book and moves toward 50% by FY28-29. The 60-acre land remains pending, the technology transfer stays unsigned, and defence converts at the historical 10-12%. Working capital days stay near 110, capex is funded from accruals and subsidised debt, and the balance sheet stays close to debt-free.

Bear case

The 13-acre plant slips past end-Q2 FY28, the capacity number announced in Q3 is small, and the company spends FY28 still capped near 2,500 machines. Q2 FY27 already ran at about 95% utilisation, and management refunds ten to twenty machines a month because it cannot deliver; a longer delay turns that into visible order loss to competitors adding capacity. The 35% FY27 growth gives way to 25-30% in FY28, the growth rate decelerates for a second year, and the 60-acre land stays blocked on a lapsed policy that keeps being extended. Backward integration lifts salary, operating and depreciation costs before it lifts margin, so EBITDA margin stalls in the mid-teens and the above-20% target moves out again. Average realisation stays near INR20 lakh because 60% of the order book is still entry and mid-range, and corporate customers paying 10-20% after commissioning stretch receivables as volume grows. Defence bids convert at the low end of 10-12% and the technology transfer is never announced.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	262	333	490	612	765
Revenue growth	-	+27.3%	+47.1%	+24.9%	+25.0%
EBITDA (₹ Cr)	41.90	54.00	83.30	110	145
EBITDA margin	16.0%	16.2%	17.0%	18.0%	19.0%
Depreciation (₹ Cr)	6.00	7.40	10.00	15.00	18.00
Interest (₹ Cr)	1.00	1.60	1.60	2.20	2.50
Other income (₹ Cr)	0.00	0.30	1.20	1.50	2.00
PBT (₹ Cr)	34.90	45.30	72.90	94.50	127
Tax (₹ Cr)	9.40	11.40	18.20	23.60	31.70
Tax rate	27.0%	25.2%	25.0%	25.0%	25.0%
PAT (₹ Cr)	25.50	33.90	54.70	70.80	95.10
PAT growth	-	+33.0%	+61.4%	+29.6%	+34.3%
EPS (₹)	25.50	33.90	54.70	70.80	95.10
P/E	79.7x	60.0x	37.2x	28.7x	21.4x
PEG	2.5x	1.9x	1.2x	0.9x	0.7x

CAGR FY27E-FY29E: Revenue +24.9% · EBITDA +32.1% · PAT +31.9%

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Q2 FY27 concall notes

TLDR

Macpower reported its highest-ever quarterly revenue, EBITDA and PAT: revenue ₹120.33 crore (+40.39% YoY), EBITDA ₹19.93 crore (+40.8% YoY, 16.56% margin) and PAT ₹13.48 crore (+43.7% YoY, 11.20% margin), with H1 revenue ₹215.56 crore (+46.9% YoY) and H1 PAT ₹23.6 crore (+65.5% YoY). Average machine realisation rose to ₹20.36 lakh and the pending order book to ₹476 crore (+36% YoY), with the NEXA series at almost 40%. Management raised FY27 growth guidance to nearly 35% from 30% and set a 25-30% growth guidance for the coming three years, backed by a 13-acre plant targeted to be operational by end of Q2 FY28 and a plan to reach 10,000 machines of capacity across both land parcels. Watch points: capacity running near full, 10-20 machines refunded monthly for want of delivery, the 60-acre defence-policy land still pending, and margin expansion deferred to the new plant.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue growth guidance raised to "nearly 35%" from 30%+ last quarter. Management said the Q1 commitment was delivered in Q2.
- A three-year growth guidance of 25-30% is newly given, tied to the new plant and "visibility" from the existing plant.
- EBITDA margin guidance shifted in timing. Q1 notes had margin improving quarter-on-quarter through FY27; this call puts the step-up after the new capacity, with "more than 20%" margin guided only once monthly capacity reaches 10,000 machines.
- The 13-acre facility timeline is now dated: operational by end of Q2 FY28. Q1 notes had said completion within 12 months of the Q1 call.
- Capacity addition size is deferred. Q1 notes gave a ~1.5-2 lakh sq ft facility and ₹50 crore investment; management now says the capacity and capex calculation is 90% complete, orders to be placed within a month, and the number to be announced on the Q3 call.
- Land position restated: the earlier 30-acre parcel had an issue; the company is now eligible for 60 acres, with token money paid and 32-plus department clearances done, pending a new Gujarat defence policy. The 13-acre parcel is described as Plan B already implemented.
- Branch and tech centre count changed: 9 branch offices and 9 technology centres now, against 10 branches and 8 tech centres in Q1 notes. Four new tech centres (Kolhapur, Mumbai, Chennai, Aurangabad) are expected operational in Q3.
- New products disclosed: DCM 5 metre, V 500 G and VTX 1200 launched, in addition to the Q1 launches (VCM 2518, LX 1000, TOM 200). A 5-axis machine will be displayed at IMTEX in January 2027.
- The 4-6% price increase from June 1, 2026 did not lift Q2 margins: management said Q2 execution was on old order book and old inventory, with the new price flowing into Q3.
- Defence bid pipeline fell to ₹194 crore from ₹304 crore under evaluation in Q1; domestic bids submitted rose to ₹745 crore from ₹739 crore.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹120.33 crore	+40.39% YoY	Highest-ever quarter; execution of old order book and forward inventory carried from Q1
EBITDA	₹19.93 crore	+40.8% YoY	Volume-led; price increase not yet in Q2 execution
EBITDA margin	16.56%	Up from 16.20% in Q1 (QoQ)	Management did not attribute the QoQ move; said new pricing flows into Q3
PAT	₹13.48 crore	+43.7% YoY	PAT margin 11.20%, up 26 bps YoY
EPS	₹13.47	+43.8% YoY	-
H1 revenue	₹215.56 crore	+46.9% YoY	Highest-ever H1
H1 EBITDA / PAT	₹35.36 crore / ₹23.6 crore	+60.2% / +65.5% YoY	H1 PAT margin 10.7%, up 120 bps YoY; H1 EPS ₹23.05
Average machine realisation	₹20.36 lakh (quarter); ₹20.55 lakh (H1 order book)	Up from ~₹20 lakh in Q1	Higher-value models; NEXA basket rising
Pending order book	₹476 crore	+36% YoY	NEXA series almost 40% of the book
Bids submitted (domestic) / tender bids (government)	₹745 crore / ₹194 crore	Domestic up from ₹739 crore; tenders down from ₹304 crore (QoQ)	Total bids in pipeline ₹939 crore
CapEx (Q2)	₹2.89 crore	Up from ₹2.25 crore in Q1 (QoQ)	Incremental capex raised depreciation
Working capital days	~110 days (Sep 2026)	Improved from ~138 days (Sep 2025)	More machines delivered, no finished or unfinished inventory; stopped NBFC-backed dispatch scheme

SEGMENTS & GEOGRAPHIES

- **NEXA series (high-end):** almost 40% of the ₹476 crore order book. Management called 40% "more than enough" but wants to reach 50% by FY29, with the value share rising before the volume share.
- **5-axis machines:** one order worth ₹2 crore for a single machine received; the machine will be displayed at IMTEX Bangalore 2027 and EMO Milano. Management is not pursuing this segment now, citing Siemens-only control licences, export restrictions, a market of about 200 machines a year in India with 65-75% imported, and sanction risk. Focus stays on 3+1 and 4+1 axis machines, with one 4+1 machine sold each month.
- **Defence and aerospace:** orders from HAL, rifle factories and ordnance factories, all to be executed this financial year. Of bids released worth more than ₹1,000 crore, the company participates in 25-30% at two higher price points, and will bid more aggressively once defence capacity exists.
- **End industries:** automobile is the fastest growing, followed by die and mould, medical and agriculture. Management said it is not dependent on any single segment given a 2% share of Indian consumption.

STRATEGY & COMPANY-SPECIFIC

- **13-acre expansion:** construction started; compound wall and bore work completed, architect and contractors appointed with a six-month completion clause carrying a penalty. Plant targeted operational by end of Q2 FY28.

Management said the land supports 25-30% growth for the next 3-4 years.

- **Capacity addition:** 90% of the calculation is done and orders will be placed within a month. About 20% of orders, with 5-6 month lead times, are already placed to raise spindle, sheet metal and telescopic cover capacity; grinding and machining orders, with lead times under 3 months, are next. Exact capacity and capex to be announced on the Q3 call.
- **Backward integration:** in-house component capacity is short of need; spindle capacity is 1,400-1,500 units against 1,500 components purchased. Components are prioritised on four criteria: supply chain unavailability, accuracy, long delivery time, and cost.
- **60-acre land:** eligible for 60 acres, not 30; token money paid and 32-plus department clearances done. Allotment awaits a new Gujarat defence policy, the 2016 policy having expired and been extended to August. Management will not pay market rate and will develop the 13-acre site first. Both parcels together are described as giving visibility for 10,000 machines.
- **Subsidy:** the new capex is expected to qualify for 25% subsidy on construction, machinery and equipment and 7% interest subsidy under the Viksit Gujarat policy.
- **Distribution:** 39 cities, described as sufficient for now. Sales, service and tech centre teams are to double by the end of this financial year.
- **Joint venture:** discussions held in Germany with the same partners finalised earlier; they are waiting for the new facility, and paperwork may be announced once capacity is executed.
- **Exhibitions:** IMTEX Bangalore 2027 and EMO Milano, plus most major industrial exhibitions in 2027.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	Nearly 35%	Raised (from 30%+)	H1 delivered; Q3 and Q4 expected to break historical records
FY27 volume	2,300-2,400 machines	New	Forward inventory still available; capacity of 2,500 a year, about 600+ a quarter
FY28-FY30 growth	25-30% a year	New	Visibility from existing plant plus new capacity
EBITDA margin	More than 20% once monthly capacity reaches 10,000 machines	New (Q1 had guided QoQ improvement through FY27)	Higher volumes, fixed-cost absorption, backward integration
FY28 EBITDA margin	More than 20%	New	Management's answer on FY28 margin
13-acre plant operational	End of Q2 FY28	Dated (Q1 said within 12 months)	Construction underway with penalty clause
Capacity and capex of new plant	To be announced on Q3 call	Deferred (Q1 gave ~1.5-2 lakh sq ft and ₹50 crore)	Calculation 90% complete; orders within a month
NEXA share of order book	50% by FY29	New	Current almost 40%
Market share	Minimum 10% in 3-4 years	New	Current 2% of Indian consumption, 4% of Indian production

METRIC	GUIDANCE	VS Q1 FY27	BASIS
5-axis revenue	No target; testimonial sales only	New	Licence and export restrictions; focus on volume segments

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Capacity constraint	Current capacity 2,500 machines a year, about 600+ a quarter, with Q2 volume near 591 machines. Growth until Q2 FY28 depends on forward inventory and debottlenecking.
Order cancellations from wait times	10-20 machines refunded every month on average because deliveries cannot be given.
60-acre land delay	Awaits a new Gujarat defence policy; the earlier policy expired and was extended only to August. Management will not buy at market rate.
Margin timing	The 4-6% price increase did not show in Q2; new pricing flows into Q3. The 20%+ margin is tied to 10,000 machines of monthly capacity, not the near term.
Import dependence	Ball screws, linear motion guideways, CNC controls and bearings are imported; management called this common to Indian players and not viable to make in-house at current scale.
5-axis restrictions	Fanuc and Mitsubishi do not give 5-axis controls to India; Siemens licences carry export clearances. Management cited a prior company whose machine was sanctioned for two years over a Russia supply.
Working capital	Management said working capital is not a concern given 90-120 day supplier credit and advances before dispatch, and pointed to ₹30 crore of cash that is suppliers' money. Debtors are expected to rise as capacity increases.
Skilled manpower and competitive capacity	Management acknowledged the challenge of adding capacity at the pace of peers and of skilled manpower, and said it will grow 25-30% rather than chase 50% growth.

Q&A HIGHLIGHTS

FY28 and three-year growth Asked for FY27 and FY28 growth guidance after a ₹120 crore Q2, management raised FY27 to nearly 35% and guided 25-30% growth for the coming three years, citing visibility from the existing plant and the new capacity.

Price increase timing Asked how much of growth came from volume versus price and mix, management said Q2 ran on old order book and old inventory; the price increase taken 2-3 months earlier will be executed in Q3.

Capacity and utilisation Asked whether 95% utilisation leaves room to grow before the new plant, management said Q1 had 700+ machines of capacity and some forward inventory remains, that 2,300-2,400 machines can be delivered this year, and that Q3 and Q4 will break historical records.

Working capital improvement Asked why working capital days fell from about 138 to about 110, management attributed it to delivering more machines with no finished or unfinished inventory, and to stopping an NBFC arrangement that had assured funds within 15 days of dispatch.

Backward integration and margins Asked when in-house component manufacturing (about 80% of components) would lift margins, management said spindle capacity of 1,400-1,500 is short of the 1,500 components purchased, that the new capex will raise margins alongside salary and operating costs, and that R&D spending is rising.

5-axis commercial status Asked about customer validation and FY29 revenue from 5-axis, management said the machine is ready and will be displayed, but the Indian market is about 200 machines a year with 65-75% imported,

licences and export restrictions are difficult, and focus will stay on 3+1 and 4+1 axis until a 10,000-machine capacity exists.

Order book advances and cancellations Asked what share of the order book is backed by advances and whether customers are leaving for competitors, management said the entire order book carries advances, except distributor and government orders, and that 10-20 machines are refunded monthly on average for want of delivery.

Joint venture timing Asked whether the JV partner is close to finalising, management said discussions were held in Germany with the same partners finalised earlier, who are waiting for the new facility, and an announcement may follow once capacity is executed.

Jash Engineering Limited

GROWTH TRIGGERS

Jash enters H2 FY27 with a ₹955 crore order book, a maintained ₹875 crore revenue target, 22% Q2 revenue growth and a data-centre vessel line that has moved from a first order to repeat orders. The upside depends on converting the backlog on schedule, starting Houston construction by December 2026 and improving US and UK profitability.

1. Order book covers FY27 target with room for H2

Consolidated order book was ₹955 crore at Q2 FY27, against FY27 revenue guidance of ₹875 crore. Q2 revenue grew 22% YoY and the ₹46 crore of dispatched but unrecognised orders should support Q3. The order book is split ₹625 crore international and ₹330 crore domestic, giving visibility across both markets.

2. Houston contract moves from delay to dated execution

Management appointed an AMC contractor, expects to award construction in November 2026 and start in December, with commissioning about 12 months later around March 2028. Existing facilities can support ₹1,200 crore of revenue, so Houston is the main bridge beyond that level. A minor Oren investment is planned to cover 1-1.5 years.

3. Data-centre vessels move to repeat orders

After four vessels in the prior quarter, Jash received an order for nine data-centre vessels in Q2 FY27. Management targets 20-30 such vessels a year, using its existing large-vessel manufacturing capability. The product is a new industrial outlet for the same pressure-vessel skills used in surge protection.

4. Jash Process Equipment order recovery targeted for H2

FY27 revenue is projected at ₹40 crore versus ₹50 crore last year, but management expects major H2 orders to improve the backlog and a better FY28. Integration has moved some products into Jash's Indore premises, and a newly adopted product has already received orders for 18-20 machines.

5. Margin can exceed 20% once US and UK earn Indian levels

Management said the normal EBITDA range is 18-20% and that EBITDA can go above 20% once the US and UK businesses earn at Indian-standalone levels, though it may take 1-2 years. Fixed costs are not expected to rise in line with revenue. Employee cost normally runs about 18% of full-year revenue.

6. Waterfront order pipeline and 3-4 year revenue ambition

A £2.5 million Waterfront order was under discussion and likely in the current month. Management sees £10-12 million revenue in 3-4 years, supported by firm UK inquiries. The

near-term order would improve the UK backlog while the longer target depends on framework agreements converting.

INVESTMENT THESIS

Jash Engineering is a custom-engineered water equipment supplier recovering from a tariff and shipping shock. The core business sells water control gates, screens, valves and process equipment into municipal and industrial water projects, with manufacturing in India, the US and the UK. Unlike a turnkey contractor, Jash sells equipment and books revenue on dispatch and project milestones. That makes order book and execution timing central to the equity story.

The Q2 FY27 results show the recovery is real but uneven. Consolidated revenue was ₹195 crore, up 22% YoY, EBITDA ₹27.3 crore, up 23%, and PAT ₹14.3 crore, up 30%. H1 revenue was ₹351 crore, up 20%, with EBITDA ₹42 crore, up 75% and PAT growth of 34%. The quarter was distorted by about ₹46 crore of dispatched and invoiced orders that were not recognised because FOB destination Incoterms left title with customers in transit. Management expects that amount to lift Q3, and October standalone revenue was about ₹56 crore. The order book rose to ₹955 crore, split ₹625 crore international and ₹330 crore domestic. That is comfortable cover against FY27 revenue guidance of ₹875 crore, but the timing of recognition remains the swing factor.

The business economics rest on custom engineering and qualification rather than commodity scale. Jash can supply cast iron, stainless steel, aluminium and composite equipment into one complex water project, a breadth that supports its position in India and helps it sell through Rodney Hunt in the US and Waterfront in the UK. The existing Indian, US and UK facilities can support about ₹1,200 crore of revenue at optimum load, according to management. Beyond that, the Houston plant is the main capacity bridge. Houston is targeted for contract award in November 2026, construction start in December and commissioning about 12 months later, around March 2028. The Saudi plant, previously a second leg of the capacity plan, is parked pending Gulf geopolitics. That makes Houston more important and removes near-term Saudi contribution from the model.

The earnings path is therefore H2-weighted. FY27 guidance is ₹875 crore revenue, split JEL ₹530 crore, Rodney ₹330 crore, Mahr ₹15 crore, Waterfront ₹60 crore and Jash Process Equipment ₹40 crore. The ₹46 crore Q2 spillover helps Q3, but the year still needs normal H2 seasonality and export dispatches to clear. Margin recovery is slower. Management calls 18-20% EBITDA normal and says above 20% may take 1-2 years, dependent on the US and UK businesses earning at Indian-standalone levels. Q2 EBITDA margin was about 14%, so the annual margin relies on mix and scale in H2. Employee cost is normally about 18% of full-year revenue, which limits operating leverage if revenue disappoints.

Capital allocation is focused on the US plant and working capital rather than a broad new programme. The Q2 call gives no new Houston cost, but prior research records cost escalation from about USD4.2 million to USD7-8.5 million. The Saudi entity is 100%-owned

and the Dammam location has been identified, but no current construction spend is committed. A minor Oren investment is planned to bridge 1-1.5 years. Management is also evaluating one acquisition but called it premature. The balance sheet risk is less about a large new outlay and more about whether the Houston build starts on time and whether working capital is tied up in dispatched-but-unrecognised export orders.

Management delivery is mixed. Q2 revenue growth and the maintained FY27 target are positives. Against that, the FY26 target was missed, Houston has slipped repeatedly, and the Saudi plant is now parked. Waterfront did not claim breakeven on the Q2 call; a £2.5 million order was under discussion and the £10-12 million revenue ambition is 3-4 years out. Jash Process Equipment is projected at ₹40 crore revenue versus ₹50 crore last year, with H2 orders needed to improve the backlog. Data-centre vessels are a genuine new outlet: nine vessels were ordered in Q2 after four in the prior quarter, and management targets 20-30 a year, but the market is competitive and the line is still small.

The thesis is a recovery with capacity-led upside, not a proven re-rating. Guidance says FY27 revenue should reach ₹875 crore if dispatches and transit normalise. Analyst inference is that the ₹955 crore order book and ₹46 crore Q2 spillover make the top line achievable, while margin recovery depends on H2 mix and overseas subsidiaries. The key milestones are Q3 recognition of the spillover, Houston construction starting in December 2026, a Saudi decision after the pause, Waterfront order conversion, and Jash Process Equipment H2 orders. The falsifiers are a repeat of export recognition delays, order intake staying near ₹60-70 crore a month instead of the ₹1,000 crore annual aspiration, another Houston slip beyond March 2028, or US and UK margins staying below Indian levels. A renewed tariff shock or a prolonged Gulf disruption would hit fixed-price orders and shipping again.

RESEARCH REPORT

What Jash Engineering Limited does

Jash Engineering Limited designs and manufactures custom-engineered equipment for water and wastewater systems. The company started in Indore in 1973 and now runs seven manufacturing facilities: five in India, one in the US (Rodney Hunt, Orange, Massachusetts), and one in the UK (Waterfront Fluid Controls, Glasgow). It employs 1,088 people and sells into more than 45 countries (Annual Report FY25).

The product range splits into four groups. Water control gates are the largest, covering sluice gates, fabricated gates, stop logs, roller gates, crest gates, radial gates, and bulkhead gates. Screening equipment is second, including fine bar screens, trash racks, and traveling band screens. Valves are third, led by knife gate valves across several series ("ZFI", "MONO", "Bi-Directional") plus slide gates and special purpose valves. The balance, roughly 8% of revenue, includes Archimedes screw turbines for hydro power, bladder-type air vessels for water hammer control, disc filters for tertiary treatment, and process equipment like clarifiers and thickeners (Q4 FY26 concall, May 2026; Annual Report FY25).

The core capability is the one-stop shop. Jash handles design, casting, machining, fabrication, assembly, and testing in-house, which matters because the products are custom-engineered for each project. A client ordering a gate for a flood control scheme or a screen for a treatment plant needs a supplier who can manage the full chain, because the equipment must fit site-specific hydraulics, materials, and sizing (Annual Report FY25).

The group structure spreads production and sales across geographies. Rodney Hunt in the US sells water control gates into the American market, with roughly USD 38-39 million in order book as of May 2026. Waterfront Fluid Controls in the UK sells gates and screens into the UK market, and Mahr Maschinenbau in Austria provides screen technology. Shivpad Engineers in Chennai makes process equipment. Jash Invent India is a 50/50 joint venture with Invent Umwelt Und Verfahrenstechnik of Germany for aeration and mixing equipment (Q4 FY26 concall, May 2026; Annual Report FY25).

Two acquisitions in FY26 expanded the group. WesTech Process Equipment India (renamed Jash Process Equipment) brought industrial process equipment for mining, metals, paper and pulp, and alumina, with a revenue of around INR55 crore and a team of 26 people, 24 of them ex-Dorr Oliver professionals. Penstock UK, acquired in early April 2026, brought a penstock design that management describes as:

> *"like lego blocks very fast and needs very few people. And can help me roll out this product, and it is a very competitive product worldwide."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

Penstock UK also gave Waterfront a base in the Midlands of England, close to its main clients, and pre-qualified framework agreements with major utilities (Q2 FY26 concall, Nov 2025; Q4 FY26 concall, May 2026).

Financial snapshot: consolidated income for FY26 was INR757 crore, essentially flat against INR746 crore in FY25. Domestic business grew 18% but export revenue fell by roughly INR50-60 crore due to US tariff uncertainty and the Middle East war disrupting shipping. Standalone PAT margin held at 13.38% versus 14.38% the prior year, which management attributes to the strength of domestic margins (Q4 FY26 concall, May 2026).

Q2 FY27 update (5 November 2026): consolidated revenue was ₹195 crore, up 22% YoY, EBITDA ₹27.3 crore, up 23%, and PAT ₹14.3 crore, up 30%. H1 FY27 revenue was ₹351 crore, up 20%, EBITDA ₹42 crore, up 75%, and PAT growth was 34%. Q2 standalone revenue was subdued because about ₹46 crore of dispatched and invoiced orders were not recognised under FOB destination Incoterms; management expects that amount to lift Q3, and October standalone revenue was about ₹56 crore.

At Q2 FY27 (5 November 2026), the consolidated order book was ₹955 crore, with ₹625 crore outside India and ₹330 crore inside India. Management maintained FY27 revenue guidance of ₹875 crore and said achievement depends on export dispatch and transit timing. The five-year plan remains to double revenue to ₹1,500 crore, supported by the Houston plant; the Saudi plant is currently parked pending Gulf geopolitics.

Business segments

Water Control Gates

Jash's flagship business is the design and manufacture of water control gates: sluice gates, fabricated gates, stop logs, roller gates, crest gates, radial and tainter gates, bulk head gates, and flap gates. These are the heavy moving structures that regulate, isolate, and shut off water flow in treatment plants, pumping stations, irrigation canals, flood barriers, hydro power stations, and desalination plants. The defining capability is doing the whole job in-house: design, casting, machining, fabrication, assembly, and testing under one roof, across cast iron, stainless steel, aluminium, and composite materials.

The products split into two families. Cast iron sluice gates are the classic municipal workhorse, isolating and controlling flow in water and wastewater plants. Fabricated gates and stop logs handle larger openings and heavier duty, built from stainless or carbon steel for flood control, dam intakes, and sea water applications. Roller gates and crest gates move on wheels or hinges to manage large water surfaces, and penstocks control flow into turbines. The annual report's standalone revenue breakdown shows the weight of the segment: C.I. sluice gates contributed 19.37% of standalone turnover in FY25, and fabricated gates and logs contributed 32.83%, making them the two largest product lines.

The buyers are municipal authorities, EPC contractors, and utilities. Named projects across the sources include the Kansas City flood risk management scheme (aluminium and structural steel stoplogs), the Blanchandra hydroelectric station for Minnesota Power, the Va Tech desalination plant in Chennai (over INR35 crore of equipment), the Ghatkopar treatment plant in Mumbai, and the Al Haer sewage treatment plant in Saudi Arabia. Customers buy because a single supplier can deliver the full range of materials and sizes for one complex project. Management cited the MSD Bissell, Mahasawat, and TK Halli projects as proof, where the company supplied cast iron, stainless steel, aluminium, and composite equipment in a single contract. The NPCIL relationship shows the reputational value: after losing INR7-8 crore on an early nuclear order as a deliberate entry strategy, management says NPCIL now ranks Jash among its top suppliers.

Competitive position: the annual report states the company is the market leader in India for most of its products and among the top five globally in water control gates, with an ambition to reach the top three by 2026. In Saudi Arabia, management noted only one existing producer of these products, which is why it set up a 100%-owned Dammam entity to pursue localization. The plant plan is now parked pending Gulf geopolitics, with a decision expected after a review (Q2 FY27 concall, November 2026). In the UK, the Waterfront acquisition gives the group a base in Glasgow, and management's target is to become the largest sluice gates manufacturer in the UK within 3-4 years.

The segment is the backbone of the group. Rodney Hunt in the US (190 years old, order book around USD38-39 million as of May 2026), Waterfront in the UK, and the completed Penstock UK acquisition are all gate businesses. The manufacturing logic is split: simple, fast-delivery products are made locally in the US, UK, and future Saudi plant, while high-margin, complex gates are made in India. This is why the domestic business matters: in FY26, when US tariffs and the Middle East war cut exports, domestic growth of 18% at good margins limited the consolidated PAT drop from 14.38% to 13.38%.

Revenue mix: gates are the largest single contributor. In Q1 FY26, management put water control gates at 69% of consolidated business, versus 14% for screening, 10% for valves, and 7% for other equipment.

The tariff episode reshaped the segment. Management's position is that tariffs themselves do not hurt, only tariff changes do. On cast iron gates specifically, the company's US lawyers concluded that no duty applies, covering roughly INR25-30 crore of annual exports from India to America:

> *"our lawyers in USA have concluded that on the casta and products, there cannot be any duty. So, our casta and gate business, which was going from India to America there would be no duty on that."*
>
> **CHAIRMAN, Q2 FY26 CONCALL (NOV 2025)**

The UK ambition is the clearest statement of where the segment is heading:

> *"in 3-4 years, our target is to become the biggest sluice gates manufacturer in the UK."*
>
> **CHAIRMAN, Q1 FY26 CONCALL (AUG 2025)**

Screening Equipment

Screening equipment is Jash's second-largest product line after water control gates, sitting at the front of every water intake and wastewater treatment plant. The equipment removes debris, rags, and solids from raw water and sewage before treatment can begin. The range covers coarse screens - trash racks, bar screens, multi-rake screens - and fine screens, including the traveling band screens supplied to Bangkok's Bangkhen treatment plant.

The core capability took two decades of technology acquisition to build. Jash introduced the fine screen to India in 1996, then acquired Mahr Maschinenbau of Austria in 2019, adding a globally recognized screen brand and design base. Mahr's own manufacturing was subsequently closed down, and the Austrian company now focuses on developing new screening and screening-handling technology. Actual production happens at the SEZ Pithampur plant in India, with additional output routed through Rodney Hunt in the US and the E&M Jash brand in Hong Kong, which the annual report describes as "a well-established and approved brand with DSD, Hong Kong."

The structural point is that Mahr's revenue does not capture the full screen business. Screens made in India and sold under other group brands never appear on Mahr's books:

> *"Mahr screens are manufactured today everywhere. It is not only produced in Mahr, so whatever is built through Mahr is reflecting in their revenue. However, what is built from Jash Engineering does not reflect in Mahr revenue and now we have also got orders in UK for screens, and those orders are also not going to reflect in Mahr revenue, because they will do only the designing and manufacturing would be done wherever we have taken the order."*
>
> **CHAIRMAN & MD, Q4 FY26 CONCALL (MAY 2026)**

Customers are municipal water and wastewater utilities, desalination plant contractors, and industrial intake systems across more than 45 countries. The selling point is material flexibility within a single project. On the MSD Bissell, Mahasawat, and TK Halli projects, Jash supplied screens in cast iron, stainless steel, aluminium, and composite materials. Pratik Patel described this as the group's structural strength:

> *"this shows the wide variety of material which can be given by a single company to a complex project. And that is our strength."*
>
> **CHAIRMAN & MD, Q3 FY26 CONCALL (FEB 2026)**

On the standalone FY25 financials, fine bar screens contributed 24.05% of standalone turnover, the largest single product line in that year's product breakdown. On a consolidated basis, management has consistently described screens as the number-two contributor after gates, ahead of valves.

The competitive frame comes from the annual report's market analysis: the global water treatment equipment industry has roughly 350 companies, about 15% of them large global firms and nearly half operating within a single national boundary. Jash's position rests on manufacturing in India at lower cost while selling through subsidiaries in the US, UK, Austria, and Hong Kong. The Bandra sewage treatment plant project illustrates the group's breadth - screens, fine screens, gates, stop logs, and roller gates supplied to one project by one vendor.

Capacity for screens is being expanded in two places. The annual report says the new Unit-4 extension at SEZ Pithampur, roughly 65,000 square feet, is dedicated to screens and heavy-fabricated stainless steel gates. The Houston plant, originally planned as an office and redesigned after the US tariff escalation, is being built to manufacture stainless steel gates and screens inside America. The logic was explained in the Q1 FY26 call: the BABA Act mandates that 90% of value addition for certain US projects happen in America by 2029, so local production capacity is a precondition for taking those orders. On the Q2 FY27 call, management said it expects to award the Houston construction contract in November 2026, start work in December, and commission about 12 months later, around March 2028.

The Mahr order book was INR 24 crore as of August 2025 and described as strong by the Q4 FY26 call. The screen segment's growth is tied to the same tariff dynamics as the rest of the group: new US orders are priced with the current tariff included, while the old order book absorbs the difference between the 25% tariff assumed at quoting and the 50% that was later applied.

Valves

Valves are the third-largest product line at Jash Engineering Limited, contributing roughly 10-13% of revenue depending on the quarter. In Q4 FY26, management listed "Screens and Valves are number two and number three" in the revenue composition, with water control gates the largest at an undisclosed majority share (Q4 FY26 concall, May 2026). The segment covers knife gate valves, slide gate valves, and special purpose valves used to isolate, control, and regulate flow in water and industrial pipelines.

The core capability here is the same as the rest of the group: custom-engineered, heavy-duty equipment built to order rather than mass-produced. Jash does not make standard pipeline valves. It makes large-bore, high-pressure, and specialty valves that require casting, machining, fabrication, and assembly under one roof. The annual report lists the valve range in detail: the "ZFI" series, "MONO" series, "Bi Directional" series, and "ZFI-SRR" series knife gate valves, plus slide gate valves, swing gate valves, and double flap valves. These are sold under the Jash brand and also under the Jash Schuette brand, reflecting a technical collaboration with Schuette of Germany that dates back to the company's early years (FY25 Annual Report).

Who buys these and why: municipal water and wastewater utilities, EPC contractors, and industrial plants. The applications are shut-off and isolation in water transmission lines, pumping stations, and treatment plants. In the industrial segment, the buyers are mining, pulp and paper, chemical, petrochemical, and power plants. The single most important product here is the knife gate valve, which Jash has pushed hard in export markets. Management said in Q2 FY26 that the export strategy is focused on "Gate, Screens and Knife gate valves" as the three products with the strongest credentials, and that they deliberately avoid pushing the full product range in every geography to limit execution risk (Q2 FY26 concall, Nov 2025).

The segment has produced some of the group's most visible project wins. In Q2 FY26, management described "a very big job from Singapore for knife gate valves" as "one of the biggest orders in the world for knife gate valve," with delivery started and completion expected by end of the year (Q2 FY26 concall, Nov 2025). The same specialized valve was supplied to IOCL Panipat. In Q4 FY26, management cited the large knife gate valve supplied for the Ghatkopar treatment plant in Mumbai and similar equipment for the Al Haer sewage treatment plant in Saudi Arabia (Q4 FY26 concall, May 2026).

New product development has focused on extending the valve range into tougher industrial applications. The annual report highlights two new products: a Bi-Directional Class 300 Knife Gate Valve rated up to 740 psi, and a Bi-Directional HDPE Body Knife Gate Valve for acidic and chemical service (FY25 Annual Report). In Q2 FY26, management mentioned a high-pressure knife gate valve for the Canadian Oil Sands market, developed with a Canadian supplier, which had been successfully tested by the customer and was awaiting a Canadian Registration Number for sizes DN 50 to DN 800. Management estimated that successful development could lead to export business exceeding INR100 crore per year (Q2 FY26 concall, Nov 2025).

> *"We have tied up with a Canadian supplier who is quite established in the oil sands business. Along with him, we have developed a KGV of DN 150 size for 52 bar pressure."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

Competitive position: the annual report notes that Jash is "a market leader in India for most of the products that it manufactures and is also among the first 5 in the world in the Water control gates business" (FY25 Annual Report). For valves specifically, the annual report's discussion of the industry names global competitors like Mexo and FLSmidth in the industrial process equipment space, but the valve competition in the water sector is largely fragmented across regional players. Jash's edge is the ability to supply the widest range of equipment to a single complex project, which management cited repeatedly as a differentiator no Indian competitor matches. The tariff environment has also reshaped the competitive math: management noted in Q1 FY26 that US domestic steel prices rose more than 50% relative to India after tariffs, which compresses margins for everyone, including American producers buying American steel (Q1 FY26 concall, Aug 2025).

The segment fits the group through shared manufacturing and cross-selling. Valves are made in the same Indian plants as gates and screens, and the same EPC customers buy all three. The WesTech acquisition (completed in early FY26) strengthened the industrial process equipment offering, and management said in Q2 FY26 that the combined process equipment division could grow from around INR100 crore to INR200 crore in three years with in-house manufacturing (Q2 FY26 concall, Nov 2025). Valves are part of that industrial push. The acquisition of Penstock UK was completed in early April 2026 and merged with Waterfront Fluid Controls, but that business is focused on gates and penstocks rather than valves (Q4 FY26 concall, May 2026).

Management's FY27 revenue guidance is ₹875 crore, split Jash Engineering ₹530 crore, Rodney Hunt ₹330 crore, Mahr ₹15 crore, Waterfront ₹60 crore and Jash Process Equipment ₹40 crore. At Q2 FY27 the revenue target was maintained, but the earlier 12-13% PAT margin guidance was not restated. Management called 18-20% EBITDA the normal range and said above 20% may take 1-2 years as US and UK operations earn at Indian-standalone levels. The five-year ambition remains to grow beyond the existing ₹1,200 crore capacity, with Houston the main bridge after the Saudi plant was parked.

Other Equipment

This segment bundles everything Jash makes that is not a gate, a screen, or a valve: hydro power equipment, process equipment, air vessels, and disc filters. In the Q4 FY26 concall, management put it at roughly 8% of product contribution, lumping together "all balance equipment and hydro power and pumping, etc." (Q4 FY26, May 2026). Small as a share of revenue, it is where the group's newest products and acquisitions live.

The core capability is custom-engineered rotating and process machinery. Where the gates business is static structures, this segment builds equipment that moves water, generates power, or treats it chemically. That capability came from decades of technical collaborations - Rehart for Archimedes screw pumps and turbines, Invent for disc filters - and from acquisitions like Shivpad (process equipment) and WesTech (industrial process equipment).

The products inside it

Archimedes screw turbines generate power from low-head water flows. Jash supplied a 235 kW unit near Pune and installed a 37 kW turbine at the 40 MGD Rithala STP in Delhi, which management called "the first commercial generation of electricity in STP, other than the one which we had done in Indore" (Q3 FY26, Feb 2026). The pitch to STP operators is that the turbine converts the existing flow through their plant into revenue.

Air vessels and bladder vessels control water hammer in pipelines. Jash developed a bladder-type vessel in October 2023, delivered a 40 m3 unit in early 2025, and took orders for 60 m3 and 80 m3 vessels. Management noted an 80 m3 vessel is "amongst the largest sizes for this product, and there are very few manufacturers who produce this size" (Annual Report FY25). The pipeline business is taking one job after another, per the Q2 FY26 concall.

Disc filters are the smallest product line by ambition. Jash indigenized a new design from Invent and launched it for smaller sewage treatment plants. Management expects domestic and export disc filter business of INR20-25 crore annually (Q2 FY26, Nov 2025). The constraint is size: Jash does not make the large disc filters competitors offer, only small ones.

Process equipment - clarifiers, thickeners, decanters, DAF units, aerators - is supplied through Shivpad for municipal treatment and through WesTech for industrial segments. WesTech, acquired for 90% in early 2026 and renamed Jash Process Equipment, serves mining, metals, alumina, and pulp and paper. The two companies had combined revenue of around INR100 crore in their last full years.

Customers and why they buy

Buyers are EPC contractors and project owners: Va Tech for the Chennai desalination plant (Jash is supplying over INR35 crore of equipment), NPCIL for nuclear projects, municipal corporations for STPs, and industrial process plants. The purchase logic is single-source supply of many products. Jash's strength, stated repeatedly across concalls, is that it can supply cast iron, stainless steel, aluminium, and composite products to one complex project.

Competitive position

In process equipment, management named Mexo and FLS Smith as competitors in the INR200 crore-plus range (Q2 FY26, Nov 2025). The WesTech acquisition was partly a competitive move: it brought a seasoned team of 26 people, 24 of them ex-Dorr Oliver

professionals, and a product range Jash did not have. For disc filters, Jash competes on price after indigenizing production, but lacks the large machine sizes. For air vessels, few manufacturers make the 80 m3 size.

How it fits the group

The segment is the growth engine inside the group. WesTech gives Shivpad an enhanced engineering team and a path to export, while Shivpad gives WesTech manufacturing capacity it never had - WesTech outsourced everything before the acquisition. The Chennai plant commissioned in August 2025 exists to load up this combined process equipment business. Management's target is to take the process equipment division from INR100 crore to INR200 crore in three years (Q1 FY26, Aug 2025).

What management has said

The segment has also produced the group's clearest lessons on engineering risk. In the Q2 FY26 concall, management described a screw generator order of around INR7-8 crore where the estimation was done for one design and the final design came out at only half the expected output. It described the NPCIL loss of INR7-8 crore as a deliberate bet:

> *"we wanted an entry into that and today top bosses of NPCI consider Jash as one of the best vendors. This is what we have gained by losing INR7-8 crores."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

Those losses sit alongside the segment's wins: the Chennai desalination order, the Rithala turbine, and the air vessel range. The segment is small, custom, and lumpy, but it is where Jash is building its next decade of products.

Q2 FY27 added a data-centre vessel line. Jash received an order for nine data-centre vessels in the quarter after four in the prior quarter, using its existing large-vessel manufacturing for surge-protection equipment. Management targets 20-30 vessels a year but will be selective because designs are owned by customer consultants and the market is competitive (Q2 FY27 concall, November 2026).

Customers

Customers are project-driven. The end buyers are municipal corporations, water utilities, EPC contractors, and industrial companies that build or upgrade water intake systems, treatment plants, pumping stations, desalination plants, and flood control schemes. Named customers from the concalls include NPCIL for nuclear power projects, Welspun for water treatment projects, Va Tech Wabag for the Chennai desalination plant, Minnesota Power for the Blanchandra Hydroelectric Station, the Bangkhen Treatment Plant in Thailand, MCGM in

Mumbai, and the Al Haer sewage treatment plant in Saudi Arabia (Q4 FY26 concall, May 2026; Q2 FY26 concall, Nov 2025).

The buying decision sits with the EPC contractor or the utility's engineering team. For export orders, the customer typically buys from the subsidiary brand, not from Jash directly. Rodney Hunt takes orders in America and decides internally whether to manufacture in the US or source from Jash India. The client is not involved in that decision, which gives the group flexibility on where production happens (Q1 FY26 concall, Aug 2025).

Why customers pick Jash: the range of products under one roof, the ability to supply cast iron, stainless steel, aluminium, and composite products to a single complex project, and the design engineering support from a 25-30 person engineering team in India at lower cost than US-based competitors. Management cites the MSD Bissell, Mahasawat, and TK Halli projects as examples where one supplier delivered multiple product types and materials (Q3 FY26 concall, Feb 2026; Q1 FY26 concall, Aug 2025).

Contract structure is fixed price with stage-wise payments. Customers pay 10-15-20% advance and then 30-35% by the time material is ready for inspection. There is no pass-through mechanism for raw material price increases, so Jash absorbs input cost inflation on long-gestation orders (Q3 FY26 concall, Feb 2026).

Concentration risk exists in the US. In FY25, the US accounted for roughly 40% of consolidated revenue, and the tariff disruptions in FY26 cut US-bound dispatches significantly. Management's stated goal is to reduce dependence on any single market, targeting roughly 40-45% India, 30% US, and the balance from other regions (Q1 FY26 concall, Aug 2025; Q3 FY26 concall, Feb 2026).

The customer base is not captive. Switching costs are moderate because equipment is custom-engineered and project-specific, but each new project is a fresh tender. The order book is lumpy: a single large project like the Hong Kong Yuen Long Barrage (~INR40 crore) or the Chennai desalination plant (INR35 crore+) can swing quarterly revenue (Q4 FY26 concall, May 2026).

Competitive landscape

The global water treatment equipment industry has roughly 350 companies, of which about 15% are large multinationals and nearly 50% operate within a single country (Annual Report FY25). Jash positions itself as one of the top five globally in water control gates, a claim management makes without naming the others (Annual Report FY25).

In process equipment, the named competitors are Mexo and FLS Smith, both large companies with INR200 crore-plus scale in India (Q2 FY26 concall, Nov 2025). WesTech's

acquisition gives Jash a foothold in industrial process equipment for mining, metals, and paper, where it previously had no meaningful presence.

In the UK water market, roughly 11 companies compete for gates and screens. Waterfront was perceived as a Scottish company, which hurt its ability to win work in the Midlands and England. The Penstock UK acquisition addresses that by adding a local base and framework agreements with major utilities (Q2 FY26 concall, Nov 2025).

In Saudi Arabia, management says only one company makes the products Jash makes, and the group set up a 100%-owned entity there to capture localization benefits. The name of the Saudi entity, Rodney Hunt Mahr Industries, was chosen because "Jash" sounds like "Jaish" in Arabic, which the authorities would not approve (Q3 FY26 concall, February 2026). On the Q2 FY27 call, management said the Saudi plant plan is parked because of the Gulf geopolitical situation and will be revisited, possibly next month.

Why Jash wins or loses. The competitive edge comes from the combination of an India cost base for complex, high-margin products and local manufacturing in the US and UK for fast-delivery, simple products. Roughly USD 9-10 million of Rodney Hunt's USD 36 million revenue was produced in India, and INR15-20 crore of Waterfront's INR40-45 crore revenue was produced in India (Q3 FY26 concall, Feb 2026). That split lets Jash quote competitively on both BABA-compliant US projects (which require American production) and price-sensitive international tenders.

The tariff environment changes the competitive calculus. When US tariffs rise, domestic US producers also raise prices because their steel inputs cost more, so the relative position does not shift dramatically. Management's view is that tariff stability matters more than the tariff level itself:

> *"we are not worried about the percentage of tariff, we are worried about the variation in the percentage of tariff. If it is 50%, we are happy with that 50%. However, it should continue at that."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Competition is intense in India on domestic tenders, where Jash competes with local fabricators on price. Management says it deliberately avoids low-margin domestic orders and focuses on higher-potential profit work, which is why domestic margins are generally better than export margins on a per-order basis (Q4 FY26 concall, May 2026).

The group has also taken execution hits that competitors may not have absorbed. The Kansas project in the US, a large flood risk management job, carried a negative margin and was the only legacy order with a negative outlook as of August 2025. The NPCIL entry cost INR7-8 crore in losses, which management frames as a strategic gamble to become a preferred nuclear vendor (Q1 FY26 concall, Aug 2025; Q2 FY26 concall, Nov 2025).

Industry

The global water and wastewater treatment equipment market was valued at USD 69,783.8 million in 2024 and is projected to reach USD 93,435.6 million by 2029, a CAGR of roughly 6% (Annual Report FY25, citing Technavio and Precedence Research). The municipal segment dominates at 62.1% of the market, and tertiary treatment is the fastest-growing process segment.

India is the fourth-largest market globally for water and wastewater treatment equipment, at USD 4,466.1 million in 2024, expected to grow to USD 6,030.4 million by 2029 (CAGR 6.2%). The India water and wastewater treatment technology market specifically is estimated at USD 1.13 billion in 2025, reaching USD 1.89 billion by 2030, a CAGR of 10.78% (Annual Report FY25, citing Mordor Intelligence).

The demand gap is structural. Only 28% of India's wastewater is treated; the remaining 72% is discharged into rivers, lakes, or groundwater without treatment. Government programs drive spending: the Jal Jeevan Mission has a budget of roughly INR3.7 lakh crore to provide piped water to 146 million households across 700,000 villages, and the Namami Gange and Smart Cities missions continue to fund treatment infrastructure (Annual Report FY25).

Management's domestic thesis is that the wastewater opportunity unlocks after 2028-29. Once the Jal Jeevan Mission completes drinking water supply, the water delivered to homes becomes wastewater. Metropolitan cities already lack treatment capacity, and the next phase of investment will go to treatment, reuse, stormwater, and desalination (Q4 FY26 concall, May 2026).

Rising sea levels are creating a new demand stream. Hong Kong has started with the Yuen Long Barrage project (~INR40 crore for Jash), and Singapore has projects worth USD 800-900 million in quoting, with tendering expected from 2028. Management expects this to be a 20-30 year investment cycle across coastal nations (Q4 FY26 concall, May 2026).

Regulation shapes the industry. In the US, the BABA Act mandates that 90% of value addition for certain projects happen in America by 2029, which is driving Jash's Houston plant investment. In the UK, the Ofwat AMP (Asset Management Plan) cycle runs in five-year periods; AMP 8 is expected to nearly double water sector investment starting April 2025 (Annual Report FY25; Q2 FY26 concall, Nov 2025).

Tariffs are the wildcard. The US imposed 25% tariffs in January 2026, raised to 50% in June, and the India-US trade deal subsequently allowed clearance at 25%, with 18% expected after ratification. Management's position is that the tariff level itself is manageable, but variation between quoting and execution creates losses on fixed-price orders (Q4 FY26 concall, May 2026; Q3 FY26 concall, Feb 2026).

India's place in the global supply chain is as a manufacturing base for export. Direct exports from India were 63.39% of total revenue in FY25 (Annual Report FY25, BRSR). The group's model is to manufacture complex, high-margin products in India and simple, fast-delivery products locally in the US and UK. Import substitution also plays a role domestically: Jash indigenized the disc filter design from Invent and developed a solid waste intake station for SFC that replaces imported equipment (Annual Report FY25).

The industry is project-based and lumpy. Quarterly revenue swings of 40-45% in the fourth quarter are normal, because clients time deliveries to project schedules. The order book-to-revenue ratio of roughly 12-15 months is the natural planning horizon, and management deliberately avoids taking orders beyond capacity because fixed costs and raw material prices can shift during long execution cycles (Q1 FY26 concall, Aug 2025).

Growth triggers

US tariff stability and India-US trade deal

The trigger is the India-US trade deal that ended the tariff escalation which froze Jash's American business in FY26. Tariffs on Jash's exports rose from 25% in January to 50% by June 2025, and the uncertainty about where they would stop made management slow production on US orders. The deal was agreed by February 2026 but not yet ratified, with two consignments already cleared at 25% and the expectation of 18% after ratification (Q3 FY26 concall, Feb 2026).

The mechanism is simple: tariff percentage does not hurt Jash, tariff variation does. Jash quotes fixed-price orders with the current tariff built into the estimate. When the tariff rises between quoting and execution, the company absorbs the difference. That is why management frames stability as the decisive factor:

> *"we are not worried about the percentage of tariff, we are worried about the variation in the percentage of tariff."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The cost of the disruption is visible in the FY26 results. Consolidated income was INR 757 crore, nearly flat against INR 746 crore the prior year, with an export shortfall of INR 50-60 crore only partly offset by 18% domestic growth (Q4 FY26 concall, May 2026). US revenue fell from USD 36 million to roughly USD 29 million that year (Q3 FY26 concall, Feb 2026).

The deal restored the conditions for normal business. Management restarted booking US orders in January 2026, booking over USD 3.5 million that month alone, and the US order book reached USD 38-39 million by May. At Q2 FY27, Rodney Hunt's pending order book was about USD 40 million, or ₹391 crore, and management targeted USD 35-36 million of US

turnover for FY27 versus around USD 30 million last year (Q2 FY27 concall, November 2026).

At Q2 FY27, management maintained FY27 revenue guidance of ₹875 crore against a consolidated order book of ₹955 crore, up from ₹899 crore on 1 May 2026. The guidance assumes tariff stability and normal export dispatch; management flagged transit timing as the main risk, with about ₹46 crore of Q2 dispatches expected to be recognised in Q3. The ₹955 crore backlog comprised ₹625 crore international and ₹330 crore domestic.

Jash is building a new US plant to follow the localization rules of its largest export market and planning a future Saudi plant. Houston is now targeted for contract award in November 2026, construction start in December 2026 and commissioning about 12 months later, by March 2028. The Saudi plant is parked pending Gulf geopolitics and will be reviewed again. Houston exists because of the US BABA Act, which requires 90% of value addition for certain projects to happen in America by 2029, and because the existing Orange, Massachusetts plant cannot find enough production workers.

Houston exists because of the US BABA Act, which requires 90% of value addition for certain projects to happen in America by 2029, and because the existing Orange, Massachusetts plant cannot find enough production workers. Management decided in June 2025, after the additional 25% steel tariff, to defer a planned office and build the Houston plant instead. By May 2026, land and drawings were approved, but the original contractor's owner had died and the company closed, while quotes nearly doubled from USD 4.2 million to USD 7-8.5 million (Q4 FY26 concall, May 2026). On the Q2 FY27 call, management said an AMC contractor had been appointed, offers were being evaluated, and the construction contract was expected to be awarded in November 2026 with work starting in December.

Saudi Arabia targets localization requirements from Middle East EPC contractors. Management named Wabag, ION Exchange and Tekton as Indian contractors working in the region that will need Saudi value addition, and noted localization gives both price preference and benefits to contractors (Q3 FY26 concall, February 2026). The entity is named Rodney Hunt Mahr Industries because the name "Jash" was not approved - it resembles "Jaish" (Q3 FY26 concall, February 2026). On Q2 FY27, management said the company is 100% owned, the Dammam location has been identified, but the plant plan is parked because of the Gulf war situation.

The mechanism is capacity. Management said the existing Indian, US and UK facilities can generate about ₹1,200 crore of revenue at optimum load, and beyond that the new US facility is needed. Houston is now targeted for commissioning around March 2028, while the Saudi plant is parked, so the path beyond ₹1,200 crore depends mainly on Houston.

Management also wants the US-produced share of Rodney Hunt revenue to rise from 30-35% to 65-70% (Q1 FY26 concall, August 2025).

> *"Once we are able to bring online Houston plant and the Saudi Arabia plant, we would reach capacity of INR1500 crore plus."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Acquisition of WesTech (India) and Penstock UK

Jash closed two small acquisitions in FY26 that extend its product range and its geography. WesTech Process Equipment, renamed Jash Process Equipment, closed in mid-January 2026, and Penstock UK closed in early April 2026. Both were bolt-ons, but each fills a specific gap.

WesTech brings industrial process equipment for mining, metals, and paper and pulp - a heavier-duty line than Shivpad's municipal process equipment, though the equipment names overlap. It reported revenue of Rs. 55 crore and profit of Rs. 4 crore in the year before acquisition, and its team of 26 includes 24 ex-Dorr Oliver professionals (Q1 FY26 concall, Aug 2025). WesTech had no manufacturing and outsourced everything. The mechanism is moving that production into Jash's own plants:

> *"when we manufacture within the facilities of Jash, they would have significant reduction in their cost, which will help them improve their profitability."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Jash paid Rs. 30 crore for WesTech (Q4 FY26 concall, May 2026). It took 100% of the US parent's stake plus 10% from employees, with the remaining 10% to be bought after three years at a pre-agreed valuation (Q1 FY26 concall, Aug 2025). WesTech's order book was Rs. 45 crore at acquisition, with Rs. 15 crore expected to execute before March 2026 (Q2 FY26 concall, Nov 2025), and stood at Rs. 32 crore as of May 2026 (Q4 FY26 concall, May 2026).

Penstock UK is a three-to-four person company in the Midlands, which Waterfront - perceived as a Scottish company - lacked. It brings pre-qualified framework agreements and a proprietary gate design management calls "like lego blocks very fast and needs very few people," which it plans to roll out worldwide (Q3 FY26 concall, Feb 2026). Penstock will be merged into Waterfront, with a combined revenue target of INR 125-135 crore in three to four years (Q4 FY26 concall, May 2026).

Order book growth to INR 899 crore as of May 2026

The consolidated order book reached INR 899 crore as of 1st May 2026, split INR 627 crore from outside India and INR 272 crore from within India (Q4 FY26 concall, May 2026). The trajectory across FY26: INR 838 crore at the end of FY25 (annual report), INR 875 crore on

1st August 2025, INR 890 crore in November, INR 923 crore on 1st February, then INR 899 crore in May after Q4 execution consumed part of the backlog (Q1 through Q4 FY26 concalls).

The mechanism is direct for a custom-engineered project manufacturer. Revenue is booked as equipment is manufactured, shipped, and recognized, so the order book is the confirmed backlog that converts to revenue over the execution cycle. Management's arithmetic: INR 899 crore in hand plus INR 40-45 crore already billed in early April leaves roughly INR 944-950 crore of available work against an INR 875 crore revenue target for FY27. The year is effectively pre-sold.

> *"we have already achieved revenue of around INR40-45 crore till now, so looking to that out of INR940-950 crores to project INR875 crore for the current year revenue is not something which is highly optimistic, it is possible."*
>
> **PRATIK PATEL, Q4 FY26 CONCALL (MAY 2026)**

Subsidiary backlogs support the same picture at Q2 FY27. Jash Engineering standalone held ₹561 crore, Rodney Hunt ₹391 crore, Waterfront ₹31 crore and Jash Process Equipment ₹32 crore, taking the consolidated order book to ₹955 crore. A further ₹46 crore was already negotiated and expected in the current month, with ₹129 crore under negotiation for the quarter (Q2 FY27 concall, November 2026).

On that order cover, management maintained FY27 revenue guidance of ₹875 crore, split Jash Engineering ₹530 crore, Rodney Hunt ₹330 crore, Mahr ₹15 crore, Waterfront ₹60 crore and Jash Process Equipment ₹40 crore. It said achievement depends on export dispatch and transit timing rather than demand. No updated FY27 PAT margin was restated on the Q2 call.

Expansion of SEZ Pithampur plant (Unit 4 extension) and new Chennai plant

Jash closed FY26 with two new manufacturing facilities running, both built to remove the capacity ceiling that was capping order intake. The Unit 4 extension at SEZ Pithampur is a new plant of roughly 65,000 square feet costing about Rs. 190 million (annual report FY25), handling machining, fabrication, pickling, grit blasting, and assembly of screens and heavy fabricated stainless steel gates. The annual report targeted commissioning by March 2026, and management confirmed in February 2026 the plant was ready.

> *"I am pleased to announce that our new plant at SEZ Pithampur is ready. It will go on commercial production from the beginning of April. This would free up a lot of spare capacity for us, and as a result, we can aggressively take more orders in America, as well as in the various other export markets."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The Chennai plant is a 65,000 square foot facility for stainless steel process equipment, with an incremental investment of about Rs. 70 million in FY26 (annual report FY25). Commercial production started on August 1, 2025 (Q1 FY26 concall, Aug 2025), with full contribution from April 2026 (Q2 FY26 concall, Nov 2025). The plant serves both Shivpad's municipal process equipment business and the acquired WesTech's industrial line - management said the WesTech acquisition was justified in part by keeping the Chennai plant loaded.

Capacity was the binding constraint on taking more export orders, particularly from the US where BABA compliance requires American production. The Pithampur expansion frees Indian capacity for those orders. With all three Pithampur plants done, the site supports Rs. 300-400 crore of output depending on material pickup (Q3 FY26). The Chennai plant lets the process equipment division operate at a combined revenue of around Rs. 100 crore per year, with a stated target of Rs. 200 crore in three years (Q1 FY26 concall, Aug 2025).

FY26 capex came in at over Rs. 37 crore in plant and machinery, with about Rs. 15 crore planned for the Indian plants in FY27 (Q4 FY26 concall, May 2026). The five Indian plants together now support potential revenue of roughly Rs. 1,200 crore on a 2-3 shift basis, the base for the group's five-year target of upwards of Rs. 1,500 crore once Houston and Saudi come online.

> *"With current manufacturing capacities, I would say if we do on 2-3 shift basis, we can achieve INR1200 crores."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Rising sea level mitigation projects in Singapore and Hong Kong

Rising sea levels are forcing coastal cities to build tidal barriers, barrages, and flood control structures - infrastructure built from the water control gates, knife gate valves, and screens that are Jash's core products. Management frames this as a decades-long global build-out that has only just begun, with each country funding projects at its own fiscal pace.

Hong Kong is the first market to move. Jash is executing the Yuen Long Barrage project worth around INR40 crore (INR35 crore for the barrage plus miscellaneous gates and valves for the same scheme), which management calls one of the most prestigious projects now for Hong Kong. The work is live, not speculative: in June 2026, 14 people from Hong Kong, including a six-member video crew, were due at the Indore plant to video, photograph, inspect, and test part of the job (Q4 FY26 concall, May 2026).

Singapore is the much larger prize but sits further out. Jash has submitted offers worth USD800-900 million for rising sea level projects there, though management is explicit these are quotes, not orders:

> *"we have quoted more than USD900 million worth of projects. Singapore would start tendering out, today it is at design stage with the consultants. They will start tendering out from 2028 onwards."*
>
> **CHAIRMAN & MD, Q4 FY26 CONCALL (MAY 2026)**

Tendering starts in 2028, Jash expects to win 20-40% of the addressable work, and first orders would arrive in 2029, with execution spread over 20-25 years. The FY25 annual report sizes the near-term rising sea water opportunity at over INR100 crore per year. The mechanism is straightforward: Jash supplies the physical equipment - gates, barrages, valves - for each site-specific flood control project as it gets tendered, making the revenue flow lumpy but persistent for decades.

Key risks

- **US tariff volatility, not the tariff level itself, is the single biggest risk.** Jash quotes fixed-price orders assuming a tariff rate. When the rate rises between quote and delivery, the company absorbs the difference. In FY26, tariffs went from 25% to 50% mid-year, forcing Jash to slow production on US orders until clarity emerged. Management's framing:

> *"we are not worried about the percentage of tariff, we are worried about the variation in the percentage of tariff. If it is 50%, we are happy with that 50%. However, it should continue at that, variation results into our estimating at lower tariff, and then when the higher tariff comes into play, it results into losses for us."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The India-US trade deal, agreed in principle in early 2026 and clearing two consignments at 25% with an expected 18% after ratification, is the key swing factor. If it ratifies, existing orders booked at 25% or 50% become more profitable. If it fails or the rate moves again, the FY26 pattern of revenue shortfall and margin compression repeats.

At Q2 FY27, Jash had received a $0.54 million tariff refund, booked within consumption rather than revenue, with about $0.7 million still awaited. Management expected only about $0.2 million to be refunded this year, with the balance possibly deferred under Section 232 (Q2 FY27 concall, November 2026).

- **Raw material price inflation squeezes fixed-price contracts with no pass-through.** Steel costs rose roughly 20% in India as of the Q3 FY26 call, and most projects carry no escalation clause. Long-gestation orders of up to two years mean cost estimates made at bid time can be wrong. Management expects partial offset from rupee depreciation, which historically accompanies raw material inflation, but the offset is imperfect and timing-dependent.

- **Geopolitical disruptions and transit delays directly hit revenue recognition.** The Middle East war in FY26 halted deliveries to the Middle East, Far East, and Southeast Asia because ships and containers became unavailable, costing the company INR50-60 crore of export revenue. On the Q2 FY27 call, management again flagged export transit time as a challenge, and about ₹46 crore of dispatched and invoiced orders were not recognised in Q2 revenue because FOB destination Incoterms left title with the customer in transit. A renewed or prolonged disruption would repeat this pattern, and the company has limited control over shipping logistics.
- **Labor shortages at the Orange, Massachusetts plant cap US production, and the BABA Act makes the problem worse.** Rodney Hunt's existing facility cannot attract enough skilled workers, and management describes the situation as "a nightmare." Young workers are leaving the small town for cities. By 2029, BABA Act rules require 90% of value addition in America for certain projects, forcing Jash to produce more locally at higher cost exactly when its local labor pool is thinnest. The Houston plant is the planned mitigation, but it faces its own cost escalation.
- **Acquisition integration follows a slow, predictable curve.** Management's own experience:

> *"in any acquisition my experience is first year is gone in rebuilding the company or re organizing the company, and then next year onwards, you start catching up and then the third year is when the peak reaches."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

WesTech (acquired December 2025) and Penstock UK (completed April 2026) will not contribute their full potential in year one. If integration stalls, the expected revenue and margin benefits slip by a year or more, and the combined Waterfront-Penstock target of INR125-135 crore in 3-4 years moves out. On the Q2 FY27 call, management said Jash Process Equipment's FY27 revenue is projected at ₹40 crore versus ₹50 crore last year, with major H2 orders expected to improve the backlog and a better FY28. Integration is in progress, with some products moved into Jash's Indore premises.

- **Custom-engineered projects carry design and execution risk.** The Kansas project has a negative outlook. NPCIL cost the company INR7-8 crore, which management calls a strategic gamble to enter nuclear. A screw generator order lost INR7-8 crore due to a design issue where the final design came out at half the estimated output. Management acknowledges that on INR800 crore of revenue, INR30-40 crore of projects may carry mistakes. These losses cluster unpredictably and can hit a single quarter hard.

- **Customer delivery and recognition timing ties up working capital and production space.** The Vietnam order of INR10 crore sat ready for five months because the client did not take delivery, with 65% of payment already received. In Q2 FY27, about ₹46 crore of dispatched and invoiced orders were not recognised because FOB destination Incoterms meant title had not passed; management expects this to lift Q3 revenue. October standalone revenue was about ₹56 crore. These delays lock up cash and floor space, and the risk rises when clients face their own funding problems.
- **Houston plant cost escalation and delay threaten the capacity build-out.** Quotes for the Houston plant nearly doubled from USD4.2 million to USD7-8.5 million, and the commissioning target has slipped repeatedly. On the Q2 FY27 call, management said an AMC contractor had been appointed, the construction contract was expected in November 2026, work would start in December, and commissioning would take about 12 months, around March 2028. The five-year plan of doubling revenue to INR1500 crore depends mainly on Houston now that the Saudi plant is parked. If costs keep rising or the contractor situation deteriorates, the capacity target pushes out.

Scenarios

Bull case

The India-US trade deal is ratified, locking in a lower tariff on Jash's products. The company clears its US backlog, and FY27 revenue reaches ₹875 crore with order book support of ₹955 crore at Q2. Q2 FY27 growth of 22% revenue and 30% PAT carries into H2, helped by ₹46 crore of Q2 dispatches recognised in Q3. Houston is contracted in November 2026, construction starts in December, and commissioning lands by March 2028, lifting group capacity beyond the existing ₹1,200 crore base. Jash Process Equipment recovers in H2 and reaches ₹40 crore FY27 revenue, with better FY28. Waterfront converts a £2.5 million order and moves toward £10-12 million revenue in 3-4 years. Data-centre vessels contribute 20-30 units a year. The five-year plan of doubling revenue to ₹1500 crore stays on track.

Base case

Tariff stabilizes at current levels with occasional policy noise but no dramatic swings. FY27 revenue lands at ₹875 crore, with Q2 dispatch spillover supporting Q3 and H2 seasonality doing the rest. The Houston plant is contracted in November 2026 and commissioned around March 2028, so it contributes little in FY27 and FY28. The Saudi plant remains parked through the year. Jash Process Equipment reaches ₹40 crore revenue, below last year, and improves from FY28 as H2 orders rebuild the backlog. Waterfront converts the £2.5 million order and moves gradually toward £10-12 million in 3-4 years. Domestic business grows, partially offsetting slower export growth. Order book stays around ₹950-1,050 crore, supporting steady execution but not the dramatic acceleration the five-year plan assumes.

Bear case

Tariff increases again, and the India-US trade deal fails to ratify. Jash absorbs the increase on existing orders, compressing margins as it did in FY26. Export transit delays and FOB destination recognition hold back revenue, repeating the Q2 pattern where ₹46 crore of dispatched orders slipped into the next quarter. The Middle East war escalates, disrupting shipping again. Raw material prices rise with no pass-through. Houston plant costs overrun further, delaying commissioning beyond March 2028. Saudi remains parked. Waterfront stays loss-making and Jash Process Equipment's H2 order recovery fails, leaving FY27 revenue below ₹40 crore. Vietnam-style delivery delays become more common. Revenue stalls below ₹875 crore, and the five-year INR1500 crore target slips.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	735	736	875	1,025	1,200
Revenue growth	-	+0.1%	+18.9%	+17.1%	+17.1%
EBITDA (₹ Cr)	138	123	152	199	257
EBITDA margin	18.5%	16.2%	17.0%	19.0%	21.0%
Depreciation (₹ Cr)	17.00	19.70	24.00	28.00	33.00
Interest (₹ Cr)	13.10	12.80	10.50	13.00	15.00
Other income (₹ Cr)	10.40	20.50	16.00	20.00	22.00
PBT (₹ Cr)	108	90.10	117	158	209
Tax (₹ Cr)	20.90	14.60	25.70	35.40	46.90
Tax rate	19.4%	16.2%	22.0%	22.5%	22.5%
PAT (₹ Cr)	86.80	75.50	91.20	122	162
PAT growth	-	–13.0%	+20.8%	+33.8%	+32.4%
EPS (₹)	13.78	11.97	14.44	19.32	25.58
P/E	38.4x	44.2x	36.7x	27.4x	20.7x
PEG	1.2x	1.3x	1.1x	0.8x	0.6x

CAGR FY27E-FY29E: Revenue +17.1% · EBITDA +30.1% · PAT +33.2%

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Q2 FY27 concall notes

TLDR

Jash Engineering reported Q2 FY27 consolidated revenue of ₹195 crore, up 22% YoY, EBITDA of ₹27.3 crore, up 23%, and PAT of ₹14.3 crore, up 30%. H1 revenue was ₹351 crore, up 20%, with EBITDA up 75% to ₹42 crore and PAT up 34%. The consolidated order book stood at ₹955 crore, of which ₹625 crore (about 65%) was international and ₹330 crore domestic. Management maintained the FY27 revenue guidance of ₹875 crore, split as Jash Engineering ₹530 crore, Rodney Hunt ₹330 crore, Mahar ₹15 crore, Waterfront ₹60 crore and Jash Process Equipment ₹40 crore. About ₹46 crore of dispatches were invoiced but not recognised in Q2 because title had not transferred under FOB destination terms; this spills into Q3. The US plant contract is to be awarded in November with construction starting 1 December and commissioning in about 12 months. The Saudi plant has been parked pending clarity on the Gulf situation, to be revisited next month.

WHAT CHANGED SINCE Q1 FY27

- **FY27 revenue guidance maintained at ₹875 crore**, but the subsidiary split changed: Jash Engineering is now guided at ₹530 crore (Q1 notes gave India ₹320 crore and outside India ₹555 crore, a different cut), Rodney Hunt ₹330 crore, Mahar ₹15 crore, Waterfront ₹60 crore and Jash Process Equipment ₹40 crore. Management said it is "quite confident" of ₹875 crore if transit issues resolve.
- **Order book rose to ₹955 crore from ₹932 crore**, but the mix shifted: international is now ₹625 crore (about 65%) versus ₹639 crore (about 70% export) last quarter, and India is ₹330 crore versus ₹293 crore.
- **Jash Process Equipment guidance cut**: revenue is now projected at about ₹40 crore for FY27 versus about ₹50 crore last year. Management said the order backlog was very low entering the year after order losses. The tone improved from Q1: the CFO said last quarter the company was "not so positive" on the business and this quarter there are "good signs of getting the order," with a healthy order book expected by year end and improvement from next year.
- **Data center opportunity reframed downward**: Q1 notes had 4 vessels ordered, 32 under negotiation and 600+ quoted. This quarter management said data center vessels are "not our aim" because the product is competitive and design is owned by the customer's MEP consultants, and that capacity does not exist for large orders. A further order for 9 vessels was received this quarter, and the target is 20-30 vessels a year.
- **US plant timeline firmed**: Q1 notes gave an operational target of March 2028 with contractor finalisation in progress. This quarter an owner's representative contractor has been appointed, offers are being evaluated, the contract is to be awarded in November, work starts 1 December, and commissioning takes about 12 months. Capex was not restated this quarter.
- **Saudi plant delayed**: Q1 notes said all official permissions were received, land application was in process and the plant was targeted for March 2028. This quarter the plan has been "parked" because of the Gulf war situation, to be revisited next month. Dammam was identified as the location and a consultant engaged.
- **Tariff refund**: Q1 notes had ₹7.5 crore pending, being vetted by lawyers. This quarter $0.54 million was received and booked within consumption cost, with about $0.7 million still awaited; about $0.2 million is expected this year and the rest may be deferred because of Section 232.
- **Rodney Hunt revenue expectation held at $35-36 million** for FY27, versus $30 million last year (Q1 notes said $35-36 million). The 6-8% PAT margin guidance was not repeated this quarter.

- **New disclosure on capacity**: existing facilities in India, the US and UK can generate about ₹1,200 crore of revenue at optimum load, against the ₹1,500 crore target that the new US plant is meant to serve.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹195 crore	+22% YoY	Volume growth; ₹46 crore of invoiced dispatches not recognised because title had not passed under FOB destination terms
Consolidated EBITDA	₹27.3 crore	+23% YoY	Not explained in detail; gross margin held within the 55-60% range
Consolidated PAT	₹14.3 crore	+30% YoY	Includes $0.54 million tariff refund booked within consumption cost, not revenue
H1 consolidated revenue	₹351 crore	+20% YoY	H2 weighted to Q3 and Q4
H1 consolidated EBITDA	₹42 crore	+75% YoY	Management did not break out the driver
H1 consolidated PAT	Not stated in rupees	+34% YoY	Management did not break out the driver
Gross margin	Within 55-60% range	n/a	Management said half-year gross margin is not representative; one or two large orders can move it, and the yearly figure averages out
Consolidated order book	₹955 crore	vs ₹932 crore in Q1	India ₹330 crore, international ₹625 crore; Jash Engineering ₹561 crore, Rodney Hunt ₹391 crore, Waterfront ₹31 crore, Jash Process Equipment ₹32 crore
Near-term order pipeline	₹46 crore negotiated, ₹129 crore under negotiation	n/a	₹46 crore expected this month; ₹129 crore expected to be finalised this quarter
Rodney Hunt order book	About $40 million (₹391 crore)	n/a	18 million from US manufacturing, 22 million from India manufacturing
Employee cost	About 18% of revenue in a normal full year	19.5% last year	Higher in H1 because H2 carries more revenue; last year's rise was because the revenue target was missed

SEGMENTS & GEOGRAPHIES

- **Jash Engineering (standalone)**: Revenue grew 22% (management said 227% growth against 208% in the prior period, which appears to be a transcription of 22% against 20.8%); PAT rose 18%. October standalone revenue was about ₹56 crore. The ₹46 crore Q2 spillover is expected to lift Q3.
- **Rodney Hunt (US)**: Revenue grew 17% and PAT was slightly negative. FY27 revenue is expected at $35-36 million versus $30 million last year, with Q3 and Q4 higher than H1. The order book is about $40 million and order booking is "not a point of concern."
- **Waterfront (UK)**: Revenue rose from ₹22 crore to ₹23 crore, up 8%, and PAT was positive versus last year. A single order of about £2.5 million is under discussion and likely to be awarded this month. Management said £10-12 million is possible in 3-4 years, with frame agreements taking time to finalise.
- **Jash Process Equipment (formerly Westech India)**: Revenue fell to ₹21 crore from ₹25 crore and PAT was slightly negative. The order backlog was low entering the year after earlier order losses. Some products are now

manufactured at the Indore premises, and a newly adopted product has received orders for 18-20 machines. Management expects good orders in H2 and improvement from next year.

- **Mahar Maschinenbau (Austria)**: Guided at ₹15 crore for FY27. No further commentary this quarter.
- **New geographies**: Management cited Saudi Arabia, Vietnam and Thailand as new project geographies, alongside existing presence in Hong Kong, the US and UK. Indonesia was also mentioned as under development.

STRATEGY & COMPANY-SPECIFIC

- **US plant (Houston area)**: An owner's representative contractor has been appointed and offers from 2-3 contractors are being compared. The contract is to be awarded in November, work starts 1 December, and commissioning takes about 12 months. The plant is expected to contribute fully from FY28-29, with little contribution in FY27-28. Minor investment is being made to expand the existing US facility to cover 1-1.5 years.
- **Saudi plant**: Parked because of the Gulf war situation, to be revisited next month. The company is 100% owned with no local partner, the location is Dammam, and a consultant was engaged for documentation and land allotment. The plan is to start with assembly and testing of components shipped from India, then add manufacturing, to serve the Middle East and North Africa.
- **Capacity**: Existing facilities in India, the US and UK can deliver about ₹1,200 crore of revenue at optimum load. The new US plant is intended to take the company toward the ₹1,500 crore target.
- **Data center vessels**: A further order for 9 vessels was received this quarter after 4 last quarter. Management will bid selectively where customers are quality-conscious and multinational, and targets 20-30 vessels a year depending on load.
- **Acquisitions**: The company continues to evaluate proposals and is in discussion on one opportunity, which management called premature to disclose, with a possible update on the next call.
- **Tariff refunds**: $0.54 million received and booked within consumption cost; about $0.7 million awaited, of which about $0.2 million is expected this year and the rest may be deferred because of Section 232.
- **Management**: The Chairman and Managing Director did not join the call. The CFO and the Vice President of Sales and Marketing led it.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 consolidated revenue	₹875 crore	Maintained	H1 performance, ₹955 crore order book and H2 plans; contingent on export transit times improving
FY27 revenue by entity	Jash Engineering ₹530 crore, Rodney Hunt ₹330 crore, Mahar ₹15 crore, Waterfront ₹60 crore, Jash Process Equipment ₹40 crore	New split	Management's stated sales outlook
Rodney Hunt FY27 revenue	$35-36 million	Maintained	Q3 and Q4 higher than H1; order book of about $40 million
Jash Process Equipment FY27 revenue	About ₹40 crore	Cut from about ₹50 crore last year	Low opening backlog; major orders expected in H2
Waterfront revenue	£10-12 million in 3-4 years	Maintained	Firm inquiries and a £2.5 million order under discussion

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Consolidated order booking	₹1,000 crore for the year, rising beyond ₹1,100-1,150 crore "very shortly"	New	Average monthly intake above ₹60-70 crore, new products and new geographies
US plant commissioning	Contract awarded November, work from 1 December, about 12 months to commission	Maintained (March 2028 target)	Contractor evaluation under way
Saudi plant	Decision to be revisited next month	Delayed	Gulf war situation
EBITDA margin	Above 20% once US and UK earn at Indian standalone levels; may take 1-2 years	New	Fixed costs not rising with revenue
Employee cost	About 18% of revenue in a year when the target is met	New	Historical average; H1 is higher because H2 carries more revenue
Gross margin	55-60% range	Maintained	Last five years' range

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Export transit and Incoterms	₹46 crore invoiced in Q2 was not recognised because title had not passed under FOB destination terms. Transit time from India to export markets is "becoming a challenge," and the ₹875 crore guidance depends on it improving.
Gulf war situation	The Saudi plant has been parked and will be revisited next month. The region is also the destination for Middle East sales.
US tariff and Section 232	About $0.5 million of the pending tariff refund may be deferred because of Section 232. Management did not quantify tariff exposure this quarter.
Jash Process Equipment turnaround	Revenue is guided down to about ₹40 crore and PAT is negative. Integration of costing processes and in-house manufacturing is in progress, with improvement expected only from next year.
Data center competition	Design is owned by the customer's MEP consultants, the market is very competitive and management compared it to job work. Capacity does not exist for large orders.
US labour availability	Management cited labour availability problems in the US area as one reason for building the second plant.
Order intake lumpiness	Monthly order intake varies; management said some months are lower and large project orders can bunch into one period.
Employee cost	At 19.5% of revenue last year versus a normal 18%, the ratio stays high until revenue targets are met.

Q&A HIGHLIGHTS

Medium-term margin confidence Asked what gives confidence that PAT margin can reach 13-14% given onshoring, new plants and operating deleverage, the CFO said the company normally does 18-20% EBITDA, has done 20% in one year, and expects above 20% once the US and UK businesses earn at Indian standalone levels, which may take 1-2 years. He said establishing a company outside India takes 2-4 years to earn profit.

India versus US manufacturing mix On the shift toward US manufacturing, the CFO said the earlier India-to-US ratio was 75:25 and is now about 50:50. Of the $40 million Rodney Hunt order book, $22 million will be manufactured in India and $18 million in the US.

Gross margin sustainability Asked why gross margin rose while industry margins fell on cost inflation, the CFO said half-year gross margin is not representative because one or two large orders can move it, and the yearly figure

averages within the 55-60% range seen over the last five years.

Jash Process Equipment integration On the Westech process equipment acquisition, management said the business lost major orders before acquisition, leaving a low backlog, and that costing processes are being aligned with Jash SOPs, some products moved to the Indore plant, and a newly adopted product has 18-20 machine orders. The CFO said the company was "not so positive" last quarter and now sees good signs, with a healthy order book expected by year end.

Q2 revenue shortfall and Rodney Hunt Asked why the quarter was subdued while Rodney Hunt surprised, management said ₹46 crore was dispatched and invoiced but not recognised because title had not transferred under FOB destination terms, and this will reflect in Q3. Rodney Hunt's order book is about $40 million and order booking is not a concern.

US plant contract and timeline On the new US plant, the CFO said an owner's representative contractor has been appointed, offers from 2-3 contractors are being compared, the contract will be awarded in November, work starts 1 December, and commissioning takes about 12 months. Asked whether timelines have stretched, he said there is no problem at present and the existing US facility can handle this year's volumes.

Saudi plant status On Saudi, management said the plan has been parked because of the Gulf war situation and will be revisited next month. The Saudi company is 100% owned, the location is Dammam, and production will start with assembly and testing before manufacturing.

Data center vessels Asked for an update on data center vessel negotiations, the CFO said data center orders are "not our aim" because the product is competitive and design is owned by the customer, and capacity does not exist for large orders. Management said a further 9 vessels were ordered this quarter and the target is 20-30 vessels a year.

Employee cost and 22% EBITDA margin Asked whether a 22% EBITDA margin is realistic given rising employee cost and flattening currency gains, the CFO said employee cost is normally about 18% of revenue, was 19.5% last year because the target was missed, and H1 ratios are not representative because H2 carries more revenue. He said EBITDA should exceed 20% once US and UK earn at Indian levels, even if the dollar stays where it is.

HFCL Limited

GROWTH TRIGGERS

HFCL's bull case is a sold-out optical connectivity franchise converting a ₹28,900 crore order book into at least 80% FY27 revenue growth, with high-fibre cable, data-centre interconnect and exports holding EBITDA margins in the mid-20s. Data-centre connectivity is guided at about ₹800 crore in FY27 and ₹2,000 crore in FY28, while defence adds ₹500-600 crore in FY27 and at least ₹2,000 crore in FY28, with aerospace closing in Q3 FY27. The swing factors are EPC losses, working capital and capacity/preform execution.

1. FY27 revenue growth guided at least 80%, with H1 FY27 at ₹4,456.77 crore

Management guides FY27 revenue growth of at least 80% over FY26, after raising from 40% in Q1 FY27. Q2 FY27 revenue was ₹2,541.79 crore. The guidance is a management target, not a reported full-year result.

2. ₹28,900 crore order book with OFC and data-centre skew supports multi-year conversion

The Q2 FY27 order book was ₹28,900 crore. Management described roughly ₹18,500 crore as OFC and data-centre interconnect and said perhaps 70% of export orders were from hyperscalers, with names withheld. Durations run 4-6 months to 3-4 years and are not evenly distributed, so the headline book is visibility rather than an even quarterly schedule.

3. Data-centre connectivity guided at about ₹800 crore FY27 and ₹2,000 crore FY28

Management reiterated about ₹800 crore of connectivity revenue in FY27 and about ₹2,000 crore in FY28, with Q2 FY27 at roughly ₹300 crore-plus. Q1 was described as nil in the Q2 Q&A, conflicting with an earlier about ₹100 crore disclosure. Capacity is being expanded five times, including at HTL Limited.

4. Q2 FY27 EBITDA margin 25.89% on normal contracts; management expects improvement

Q2 FY27 EBITDA margin was 25.89% and H1 FY27 was 24.75%. Management said the margin came from normal average contracts and that there was no high-margin one-time order. It expects the margin profile to improve as high-fibre-count and connectivity mix rises, but the call gives no formal annual margin target.

5. Defence targeted at ₹500-600 crore FY27 and at least ₹2,000 crore FY28

Management guides defence revenue of ₹500-600 crore in FY27 and at least ₹2,000 crore in FY28, with about ₹5,000 crore as a three-year aspiration. The second batch of AK-203 thermal weapon sights was delivered in September 2026, and the Andhra ammunition complex is expected to start revenue in about two years.

6. Aerospace acquisition expected in Q3 FY27 with ~₹1,600 crore executed order book

The aerospace acquisition is expected to close in the current quarter, Q3 FY27. Prepared remarks cite an executed order book of approximately ₹1,600 crore, while Q&A references

₹1,600-1,800 crore and separately ₹1,800 crore pending. The value is approximate and scope-dependent.

7. Preform: 600 MT by October 2028 plus mid-term own preform from Q1 next calendar year

The preform project is now described as 600 MT per annum targeted for October 2028, covering roughly half of planned fibre capacity, with the balance bought under long-term contracts. A separate lower-cost mid-term own-preform solution is expected from Q1 of the next calendar year. The Q2 call did not restate the preform-specific cost.

8. Fibre capacity to 43 mn fkm and cable to ~63 mn fkm

Management said optical fibre capacity is going from 28 million to 34 million and then 43 million fibre kilometres, and cable from 34 million to about 63 million fibre kilometres. The Q2 call does not give a completion date for the full cable step-up. The expansion is aligned to the order book and to data-centre cable demand.

9. Export revenue +493% and data-centre mix support volume

Q2 FY27 export revenue grew approximately 493% year on year. Management estimates data centre at 65-75% of telecom revenue and telcos at 25-35%, and says data-centre cable carries higher realisation because it uses specialised fibre. Exports are the main current volume driver.

10. EPC loss guided to narrow with segment profit targeted from Q1 FY28

The Q2 FY27 turnkey segment loss was about ₹121 crore. Management guides the next two quarters combined at no more than ₹75-100 crore and expects segment profit only from Q1 FY28. The Army AMC is in final approval, and the restructuring committee is near a recommendation with EPC under active consideration.

INVESTMENT THESIS

HFCL is an operating-leverage story where the Q2 FY27 print shows the leverage is real rather than only aspirational. The business buys preform, largely imported, draws optical fibre, turns it into increasingly high-fibre-count and data-centre-grade cable, and adds passive connectivity and interconnect assemblies, while separately running telecom equipment, a small defence portfolio and a loss-making EPC book. Consolidated revenue in Q2 FY27 was ₹2,541.79 crore with EBITDA of ₹658.00 crore at a 25.89% margin and PAT of ₹394.22 crore; H1 FY27 PAT was ₹639.86 crore. The mix is the key. Management estimates data centre at 65-75% of telecom revenue and telcos at 25-35%, and says roughly 70% of export orders in the OFC and data-centre book come from hyperscalers, with customers withheld under NDA. High-fibre-count cable and interconnect carry better realisation than standard telco loose tube. Management says fibre runs at 100% of capacity and cable utilisation is above 100% in value terms. That is a sold-out position in a segment where management argues only a handful of suppliers can make the highest-count cables. It explains why the margin moved from the high-teens area in FY26 to 25.89% in Q2 FY27. Management says the margin profile can improve, but the call gives no formal annual target. The forward earnings path rests on three disclosed levers. First, FY27 revenue growth guidance is at least 80% over FY26, raised from 40% and originally 20%. H1 FY27 revenue of ₹4,456.77 crore means H2 must be broadly similar for the guidance to be met. Second, data-centre connectivity is guided at about ₹800 crore in FY27 and about ₹2,000 crore in FY28, with Q2 FY27 already at roughly ₹300 crore-plus. The Q1 figure is inconsistent: about ₹100 crore was claimed in July, while the Q2 Q&A says nil. That argues for using the Q2 run-rate rather than the Q1 base. Third, defence is guided at ₹500-600 crore in FY27 and at least ₹2,000 crore in FY28, with about ₹5,000 crore as a three-year aspiration. Reported defence delivery is still thin relative to those numbers, though the second batch of AK-203 thermal weapon sights was delivered in September 2026. The aerostructure acquisition, expected to close in Q3 FY27, is the main bridge to the FY28 step-up; prepared remarks cite about ₹1,600 crore executed order book, while Q&A references ₹1,600-1,800 crore and separately ₹1,800 crore pending. The order book stood at ₹28,900 crore, with roughly ₹18,500 crore described as OFC and data-centre interconnect. Durations run from 4-6 months to 3-4 years and management explicitly said the book is not evenly distributed, so headline backlog overstates near-term conversion. Capital allocation has become larger and longer-dated. The preform project is now 600 MT per annum targeted for October 2028, covering roughly half of planned fibre capacity, with the balance bought under long-term contracts and a separate lower-cost mid-term own-preform solution expected from Q1 of the next calendar year. The Q2 call describes approximately ₹1,800 crore of planned investment across fibre, cable and preform but does not restate the earlier ₹1,250 crore preform cost. Fibre capacity is guided from 28 to 34 to 43 million fibre kilometres and cable from 34 to about 63 million. The payoff

is real but deferred; the preform spend does not lift FY27 margins already printed at 25.89%. Working capital is the other side. Management says old debt is being repaid and new debt has been taken for capex, with debt reduction starting in the current year and debt substantially falling. That is a commitment to verify, not a reported outcome. Management delivery is mixed-to-improving. The large reported commitments have been met and guidance has been raised repeatedly, and Q2 is a genuine operating beat rather than a one-off high-margin order. But the Army NFS AMC has been weeks away across calls and remains in final approval; EPC profitability is pushed to Q1 FY28 with Q2 turnkey losses of about ₹121 crore and a guided cap of ₹75-100 crore over the next two quarters; the aerospace order book is approximate; and the Q1 connectivity base is conflicted. These are documentation and timing issues, not proof of demand failure, but they argue for weighting reported numbers over point guidance. The restructuring committee, advised by E&Y, is at the recommendation stage with a board meeting expected shortly, and EPC is explicitly under review. What would falsify the thesis: FY27 revenue landing materially below the at-least-80% guide, which would require an H2 slowdown given the H1 base; EBITDA margin slipping out of the mid-20s as connectivity and cable mix disappoints or preform resets lag; turnkey losses exceeding ₹75-100 crore across Q3-Q4 FY27; the aerospace acquisition not closing in Q3 FY27 or the order book reconciling below ₹1,600 crore; continued receivable and inventory build without visible debt reduction; and further deferral of the 43 million fibre kilometres or about 63 million cable capacity, or the October 2028 preform timeline. Conversely, completing the EPC restructuring, converting the order book at the guided pace, and demonstrating that a mid-20s EBITDA margin is an annual base rather than a strong quarter would validate the operating-leverage case without requiring new demand assumptions.

RESEARCH REPORT

What HFCL Limited does

HFCL is a diversified technology company that designs and manufactures optical fibre, optical fibre cables, telecom and networking equipment, defence electronics, and data centre connectivity solutions, and also executes large-scale telecom network deployment projects. Incorporated in 1987, the company operates from six manufacturing facilities in India, with three R&D centres in Bengaluru, Hyderabad and Gurugram, and has a presence in more than 60 countries serving 80+ marquee customers. The Q2 FY27 earnings call cites an order book of ₹28,900 crore.

The business has three segments. Telecom Products dominated Q2 FY27, with the call discussion referring to about ₹2,300 crore of the ₹2,541.79 crore consolidated revenue. Defence & Aerospace remains small in reported revenue and is being scaled toward a ₹500-600 crore FY27 target. System Integration / EPC was a small share of Q2 FY27 revenue and posted a segment loss of roughly ₹121 crore. The longer-term mix shift remains stark: products were 27% of revenue in FY21 and 62% of FY26, and exports rose from 4.54% of revenue in FY21 to 41.36% in FY26; Q2 FY27 export revenue grew approximately 493% year on year.

Q2 FY27 update (19 Oct 2026): consolidated revenue ₹2,541.79 crore, EBITDA ₹658.00 crore at 25.89% margin, PBT ₹538.60 crore and PAT ₹394.22 crore; H1 FY27 revenue ₹4,456.77 crore with PAT ₹639.86 crore. Order book ₹28,900 crore. Management raised FY27 revenue growth guidance to at least 80% and said the ₹10,000 crore revenue milestone should be reached well before FY29, with FY28 expected to be better than FY27 though not formally guided. Management said old debt is being repaid, some new debt has been taken for capex, and debt reduction should start in the current year with debt substantially falling.

Telecom Products (Optical Fibre, OFC, Telecom & Networking Equipment)

This is the engine of the company. HFCL manufactures optical fibre, optical fibre cables, passive connectivity solutions, and telecom equipment. Optical fibre cable was roughly 48% of total revenue for the nine months ended December 2025. The February 2026 aspiration for OFC revenue to cross ₹3,500 crore in FY27 was not restated in the Q2 FY27 call, where management guided only overall FY27 revenue growth of at least 80% and described around ₹18,500 crore of the order book as OFC and data centre interconnect.

The product range spans several categories. HFCL makes EKA optical fibre and other variants (A1, A2, A1200, 2D) engineered for reduced signal loss. It manufactures high-count Intermittently Bonded Ribbon (IBR) cables up to 6,912 fibres, with a 14,000-fibre cable under development and a 3,456-fibre Micro Duct IBR cable already developed. These high-

fibre-count cables are the core of the data centre business. The company also produces tactical cables for the military, MPO/MTP assemblies, cassettes, and joint closures for data centre interconnect, plus telecom equipment including Wi-Fi 6/7 access points, Unlicensed Band Radios, IP/MPLS routers, and 5G Fixed Wireless Access Customer Premises Equipment (CPE).

The strategic shift is the new data centre connectivity business, started in FY27. Management reiterated FY27 revenue of about ₹800 crore and FY28 revenue of about ₹2,000 crore. Q2 FY27 connectivity revenue was estimated at roughly ₹300 crore-plus, while Q1 FY27 was described in the Q&A as nil, conflicting with an earlier ~₹100 crore disclosure. Capacity for these interconnect products is being expanded 5 times, including at subsidiary HTL Limited, and the Board had approved an additional ₹215 crore investment in advanced data centre connectivity products such as miniature multi-fibre and super high-density multi-fibre termination assemblies.

The IP/MPLS router business has secured orders for about 100,000 routers, worth roughly ₹700-800 crore, deployed under the BharatNet program. The 5G FWA CPE reached 8 lakh units delivered, making it India's first indigenously developed product of its kind. The telecom equipment segment as a whole is expected to contribute ₹500-600 crore in FY27 revenue, with EBITDA margins of 12-15%.

Defence & Aerospace

HFCL indigenously designs and manufactures surveillance radars (ground, coastal, and drone detection), electronic fuzes, thermal weapon sights, high-capacity radio relay systems, tactical communication cables, multi-mode hand grenades, and wire harnesses. The defence business is targeting ₹500-600 crore revenue in FY27, at least ₹2,000 crore in FY28, and an aspiration of about ₹5,000 crore within three years. The aerospace acquisition is expected to close in the current quarter, Q3 FY27; prepared remarks cite an executed order book of approximately ₹1,600 crore, while Q&A references ₹1,600-1,800 crore and separately ₹1,800 crore pending. The value is approximate rather than a proven decline.

The product pipeline is broad. Electronic fuzes for 155mm artillery ammunition remain in the portfolio, but the Q2 FY27 call did not update the DRDO trial or approval status; India was estimated to demand about 0.5 million fuzes per year, with prices of ₹25,000-30,000 per fuze, and HFCL plans capacity of 1 lakh fuzes per annum. Surveillance radars range from 2 km to 50 km detection, with a drone detection radar with soft kill in advanced development and foliage penetration radar under validation. Thermal weapon sights for AK-203 rifles have moved into delivery; HFCL delivered the second batch to the Indian Defence Forces in September 2026. Tactical optical fibre cables for the Army came through a ₹101.82 crore contract via subsidiary HTL Limited.

The Andhra Pradesh ammunition complex is a major strategic bet. The government allotted 1,000 acres, and the foundation was laid on May 15, 2026, attended by the Defence Minister and Andhra Pradesh Chief Minister. The Q2 FY27 call said construction will start soon, and HFCL has already participated in a tender for 800,000 multi-mode hand grenades. Management expects the complex to start generating revenue in about two years; it is slated for electronic fuzes, multi-mode hand grenades, and 155mm artillery shells.

The proposed acquisition of an aerostructure business is the aerospace expansion. It is expected to close in the current quarter, Q3 FY27. Prepared remarks cite an executed order book of approximately ₹1,600 crore, while Q&A references ₹1,600-1,800 crore and separately ₹1,800 crore pending; the figure is approximate and scope-dependent. The business consolidates into HFCL Advance Systems Private Limited. The Q2 FY27 call does not give a reconciled total defence order book including the acquisition.

System Integration / EPC (Turnkey Projects)

HFCL deploys large-scale telecom and defence communication networks, covering network design, infrastructure rollout, and maintenance under AMC/O&M contracts. Key projects include BharatNet Phase III (Punjab and UP East/West circles), the Army's optical transport network (NFS), and utility projects like UP Jal Nigam.

The EPC business has been a drag on profitability. The Army's NFS network was in a warranty period where HFCL incurred costs without receiving revenue, which caused losses. The Q2 FY27 turnkey segment loss was roughly ₹121 crore, and management guides that the next two quarters combined should not lose more than ₹75-100 crore, with profit in the segment expected only from Q1 FY28. The Army AMC contract remains in the final stage of approval, and prior BharatNet milestone billing is expected to be submitted this quarter. The UP Jal Nigam project suffered from non-payment by state government authorities, though the Chief Minister promised fund releases. Management said EPC revenue for FY27 would be roughly ₹1,000 crore, and that the company is deliberately not pursuing more EPC work because it is not a priority business.

Business segments

Telecom Products (Optical Fibre, OFC, Telecom & Networking Equipment)

This is the engine of HFCL. The segment manufactures optical fibre, optical fibre cables (OFC), passive connectivity solutions, and telecom and networking equipment. The core capability that took years to build is the design and manufacturing of high-fibre-count Intermittently Bonded Ribbon (IBR) cables, which pack up to 7,000 fibres into a single cable for hyperscale data centres. The capacity roadmap is to move optical fibre from 28 million to 34 million and then 43 million fibre kilometres, and cable from 34 million to about 63 million. The Q2 FY27 call does not give a completion date for the full cable step-up or reconcile

usable capacity with the headline numbers. Few manufacturers globally can produce these cables at scale, which is why HFCL is winning multi-year export contracts.

The products inside the segment split into four groups. Optical fibre and OFC include standard loose-tube cables for telecom operators, micro duct cables, tactical cables for defence, and the high-count IBR cables for data centres. Passive connectivity solutions include MPO/MTP assemblies, cassettes, and joint closures, produced through subsidiary HTL Limited. The telecom and networking equipment line covers Wi-Fi 6/7 access points, Unlicensed Band Radios (UBR), IP/MPLS routers, and 5G Fixed Wireless Access (FWA) CPE. The routers are deployed under BharatNet, with HFCL having delivered IP/MPLS routers in bulk across India from Q3 FY26. The equipment segment also contributes to a smaller revenue stream: management guides telecom equipment at roughly INR 500-600 crore for the full year, about 10% of total revenue, at EBITDA margins of 12-15%.

Customers fall into three buckets. Hyperscalers in the US and Europe buy the high-count IBR cables and data centre interconnect solutions, and they are the reason exports jumped to 41.36% of FY26 revenue from 12.23% in FY25. On the Q2 FY27 call, management estimated data centre at 65-75% of telecom revenue and telcos at 25-35%, and said roughly 70% of export orders in the OFC/data centre interconnect book come from hyperscalers; customer names remain withheld under NDA. Tier-1 telecom operators in Europe and the US buy standard and high-fibre-count cables; management stated HFCL has entered Tier-1 operators after previously being unable to supply them. Government programs, mainly BharatNet, buy routers and cables. The defence forces buy tactical cables, with HTL securing a contract worth approximately INR 101.82 crore from the Indian Army for tactical optical fibre cable in FY26. Realisation rose to roughly INR 1,055 per fibre kilometre in Q3 FY26 from INR 964 in the prior quarter, and international pricing runs from $18 to $28 per fibre kilometre depending on fibre type and count.

Competition is global and concentrated. Management named Prysmian and Corning as the international players expanding capacity, and noted that in India, of about 20 OFC suppliers, only two can manufacture high-fibre-count cables. The competitive position rests on technology: HFCL is developing 14,000-fibre cables and hollow-core fibre with IIT Delhi and a government organisation in Kolkata. Management was direct about the moat:

> *"Only very few, handful. So there India, we have 20 suppliers for fiber optic cable, but there are only 2 who can manufacture these kind of cables."*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

The segment is the group's financial backbone. Telecom Products generated about ₹2,300 crore of Q2 FY27 revenue, or roughly 91% of the consolidated total, up from 66% of Q4 FY26 revenue. OFC alone was roughly 48% of 9M FY26 revenue. The synergy with the Defence &

Aerospace segment is tactical cables, manufactured here and sold to defence customers. The System Integration / EPC segment buys cables and routers for BharatNet deployments, so the equipment line has a captive anchor customer. The data centre interconnect business, run through HTL, is expanding capacity five-fold and is now guided at about ₹800 crore for FY27 and about ₹2,000 crore for FY28.

Management's commentary across the concalls shows a segment in a structural upcycle. The landmark order was a USD 1.1 billion long-term global OFC supply contract valued at approximately INR 10,159 crore, which management called the highest single contract secured by any Indian telecom company. The order book is the strongest evidence of the segment's scale:

> *"Our order book stands at ₹28,900 crore, providing multi-year revenue visibility."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

The order book is now ₹28,900 crore, with roughly ₹18,500 crore described in the call as OFC and data centre interconnect. Management said a large portion of export orders, perhaps 70%, are from hyperscalers but withheld customer names under NDA. Contract durations run from 4-6 months to 3-4 years and are not evenly distributed, and management said new intake is exceeding execution. Pricing has moved sharply, though management sees less incremental increase than in prior quarters. Preform is planned at 600 MT per annum by October 2028, covering roughly half of planned fibre capacity, with a separate lower-cost mid-term own-preform solution expected from Q1 of the next calendar year. The margin payoff has accelerated: Q2 FY27 EBITDA margin was 25.89%, management says it is confident of maintaining and improving margins, but the call gives no formal annual margin target.

Defence & Aerospace

HFCL's defence business is built on indigenous design and manufacturing of surveillance radars, electronic fuzes, thermal weapon sights, high-capacity radio relay systems, tactical communication cables, multi-mode hand grenades, and wire harnesses. The core capability is in-house product development and qualification, which management stresses takes years of sustained R&D because military products require customer validation, test cycles, and advanced manufacturing before commercialisation begins. The proposed acquisition of an aerostructure business adds aerospace manufacturing capability, which management says would have taken five to seven years to build from scratch.

The product portfolio spans several categories. Surveillance radars include Very Short Range, Short Range, Medium Range, and Coastal Surveillance variants developed through subsidiary Raddef Private Limited, which the Navy has been trialling across multiple locations.

Electronic fuzes for artillery ammunition remain in the portfolio; the Q2 FY27 call did not update the DRDO trial or approval status, and the capability plan remains 1 lakh fuzes per annum. Thermal weapon sights for AK-203 rifles have moved into delivery, with the second batch delivered to the Indian Defence Forces in September 2026. The segment also includes compact trans-horizon communication systems and multi-mode hand grenades licensed from DRDO, plus tactical optical fiber cables for battlefield use.

The main customers are the Indian Army, Navy, Home Ministry, and BSF. The Army is the largest buyer, with orders for tactical cables worth ₹101.82 crore through subsidiary HTL Limited and a major BMP-2 upgradation program where HFCL is one of five shortlisted parties. The Navy is trialling coastal surveillance radars for ship movement monitoring. The Home Ministry is evaluating a border protection system covering Pakistan and Bangladesh borders. HFCL also holds technology transfer agreements with DRDO for multi-mode hand grenades and compact trans-horizon communication systems, which gives it a qualification advantage.

The competitive position varies by product. In electronic fuzes, management says only two government companies, Bharat Electronics and ECI Telecom, manufacture them under foreign technology transfer agreements, making HFCL the first indigenous designer. For multi-mode hand grenades, there are three licensees: HFCL, one other private company, and Munitions India Limited, with two of three expected to receive orders. India requires about 0.5 million fuzes per year, with pricing of at least INR 25,000 to INR 30,000 per fuze for a 155 mm proximity fuze. The total defence order book is now shown at approximately ₹1,850 crore, of which about ₹1,600 crore sits in the entity proposed to be acquired.

The segment fits the group through shared capabilities in optical fiber and electronics. Tactical cables use HFCL's optical fiber technology for battlefield communication. The defence business is being consolidated under HFCL Advance Systems Private Limited, with the proposed aerospace acquisition now expected to close in Q3 FY27 and carrying an order book cited at approximately ₹1,600 crore. The presentation shows a total defence order book of approximately ₹1,850 crore, of which about ₹1,600 crore is in the entity proposed to be acquired. Capex for defence in FY27 was earlier guided at INR 100 crores, with INR 175 crores planned for FY28; the Q2 FY27 materials did not restate the annual split. The Andhra Pradesh ammunition complex, allocated 1,000 acres, is being developed for electronic fuzes, multi-mode hand grenades, and 155 mm artillery shells, with construction starting soon after the May 2026 foundation stone. Separately, the Q2 FY27 presentation shows a ₹230 crore Phase 1 facility for multi-mode hand grenades (MMHG) at the upcoming 1,000-acre Andhra ammunition complex; this sits in its own line item and is distinct from the ~₹1,800 crore fibre/cable/preform programme and the ₹1,250 crore preform plan.

Defence revenue is targeted at approximately ₹500-600 crore in FY27, rising to at least ₹2,000 crore in FY28, with an aspiration of about ₹5,000 crore within three years. Management's long-term aspiration remains for the defence business to become nearly comparable in scale to HFCL's current overall business.

> *"Next year we look, uh, at least 2,000 crores. And aspiration is to take it in 3 years' time frame to 5,000 crores, around 5,000 crores."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

The July 2026 Q1 FY27 call cited a defence export order book of roughly ₹2,200 crore. The latest presentation shows a total defence order book of approximately ₹1,850 crore, of which about ₹1,600 crore sits in the aerospace entity proposed to be acquired and is export-oriented. The acquisition order book figure has been cited inconsistently — approximately ₹1,600 crore as 'executed' in the Q2 FY27 prepared remarks, ₹1,600-1,800 crore in the Q&A, and about ₹1,930 crore on the earlier May 2026 call — so it is best treated as approximate rather than as evidence of a proven decline. Management expects defence revenue of at least ₹2,000 crore in FY28 and has an aspiration of about ₹5,000 crore within three years, driven by the BMP-2 modernisation program, border protection systems, and export contracts. Earlier management indicated a 20-25% EBITDA margin profile for defence, above the blended company margin, because defence products are high-value, high-precision systems; the Q2 FY27 call did not update that range. The main constraint is time: product approvals take years, but once approved, orders are long-term and recurring, and winning the BMP-2 contract alone would provide thousands of crores in orders over seven to eight years.

System Integration / EPC (Turnkey Projects)

HFCL's System Integration segment deploys large-scale telecom and defence communication networks end to end. The scope covers network design, infrastructure rollout, and ongoing maintenance through AMC and O&M contracts. The capability that took years to build is the ability to win and execute government-scale turnkey programmes, where the buyer is a ministry or a state utility and the contract runs three to seven years.

The flagship project is BharatNet Phase III, India's rural broadband programme. HFCL holds the Punjab Telecom Circle contract, worth approximately ₹2,501.30 crore, covering design, supply, construction, installation, upgradation, operation, and maintenance of the middle-mile network. It also holds orders through Rail Vikas Nigam Limited (RVNL) for the UP East and West circles, worth approximately ₹2,166.99 crore for optical fiber cables, telecom equipment, and accessories, plus a ₹56.36 crore service order. On the defence side, HFCL built the Army's optical transport network (NFS) and supported it through a warranty period

that produced cost without revenue. The segment also executes EPC work for Jio and utility projects for UP Jal Nigam.

Customers are overwhelmingly government and state-owned: BSNL, RVNL, the Indian Army, and state utilities. They buy because HFCL makes the components it deploys. The IP/MPLS routers used in BharatNet are HFCL's own indigenously developed equipment, and the network builds consume the company's fiber and cables. Execution record matters too. On the Punjab circle, management said BSNL has personally acknowledged no complaints with the rollout. The UP Jal Nigam work has faced payment delays because the state government was not receiving central funds, though management said in October 2025 that the Uttar Pradesh Chief Minister had promised to release state funds regardless.

The sources do not name specific EPC competitors, so the competitive picture is best drawn from management's own actions. HFCL has deliberately de-emphasised this segment. The FY25 annual report states the company resolved not to engage in low-margin turnkey projects. In the Q3 FY26 call, management said: "I would have got more contracts for EPC. Even if I want today, I can get another INR1,000 crores contracts for EPC, but I'm not taking that." The company can decline work because it is shifting toward product-led revenue, which carried 61% of FY25 revenue versus 39% for projects.

The segment's biggest financial problem has been the Army NFS warranty period. HFCL built the network and supported it without billing, producing recurring losses. The Q2 FY27 turnkey segment loss was roughly ₹121 crore, and management guides that the next two quarters combined should not lose more than ₹75-100 crore. The AMC contract with the Army remains in the final stage of approval and is expected to convert support into roughly ₹170 crore per year of maintenance revenue. Management now expects profit in the EPC segment only from Q1 FY28, not Q2 FY27.

The O&M book is a meaningful asset. On the Q2 FY27 call, the analyst referred to ₹5,000 crore of O&M order book, and management said O&M margins would be broadly similar to normal turnkey contracts, with EBITDA margins of about 15-20%. Management has previously described these contracts as running six to seven years, but the latest call says order-book durations range from 4-6 months to 3-4 years, so the blended duration is not a single number. O&M revenue is annuity-like, but the segment's working capital cycle remains long, about 180 days, which is one reason HFCL is steering toward products.

The segment fits the group because it is a captive consumer of HFCL's own products, and the annual report notes potential to supply fiber, cables, routers, and passive connectivity to other vendors in the remaining BharatNet circles. It is also the segment management has flagged for possible separation. The Board's Restructuring Committee, advised by Ernst & Young, is at the finishing line of its recommendation; management expects a board meeting

in about one to two weeks to decide, and EPC is explicitly under active consideration for restructuring.

Revenue mix: projects accounted for approximately 40% of 9M FY26 revenue and roughly 15% of Q1 FY27 revenue, and remained a small share in Q2 FY27 as the turnkey segment posted a loss. This reflects the deliberate shift toward products and the continuing drag from EPC.

> *"EPC business loss was majorly due to this Army's network which we constructed, and it was undergoing warranty period where we were incurring cost, but nothing was received from the customer. Now, AMC contract is shortly to be signed with Army."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

> *"I think, you know, first quarter of next year you would start seeing profit in this segment."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

Customers

HFCL's customer base splits into hyperscale data centre operators, telecom operators, government programs, and the Indian defence forces. The single largest customer group is now hyperscale data centres in the US, which buy high-fibre-count IBR cables and data centre interconnect solutions. The landmark $1.1 billion (approximately ₹10,159 crore) five-year contract for optical fibre cable supply was secured in Q4 FY26, and management called it probably the highest-ever single contract secured by any Indian telecom company. The customer is unnamed but is a major hyperscaler. On the Q2 FY27 call management said roughly 70% of export orders were from hyperscalers, with names withheld under NDA.

Tier-1 telecom operators in Europe and America are newly onboarded customers. Management said in October 2025 that HFCL previously could not supply to tier-1 operators, but now has gained entry, which provides stability to export volumes. More than 70% of cable production is exported as of Q4 FY26.

The Indian government is a major customer through BharatNet. HFCL received a ₹2,501.30 crore contract from BSNL for the middle-mile network in the Punjab Telecom Circle, and advance purchase orders of ₹2,166.99 crore from RVNL for the UP East/West circles. These are multi-year execution contracts spanning FY27-29. The order book as of Q2 FY27 was approximately ₹28,900 crore, with roughly ₹18,500 crore described as OFC and data centre interconnect; management said about 70% of export orders were from hyperscalers, with names withheld.

Defence customers are the Indian Army, Navy, and Home Ministry/BSF. The Army buys tactical cables, thermal weapon sights, and the NFS optical transport network, and HFCL is

one of 5 shortlisted parties for the BMP-2 armoured vehicle upgradation program. The Navy is trialing coastal surveillance radars at multiple locations with connectivity to naval headquarters. The Home Ministry is evaluating border protection systems through BSF proof of concept work. DRDO is both a customer and technology transfer partner, having licensed the Compact Transhorizon Communication System and Multi-Mode Hand Grenade technologies to HFCL.

The buying relationship is long-term and contract-based. The Q2 FY27 call described contract durations in the order book as 4-6 months to 3-4 years, not evenly distributed, with some extending to four years and new discussions for four- and five-year terms. Purchase and sales prices are reset yearly, every 18 months, or over 24-month contracts; 4-6 month contracts have no reset clause but carry higher prices. When the US imposed a 50% duty, customers paid a large part of it, and when the duty was refunded, HFCL paid customers back. This pass-through mechanism protects margins but means pricing is not fixed for the contract duration.

Capacity constraints are actually forcing the company to refuse large orders. Management said in the Q3 FY26 call: "we have to refuse orders because we don't have capacity to manufacture that kind of requirement or the demand which is coming up." The company deliberately reserves capacity for spot orders, which can be 15-20% more profitable than long-term contracts, and for regular customers who buy in small batches. This refusal of business is a function of the demand-supply imbalance in high-fibre-count cables, where only a handful of manufacturers globally can produce 7,000-fibre cables.

Competitive landscape

The optical fibre cable industry is consolidated at the top end. HFCL's direct global competitors are Prysmian, which is spending $1.5 billion to double capacity, and Corning, which leads in hollow-core fibre development. Molex is a major competitor in passive connectivity solutions and signed a 10-year supply contract with Prysmian, which management cited as evidence of the shift to long-term demand visibility. Chinese manufacturers are largely excluded from the US market due to a 35% duty and administrative preference against Chinese sourcing, but they compete in Southeast Asia, the Middle East, and Europe.

HFCL's competitive position rests on three things. First, technology capability: in India, there are about 20 OFC suppliers, but only 2 can manufacture 7,000-fibre cables, and HFCL is one of them. Second, economies of scale: management said in the Q1 FY27 call that HFCL's capacity is world-class and comparable to global players. Third, the demand-supply gap is so wide that capacity is sold out, and the company refuses orders.

The key structural advantage is that HFCL is not competing on standard telecom cables. Data centre operators buy 7,000-fibre cables, micro-duct IBR cables, and high-density interconnect solutions, which few manufacturers can produce. Management said in the Q1 FY27 call that even with global capacity expansion from Prysmian and Corning, demand will outstrip supply for at least 5 years because the technology barrier limits who can compete.

HFCL is also developing hollow-core fibre with IIT Delhi and a government organisation in Kolkata, positioning itself to match Corning's lead in that technology. The company's 14,000-fibre cable is under development and expected in 2-3 months as of the Q1 FY27 call. Management said HFCL's technology is at par with global players, with perhaps a 2-3 month difference in development timelines.

In telecom equipment, competition is intense but different. Indian telecom operators have been historically served by global vendors like Ericsson, Nokia, and Huawei, but policy support for indigenous manufacturing under the PLI scheme and the Aatmanirbhar Bharat push has opened space for domestic players. HFCL's routers compete in the BharatNet program, where it has won about 100,000 router orders. The 5G FWA CPE competes with global CPE vendors, though management noted that Indian operator economics for FWA are constrained by spectrum costs.

In defence, the competitive landscape is narrower. For electronic fuzes, management said in February 2026 that Bharat Electronics and ECI Telecom, both government companies, manufacture fuzes under foreign technology transfer agreements, while HFCL is the only company with an indigenously designed fuze. For multi-mode hand grenades, there are three licensees: HFCL, one other private company, and Munitions India Limited, with two of three expected to receive orders. For the BMP-2 upgradation, 5 parties were shortlisted, with HFCL's modernized sample found best in internal trials, though Army trials started July 20, 2026.

The competitive intensity is highest in standard telecom optical fibre cable, where 18 suppliers in India compete on price. HFCL's margin protection comes from the product mix shift toward high-fibre-count cables and data centre interconnect, where pricing is $18-28 per fibre kilometre internationally, and the company's average realization improved from ₹964 per fibre kilometre in Q2 FY26 to ₹1,055 in Q3 FY26.

Industry

Management cited an optical fibre cable market projected to reach around $21 billion by 2033, and said hyperscale data centres and AI were adding an estimated 100 to 150 million fibre kilometres of incremental demand globally over traditional telecom requirements. The Q2 FY27 materials did not restate the earlier detailed TAM or CAGR figures.

The demand driver is concentrated in the US. On the Q2 FY27 call, management sized India's current data centre capacity at about 1.6 GW, expected to become 6 GW by 2030, with a personal view it could reach 10 GW. The US was put at about 130 GW currently, targeted at 300 GW by 2030. Europe and the Middle East are starting to pick up construction. Management said it sees no data centre slowdown from higher US rates and expects Europe and Asia to add to US hyperscaler demand.

A new demand source is fibre optic drones, which management said is creating demand of roughly 70-100 million fibre kilometres for A2-type fibre. This is for military drones in the Russia-Ukraine war and other conflicts, where radio-controlled drones are vulnerable to jamming. Management said HFCL is not supplying to this war-related demand, and that its preform suppliers do not want the company to enter that market. But the demand adds to overall industry tightness.

India's place in the global supply chain has shifted with US trade policy. The US imposed a 35% duty on Chinese fibre imports, and tariffs on Indian exports were reduced from 50% to 18% in the India-US trade deal announced in February 2026. This makes India a preferred non-Chinese source for US hyperscalers. Management said major hyperscalers have an administrative preference against buying Chinese fibre regardless of price. The tariff reduction was significant because HFCL's shipments were stuck at US ports for 1.5 months in Q3 FY26 due to customs ambiguity about whether Indian or Chinese tariffs applied, causing demurrage costs and margin pressure.

The demand cycle is different from previous telecom cycles. Management had cited 10-year industry contracts, but in the Q2 FY27 call it described HFCL's own order book as mostly up to four years, with new discussions for four- and five-year terms. Demand visibility is still described as extending at least five years. Management said it does not see any slowdown because fibre is the only solution for the data being generated. The demand-supply balance is tight because capacity additions require long lead times for machinery, and the technology barrier for high-fibre-count cables limits who can compete.

The Indian OFC accessories market is $1.1 billion by 2031, growing at 10.2-11% CAGR. The global Wi-Fi market is $18.3 billion by 2028 (8.49% CAGR), the global UBR market is $900 million by 2028 (4.65% CAGR), and the global router market is $14.96 billion by 2028 (3.55% CAGR), all per the FY25 Annual Report.

The defence industry is driven by government policy. India's defence capital procurement earmarks 75% for domestic industry in FY26, with a total defence allocation of ₹6,81,210.27 crore, a 9.53% increase over FY25. The global electronic fuzes TAM is $2.8 billion cumulative for FY24-33, and global radar TAM is $40.11-70.54 billion for FY23-30. India alone demands about 0.5 million fuzes per year. The Union Budget 2026 extended tax holidays for foreign

cloud service providers setting up data centres in India, and allocated ₹81,005 crore to telecom and IT sectors.

The cyclicality is real. The telecom equipment business follows technology cycles: 4G drove massive demand, which stabilized, then 5G drove another wave, which is now filling gaps. Management expects the next big spurt in telecom product demand around 2029 with 6G. The OFC business went through 6-7 quarters of subdued demand in FY24 and early FY25 before the data centre-driven revival. The current cycle is different because it is driven by data centre construction, not telecom capex, and the demand is concentrated in high-fibre-count products where supply is constrained.

Raw material dynamics are a key industry factor. Preform is about 65-70% of fibre cost and roughly 45% of total cable cost. HFCL has long-term supplier contracts and is adding its own capacity: the Q2 FY27 call says the preform plan is 600 MT per annum, targeted for October 2028, covering roughly half of planned fibre capacity, with the balance purchased under long-term contracts. A separate lower-cost mid-term own-preform solution is expected from Q1 of the next calendar year. Germanium is needed in about two years; HFCL is talking to multiple suppliers and says germanium is a small share of cost.

Growth triggers

Data centre connectivity solutions (PCS/MPO) ramp-up: capacity being expanded 5x including HTL subsidiary; ₹215 crore investment approved for advanced data centre connectivity products

HFCL started a new business in FY27: manufacturing the interconnect products that go inside data centres. These are pre-connectorised systems (PCS) and MPO cables, which connect racks and equipment in high-density AI deployments. The business sits in the optical connectivity segment and is executed through HFCL and its subsidiary HTL Limited.

The economics differ from plain cable. HFCL takes optical fibre cable, cuts it to length, attaches connectors, and ships finished assemblies. Management described this as more value-added than cable because of the manual assembly work, with margins a bit above the blended corporate margin. Q2 FY27 connectivity revenue was estimated at roughly ₹300 crore-plus, and management reiterated about ₹800 crore for FY27 and about ₹2,000 crore for FY28. Q1 FY27 was described in the Q&A as nil, conflicting with an earlier ~₹100 crore disclosure.

The capacity ramp is the core of the trigger. Management said manufacturing capacity across HFCL and HTL is being expanded 5 times, completing progressively over roughly a year. The Board approved a ₹215 crore investment in the July 2026 meeting for advanced data centre connectivity products, specifically miniature multi-fibre and super high density multi-fibre termination assemblies. Of that, ₹100 crore is planned for FY27 and ₹115 crore for FY28.

> *"Expect ₹800 crore this year, ₹2,000 crores next year."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

Revenue expectations have moved up as the business developed. In the Q4 FY26 call, management said data centre interconnect solutions would contribute about ₹400 crore in FY26-27 and ₹800 crore in FY27-28. By the Q1 FY27 call, the full-year expectation had risen to about ₹800 crore; the Q2 FY27 call reiterated about ₹800 crore for FY27 and about ₹2,000 crore for FY28, with Q2 connectivity revenue at roughly ₹300 crore-plus. The Q1 FY27 figure was described as nil in the Q2 Q&A, conflicting with the earlier ~₹100 crore disclosure.

Preform backward integration: 600 MT/annum facility targeted by October 2028, covering about half of planned fibre capacity

HFCL is building a greenfield preform manufacturing facility, now sized at 600 MT per annum, targeted for October 2028. Preforms are the glass rods from which optical fibre is drawn. HFCL currently imports most of its preform requirement, leaving fibre and cable production exposed to supplier pricing and availability. The expanded facility covers roughly half of planned fibre capacity, with the balance bought outside under long-term contracts. Management also referred to a separate lower-cost mid-term own-preform solution starting from Q1 of the next calendar year. The Q2 call did not restate a preform-specific capital cost; the earlier Board approval was for a 300 MT plant at ₹580 crore.

The margin mechanism is arithmetic. Management quantified the cost structure on the Q1 FY27 call: preform constitutes 65-70% of fibre cost, and fibre constitutes about 60% of cable cost. Manufacturing preform in-house is roughly 30% cheaper than buying it today. On that basis, management estimates fibre costs fall by 18-20% and total raw material cost falls by about 10-12%, since preform is roughly 45% of total cost. This remains a medium-term margin lever rather than a FY27 driver; Q2 FY27 EBITDA margin was already 25.89%.

The project timeline is October 2028, after machine-supply delays that management says are already reflected. The Q2 call describes approximately ₹1,800 crore of total planned investment across optical fibre, optical fibre cable and preform, but does not restate the earlier preform-specific cost. The project complements fibre capacity moving from 28 to 34 to 43 million fibre kilometres and cable capacity moving from 34 to 63 million fkm. The larger capacity targets are aligned to the order book, but the call does not give a completion date for all of them.

> *"Make is at least, I would say, 30% cheaper, at least 30% cheaper as of today."*
>
> **MANAGING DIRECTOR, Q1 FY27 CONCALL (JUL 2026)**

Higher FY27 revenue growth guidance raised from 20% to 40% to at least 80%

HFCL's core growth trigger for FY27 is a step-change in its revenue growth target. In the Q4 FY26 concall (May 2026), management guided for 20% to 25% revenue growth for FY27. By the Q1 FY27 concall (Jul 2026), that aspiration was raised to 40% and above. By the Q2 FY27 concall (Oct 2026), management raised it again to at least 80% over FY26, explicitly framing the progression as "20 to 40, 40 to 80". Applied to reported FY26 revenue of ₹4,949.27 crore, at least 80% growth implies roughly ₹8,900 crore or more for FY27 (inference from disclosed figures, not a management number).

> *"We expect revenue growth of at least 80% in this financial year."*
>
> **MAHENDRA NAHATA, MD, Q2 FY27 CONCALL (OCT 2026)**

The mechanism is a combination of scale and new products. The order book at the end of Q2 FY27 stood at approximately ₹28,900 crore, with roughly ₹18,500 crore of the book described as OFC and data centre interconnect, and export revenue grew approximately 493% year on year. The most significant single contributor remains the long-term global optical fiber cable supply contract valued at approximately USD 1.1 billion, secured in Q4 FY26 (May 2026), which started execution from the end of Q1 FY27 and provides a direct, high-visibility revenue stream for the year.

The second driver is the data centre connectivity business, now in its first full year. Management reiterated revenue of about ₹800 crore in FY27 and about ₹2,000 crore in FY28. Q2 FY27 connectivity revenue was roughly ₹300 crore-plus, while Q1 FY27 was described as nil in the Q&A, conflicting with an earlier ~₹100 crore disclosure. The OFC capacity roadmap, to 43 million fkm fibre and about 63 million fkm cable by July 2028, is aligned to service this order book.

Defence & Aerospace scale-up: ₹500-600 crore revenue target FY27; at least ₹2,000 crore FY28; ~₹5,000 crore aspiration within three years

HFCL’s defence business is shifting from product development into commercial scale-up. Management set a revenue target of approximately ₹500-600 crore for FY27 and at least ₹2,000 crore for FY28, with an aspiration of about ₹5,000 crore within three years. The July 2026 framing was at least ₹3,000 crore in FY28-29 and ₹5,000 crore the year after; the current FY28 guide is lower, while the three-year aspiration is unchanged. Thermal weapon sight deliveries have begun, with the second AK-203 batch delivered in September 2026.

> *"In September, we successfully delivered the second batch of thermal weapon sights for AK-203 rifles to the Indian Defense Forces."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

The mechanism is a combination of an acquired order book, indigenously developed products, and a new manufacturing complex. The proposed aerostructure acquisition is expected to close in the current quarter, Q3 FY27. Prepared remarks cite an executed order book of approximately ₹1,600 crore; Q&A references ₹1,600-1,800 crore and separately ₹1,800 crore pending. The figure is approximate and scope-dependent, not evidence of a proven decline.

The ammunition complex in Andhra Pradesh, whose groundbreaking took place on May 15, 2026, is being developed for electronic fuzes, Multi-Mode Hand Grenades, and 155 mm artillery shells. Construction will start soon. HFCL has already participated in a tender for 800,000 multi-mode hand grenades, and management expects revenue from the complex in about two years. India requires about 0.5 million fuzes per year, with a proximity fuze for a 155 mm gun priced at ₹25,000-30,000, and HFCL plans capacity of 1 lakh fuzes per annum.

The BMP-2 armoured vehicle upgradation is a separate large-ticket opportunity. HFCL is one of five shortlisted parties, submitted its modernized sample, and management stated its equipment was found best in internal trials, with Army trials starting July 20 (Q1 FY27 concall, Jul 2026).

Aerostructure business acquisition: ~₹1,600 crore executed order book, closing expected in Q3 FY27

This trigger is the acquisition of an aerostructure business, approved by the Board on March 25, 2026, to expand HFCL from land-based defence systems into aerospace. The target now carries an order book cited at approximately ₹1,600 crore, with management citing ₹1,600-1,800 crore in the Q&A and an earlier ~₹1,930 crore; the figure is approximate. The acquisition is expected to close in Q3 FY27 and consolidate under HFCL Advance Systems Private Limited (HASPL). The presentation shows a total defence order book of approximately ₹1,850 crore, of which about ₹1,600 crore is in the entity proposed to be acquired.

The mechanism is straightforward: HFCL is buying an established, certified manufacturer rather than building aerospace capabilities from scratch. Management was explicit that a greenfield entry would take five to seven years to get component approvals. The acquired business already has those approvals, long-standing customer relationships with large international companies, and a confirmed export order book. This is not a speculative bet on future tenders, it is purchasing an existing revenue stream and a platform to bid for larger contracts.

The timeline is now defined as the current quarter. Management said in the Q2 FY27 call that it expects to complete the acquisition during the current quarter, Q3 FY27.

> *"We expect to complete the acquisition during the current quarter for aerospace business."*
>
> **MAHENDRA NAHATA, Q2 FY27 CONCALL (OCT 2026)**

As of the Q2 FY27 call, the acquisition was expected to close in the current quarter. Prepared remarks cite an executed order book of approximately ₹1,600 crore; Q&A references ₹1,600-1,800 crore and separately ₹1,800 crore pending. The total order book of ₹28,900 crore is reported separately and does not include the aerospace entity until closing. Aerospace, along with land systems, is expected to be a main driver of the ₹500-600 crore defence revenue target for FY27.

BMP-2 armoured vehicle upgradation: HFCL shortlisted among 5 parties; modernized sample submitted; internal trials found best

HFCL is one of 5 parties shortlisted for the Indian Army's program to upgrade 811 BMP-2 armoured fighting vehicles. HFCL entered the bid in Q2 FY26, submitted its modernized sample in June 2026, and management says internal trials found HFCL's equipment the best among the shortlisted parties.

The mechanism is a single large tender, not recurring product supply. A win is sized in thousands of crores and runs for years. Management told the Q2 FY26 call that the Hosur defence facility, which would execute this work, has a capability of INR400-500 crore per year without the program, but BMP-2 could push it to a couple of thousand crores per year at peak. The Q3 FY26 call described supply lasting 7-8 years if won.

The current stage: HFCL sent its upgraded sample to the Babina firing range near Jhansi and was to submit it to the Army for evaluation by 26 June 2026. Army trials began 20 July 2026 and should complete in about 1.5 months, followed by winter trials and then order placement.

> *"we have been shortlisted for a major contract for modernization of BMP-2, and we have submitted the modernized sample also. And I would like to say that, but it's a fact that in the internal trials, our equipment has been found to be the best"*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

> *"Trials will take place, the tender will happen and assuming we win, assuming. I'm not saying that we will win, assuming. Then we straight away get thousands of crores order. And consistently, we are supplying for 7, 8 years."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

Electronic fuzes final approval and commercialisation: DRDO-mandated upgrades completed; retesting in April/May 2026; India demand 0.5 million fuzes/year; capacity 1 lakh/annum planned

HFCL's electronic fuze is an indigenously designed artillery component that detonates shells on impact or proximity. Management said in the Q3 FY26 call that Bharat Electronics and ECI Telecom, both government companies, produce fuzes under transfer of technology from foreign firms, while HFCL is the only company with its own indigenous fuze design.

The fuze underwent firing trials at the DRDO range in Balasore on January 20, 2026. Some fuzes passed; others needed improvements DRDO mandated. Management said the upgrades were being implemented and retesting would happen in April 2026:

> *"retesting of those fuzes would be done in April. And I'm quite sure in April testing, they will be completely approved."*
>
> **MANAGING DIRECTOR, Q3 FY26 CONCALL (FEB 2026)**

The commercial case rests on scale and price:

> *"India itself, I think, requires about 0.5 million fuzes every year"*
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> **MANAGING DIRECTOR, Q3 FY26 CONCALL (FEB 2026)**

A 155 mm proximity fuze sells for INR25,000 to INR30,000, and HFCL plans 1 lakh fuzes per annum capacity once approved. Management noted demand is tied to geopolitical conflict, with European and US ammunition stockpiles being rebuilt.

The Q4 FY26 call confirmed retesting had slipped to April/May 2026, with DRDO-required upgrades still underway. The Andhra Pradesh ammunition complex, where fuzes will be manufactured alongside Multi-Mode Hand Grenades and 155 mm shells, saw its foundation stone laid on May 15, 2026, attended by the Defence Minister. FY27 defence revenue is targeted at INR500 crore, and the fuze is part of that pipeline.

BharatNet Phase III execution: routers and OFC supply across Punjab, UP East/West circles; additional circles participation

BharatNet Phase III is the government's ₹1.39 lakh crore program to connect nearly 6 lakh villages, and HFCL is executing it as both an EPC contractor and an equipment supplier. The FY25 annual report records advance purchase orders from Rail Vikas Nigam Limited worth approximately ₹2,166.99 crore for optical fiber cables, telecom equipment, and annual maintenance in the Uttar Pradesh (East) and Uttar Pradesh (West) circles, plus a service order of ₹56.36 crore. Separately, HFCL won a ₹2,501.30 crore contract for the middle-mile network in the Punjab Telecom Circle.

The mechanism has two revenue streams. The first is product supply: HFCL's indigenously developed IP/MPLS routers, optical fiber cables, and passive connectivity solutions are sold

to BSNL and other vendors executing the project. The second is turnkey execution and operations: HFCL designs, builds, and maintains the network itself, which carries annuity-like annual maintenance revenue. On routers alone, management disclosed in the Q3 FY26 concall (Feb 2026) that it had received orders for about 100,000 routers worth ₹700-800 crore, with supply constrained by component availability.

> *"Production and supply of IP/MPLS routers has also started in bulk across the country from quarter 3. These routers are being supplied all over India for the Government's BharatNet program."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The scope is expanding. In the Q2 FY26 concall (Oct 2025), management confirmed it received additional router orders for the West Bengal Circle and had participated in two additional circles that quarter, expecting meaningful order inflows. Management has also pointed to the remaining 13 telecom circles, with tenders worth over ₹50,000 crore at various stages of award, as a pipeline for further participation.

OFC capacity expansion: fibre 28 to 43 million fkm and cable 34/39 to about 63 million fkm by July 2028

OFC capacity expansion: fibre 28 to 43 million fkm and cable 34 to about 63 million fkm

> *"Fiber optic fiber, you know, itself is going from 28 million to 34 and 34 to 43. Uh, cable is going to about from 34 to 63 million fiber kilometers."*
>
> **MD, Q2 FY27 CONCALL (OCT 2026)**

The mechanism is straightforward: HFCL is turning away business it cannot supply. In Q3 FY26, management said demand was exceeding available capacity, and in Q2 FY27 it noted fibre runs at 100% of capacity and cable utilisation is above 100% in value terms. The revenue intent is visible in existing contracts. The order book stood at approximately ₹28,900 crore in Q2 FY27, with roughly ₹18,500 crore described as OFC and data centre interconnect, and export revenue grew approximately 493% year on year. The USD 1.1 billion cable supply contract announced in Q4 FY26 began execution from end of Q1 FY27.

The expansion sits within a planned investment of approximately ₹1,800 crore across optical fibre, optical fibre cable, and preform. Management did not restate the earlier FY27 ₹640 crore and FY28 ₹615 crore annual split in the Q2 FY27 materials. Fibre capacity had already doubled from 14 to 28 mfkm in prior phases, demonstrating the company's ability to execute this scale of buildout.

6G telecom equipment cycle: new spurt in telecom product demand expected around 2029

The trigger is a cyclical, technology-generation-driven demand spurt in telecom network equipment, which management expects to arrive with the 6G rollout around 2029. HFCL's telecom products segment - routers, unlicensed band radios (UBR), Wi-Fi systems, and FWA CPE - sees demand cluster around network buildout cycles. The pattern is visible in the company's own history: 4G and then 5G each produced a large demand wave, followed by a lull where operators only fill coverage gaps.

Management laid out this cycle explicitly in the Q4 FY26 call:

> *"Now, big spurt of demand will come when the 6G comes around 2029, I would say. A lot of work is going on. We are also working. So right now, the demand is kind of a demand just to filling the gaps kind of a thing. So, not a very big demand is there, either in India or anywhere else in the world. So big spurt in demand is expected in this sector in another 2 to 3 years' time frame, 3 years' time frame."*
>
> **MAHENDRA NAHATA, Q4 FY26 CONCALL (MAY 2026)**

The mechanism: when operators deploy 6G, they rebuild transport and access networks, which means new routers, backhaul radios, and CPE. HFCL's existing product portfolio - IP/MPLS routers, UBRs, Wi-Fi 7 access points - is designed for exactly this replacement demand. The company is already positioning for the cycle, with the annual report citing active development of "AI-native 6G" technology and R&D into "next-generation Wi-Fi 8 and AI-driven radio for 5G, 5G Advanced and 6G technologies."

Today the segment is in the trough between cycles. Management noted telecom products revenue runs at roughly ₹500-600 crore annually, about 10% of total revenue, with unlicensed band radios and routers the main contributors. The 6G spurt is a 2029 event; near-term growth is driven by data centre connectivity and defence, not telecom equipment.

Key risks

- **Preform price escalation and import dependence.** Preform makes up 65-70% of fibre cost and roughly 45% of total cable cost, and HFCL still imports most of its requirement. On the Q2 FY27 call management said preform prices will have to come down and that it holds pre-done contracts, so it is not currently assuming preform inflation; the earlier expectation of 20-25% preform price increases (Q3 FY26/Q4 FY26 calls) is historical. Long-term contracts do carry price reset clauses, and significant increases are passed through to customers, but the reset is not continuous, so a sharp spike between resets, or a failure to pass through the full increase, compresses margins on the telecom products business. The plan is now a 600 MT per annum preform facility at ₹1,250 crore capex by October 2028, covering roughly half of planned fibre capacity, plus a lower-cost mid-term own-preform solution from Q1 of the next calendar year. Germanium is needed in about

two years; HFCL is talking to multiple suppliers and says germanium is a small share of cost.

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- **Demand-supply cyclicality in optical fibre cable.** The current upcycle is driven by hyperscale data centres and AI, adding an estimated 100-150 million fibre kilometres of incremental demand. But the industry has a history of sharp cycles - FY24 saw HFCL's OFC plants run at 40% utilisation and optical fibre at 45%. Global incumbents are adding capacity: Prysmian is spending $1.5 billion to double capacity, and Corning is expanding. Management argues that high-technology barriers (only 2 of 20 Indian OFC suppliers can make 7,000-fibre cables) and 5-year demand visibility protect pricing, but a demand pullback or a supply flood from new entrants would reset cable realisations, which currently range from $18 to $28 per fibre kilometre.
- **EPC payment delays and warranty-period losses.** The Army NFS project ran through its warranty period without revenue, causing the EPC segment to post losses. The Q2 FY27 turnkey segment loss was roughly ₹121 crore; management guides that the next two quarters combined should not lose more than ₹75-100 crore. The ₹170 crore per year AMC contract remains in the final stage of approval and has slipped repeatedly; management now expects segment profit only from Q1 FY28. Separately, the UP Jal Nigam project has stalled because the state government has not released funds; the Chief Minister promised release, but government payment cycles remain a structural drag on working capital, which already runs at about 180 days.
- **Defence product approval and trial delays.** Electronic fuzes took 18 months to get to retesting because ammunition supply from Munitions India Limited (MIL) was delayed, not because DRDO was slow. DRDO-mandated upgrades pushed retesting to April-May 2026, and orders only follow after approval; the Q2 FY27 call did not update the fuze trial or

approval status. The BMP-2 vehicle upgradation is another gated event: HFCL is one of 5 shortlisted parties, Army trials started on July 20, 2026 and take about 1.5 months, followed by winter trials, and then tenders. Any slippage pushes back the ₹500-600 crore FY27 defence revenue target and the at least ₹2,000 crore FY28 target.

- **Foreign exchange volatility on a large export book.** Export revenue grew approximately 493% year on year in Q2 FY27, and management has said exports should remain a large share of revenue. HFCL hedges with forward contracts and options, but on long-term contracts spanning several years, a sustained INR depreciation or appreciation against the USD or EUR can move margins by more than the hedge coverage. Management has not disclosed hedge ratios, so the residual exposure is unquantified.
- **Raw material inflation for helium and polymers.** Helium and polymers together account for about 20% of cable cost. Recent price hikes in both inputs will compress margins on older long-term contracts that were signed before the hikes. Management says spot and contract pricing will adjust and that the blended margin will hold, but it also acknowledged that margins on pre-hike contracts could fall by 1-2%. If helium or polymer prices spike further, the friction between annual price resets in sales contracts and spot purchases of raw materials could squeeze margins temporarily.
- **Capacity constraints forcing refusal of large orders.** HFCL is deliberately refusing large orders because it lacks capacity - management said in Q3 FY26 that it "has to refuse orders because we don't have capacity to manufacture that kind of requirement." The company now plans fibre capacity of 43 million fkm and cable capacity of about 63 million fkm by July 2028, from 28 million and 34/39 million respectively, but machinery delivery timelines are the constraint. If deliveries slip, HFCL misses revenue opportunities and risks losing these customers to competitors who can supply immediately.
- **Working capital and leverage as revenue scales.** Q2 FY27 consolidated trade receivables rose to ₹2,630.03 crore from ₹2,212.18 crore at 31 March 2026 and inventories to ₹1,543.98 crore from ₹1,415.99 crore, while revenue in H1 FY27 alone was ₹4,456.77 crore. Management says old debt is being repaid and debt reduction will start in the current year with debt substantially going down, but a large export and turnkey order book with milestone billing keeps working capital intensity high. Any delay in collecting on the EPC and export books would keep interest costs elevated even as absolute profit grows.

Scenarios

Bull case

The AI-driven hyperscale data centre buildout extends well beyond the current 5-year visibility. US data centre capacity grows from about 130 GW to 300 GW by 2030, India from

about 1.6 GW to 6 GW or more, and Europe and the Middle East catch up. HFCL has developed 7,000-fibre IBR cables and is selling them in some markets, with US approval under process; the 14,000-fibre cable remains under development. The USD 1.1 billion contract is followed by additional multi-year deals, and the data centre connectivity business scales from roughly ₹300 crore in Q2 FY27 to about ₹800 crore for FY27 and about ₹2,000 crore in FY28 as the 5x capacity expansion in HTL Limited comes online. The 600 MT preform facility is targeted for October 2028, covering about half of planned fibre capacity; a mid-term own-preform solution starts in Q1 of the next calendar year. In defence, the aerospace acquisition closes in Q3 FY27 with an executed order book cited at about ₹1,600 crore, and defence revenue reaches ₹500-600 crore in FY27 and at least ₹2,000 crore in FY28, with a ₹5,000 crore aspiration within three years. The ₹28,900 crore order book converts with no major geopolitical disruption, and the at least 80% FY27 revenue growth guidance becomes a floor.

The OFC upcycle persists through the guided 5-year demand window, but with normal quarterly volatility. HFCL executes the ₹28,900 crore order book, with contract durations of 4-6 months to 3-4 years and new intake still exceeding execution. FY27 revenue growth lands at the raised at least 80% guidance, with Q2 FY27 already at ₹2,541.79 crore and H1 at ₹4,456.77 crore. EBITDA margins stay in the mid-20s: Q2 FY27 was 25.89% and management says it is confident of maintaining and improving margins, without a formal annual margin target. The EPC segment continues to bleed until the Army AMC contract is signed, but management guides losses of no more than ₹75-100 crore over the next two quarters and profit only from Q1 FY28. Data centre connectivity contributes about ₹800 crore in FY27 and about ₹2,000 crore in FY28. Defence ramps to ₹500-600 crore in FY27 and at least ₹2,000 crore in FY28 as the aerospace acquisition closes in Q3 FY27. The planned investment of about ₹1,800 crore across fibre, cable and preform is not yet evidence of spend, and management expects debt to reduce substantially as receivables are collected.

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planned investment of about ₹1,800 crore across fibre, cable and preform is funded by internal accruals and new capex debt, and management expects debt to reduce substantially as receivables are collected.

Bear case

A geopolitical shock hits the supply chain. A Suez Canal closure or a renewed US tariff escalation delays shipments on the export book, triggering demurrage and margin compression as seen in Q3 FY26. Preform prices spike more than the reset clauses allow, and customers resist full pass-through, squeezing margins on older long-term contracts. The AI capex cycle matures earlier than expected: US hyperscalers slow data centre construction, and capacity additions from Prysmian, Corning, and new entrants flood the market, resetting cable prices downward. HFCL's deliberate refusal of large orders due to capacity constraints cedes market share to faster-expanding competitors, and delays to the 43 million fkm fibre and 63 million fkm cable targets for July 2028 compound the problem. Defence approvals slip again: the aerospace acquisition closing slips beyond Q3 FY27, and electronic fuze commercialisation remains unconfirmed. EPC losses exceed the guided ₹75-100 crore over the next two quarters, keeping working capital and interest costs high. Revenue growth falls short of the at least 80% guidance, margins compress from 25.89%, and the ₹28,900 crore order book converts slower than scheduled.

VALUATION SUMMARY

LINE ITEM	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	4,949	6,929	9,404	12,000
Revenue growth	-	+40.0%	+35.7%	+27.6%
EBITDA (₹ Cr)	762	1,677	2,144	2,820
EBITDA margin	15.4%	24.2%	22.8%	23.5%
Depreciation (₹ Cr)	157	215	285	355
Interest (₹ Cr)	242	270	320	300
Other income (₹ Cr)	66.00	115	90.00	115
PBT (₹ Cr)	429	1,307	1,629	2,280
Tax (₹ Cr)	99.00	327	407	570
Tax rate	23.1%	25.0%	25.0%	25.0%
PAT (₹ Cr)	330	980	1,222	1,710
PAT growth	-	+197.0%	+24.7%	+39.9%
EPS (₹)	2.23	6.62	8.25	11.55
P/E	80.1x	27.0x	21.6x	15.5x
PEG	2.5x	0.8x	0.7x	0.5x

CAGR FY27E-FY29E: Revenue +31.6% · EBITDA +29.7% · PAT +32.1%

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Q2 FY27 concall notes

TLDR

HFCL reported its best-ever quarter in Q2 FY27, with consolidated revenue of ₹2,541.79 crore (up 143.62% YoY, 32.73% QoQ), EBITDA of ₹658 crore (up 223.55% YoY, 47.78% QoQ) at a 25.89% margin, and PAT of ₹394.22 crore (up 448.14% YoY, 60.49% QoQ). Management raised FY27 revenue growth guidance to at least 80%, from 40% after Q1, and said the ₹10,000 crore revenue milestone previously targeted for FY29 could be reached earlier. The order book stands at ₹28,900 crore, with ₹18,500 crore in OFC and data-centre interconnect, of which management said roughly 70% is from hyperscalers. Defence revenue is guided at ₹500-600 crore in FY27, at least ₹2,000 crore in FY28, and around ₹5,000 crore within three years. Watch points include EPC losses, preform supply, and the aerostructure acquisition closing this quarter.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue growth guidance raised to at least 80%, from 40%+ given after Q1 FY27. Management had begun FY27 with a ~20% aspiration, revised it to 40% after Q1, and raised it again to 80% on this call.
- FY27 defence revenue guidance widened to ₹500-600 crore, from ~₹500 crore in Q1 FY27. FY28 defence revenue newly guided at at least ₹2,000 crore, and the three-year aspiration kept at around ₹5,000 crore.
- Data-centre connectivity revenue guidance maintained: ~₹800 crore for FY27, with ₹2,000 crore newly guided for FY28. Q1 FY27 had given only the FY27 number.
- Preform capacity doubled to 600 MT/annum from 300 MT/annum approved in Q1 FY27, and the commissioning timeline moved up by 9-10 months to October 2028. Management said a mid-term solution for own preform starts in Q1 of the next calendar year.
- Total planned investment stated at approximately ₹1,800 crore across optical fibre, optical fibre cable and preform manufacturing, against ₹640 crore FY27 and ₹615 crore FY28 capex given in Q1 FY27.
- Order book rose to ₹28,900 crore from ₹26,665 crore at Q1 FY27, against ₹2,541.79 crore of Q2 revenue. Management said ₹5,500 crore of orders were received against ₹2,500 crore of supply in the quarter.
- Aerostructure acquisition timeline narrowed to completion in the current quarter (November), from "within CY2026" in Q1 FY27. The acquired business was described as having an executed order book of approximately ₹1,600 crore, against ₹2,000+ crore stated in Q1 FY27.
- EPC losses continued: ₹121 crore in Q2 FY27. Management guided the next two quarters combined to no more than ₹75-100 crore of loss, with profit in the segment from Q1 FY28. Q1 FY27 had expected EPC losses to significantly decline after the Army contract signing, which management now says is a week to 10 days from approval by BSNL.
- Restructuring moved closer to a decision: the board committee with E&Y is at the recommendation stage, with a board meeting expected in a week to 10 days. Q1 FY27 had disclosed only that options were being evaluated.
- Debt reduction newly guided: management said debt will start reducing in the current year and will substantially come down in the March 2027 and March 2028 balance sheets. Q1 FY27 had guided debt/equity to remain around 0.3x.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹2,541.79 crore	+143.62% YoY, +32.73% QoQ	Volume and price both increased; production rose and realisations improved
EBITDA	₹658 crore	+223.55% YoY, +47.78% QoQ	Higher revenue and better product mix
EBITDA margin	25.89%	+640 bps YoY, +264 bps QoQ	More connectivity solutions and higher-fibre-count cables, which fewer suppliers make
PAT	₹394.22 crore	+448.14% YoY, +60.49% QoQ	Operating performance; PBT was ₹538.60 crore
PAT margin	15.51%	+862 bps YoY, +268 bps QoQ	Same drivers as EBITDA
Export revenue	Grew ~493% YoY	YoY	US data-centre demand; management did not give the absolute figure
Order book	₹28,900 crore	vs ₹26,665 crore at Q1 FY27	New orders exceeded supply; ₹18,500 crore is OFC and data-centre interconnect
Data-centre connectivity revenue	~₹300 crore in Q2	n/a	Connectivity solutions; Q1 was nil per management
Telecom segment revenue split	~70% data centre, ~30% telcos	n/a	Data-centre products carry higher realisation than telco fibre
Fibre and cable utilisation	Fibre 100%; cable 100% in revenue terms	n/a	Data-centre products run 24/7; telco cable demand is lower
EPC segment loss	₹121 crore	n/a	Expenses incurred on BharatNet without bills raised, pending milestone verification

SEGMENTS & GEOGRAPHIES

- **Telecom products (optical fibre and cable):** Fibre capacity runs at 100% and cable at 100% in revenue terms. Data centre is 65-75% of revenue and telcos 25-35%. Data-centre A2 fibre of 180 micron sells at roughly $25-27 per fibre km against roughly $15 for telco 657D fibre. Management expects Q3 revenue growth over Q2 and further growth next year on capacity additions and orders in hand.
- **Data-centre connectivity:** About ₹300 crore of revenue in Q2, nil in Q1, against a full-year expectation of ₹800 crore and ₹2,000 crore next year. Certification for the connectivity products being supplied is already in place; each data centre qualifies products separately, which management described as an ongoing process.
- **Defence and aerospace:** About ₹80 crore of revenue in H1 FY27 against a FY27 aspiration of ₹500-600 crore. Thermal weapon sights for AK-203 rifles had a second batch delivered in September. Foliage penetration radar completed a first successful trial with a second expected in about two weeks. Drone detection radar participated in a large tender. Ground surveillance radar is indigenously designed and export orders are expected. The aerostructure acquisition, with an executed order book of approximately ₹1,600 crore, is expected to close this quarter and consolidate from then.
- **EPC:** Loss of ₹121 crore in Q2 on BharatNet expenses incurred without billing, pending milestone verification. The Army AMC contract is in the final stage of approval, with the first-year CMC to be done by BSNL and the Army from

the next year. Management expects the next two quarters combined to lose no more than ₹75-100 crore and profit from Q1 FY28.

- **Exports and India:** Exports grew about 493% YoY. The US is the main market. Management said growth has not picked up as much in Europe or Asia, and expects demand from those regions and from telcos to add to current levels. India data-centre capacity is about 1.6 GW, expected to reach 6 GW by 2030, against US capacity of 130 GW going to 300 GW by 2030.

STRATEGY & COMPANY-SPECIFIC

- Preform capacity doubled to 600 MT/annum, with commissioning moved up by 9-10 months to October 2028. Machine supplies ran 2-3 months late and that delay is built into the October 2028 date. The 600 MT will cover roughly half of the 45 million fkm fibre capacity; the rest will be bought under long-term contracts.
- A mid-term solution for own preform starts in Q1 of the next calendar year. Management said it reduces cost but declined to elaborate, calling it a trade secret.
- Germanium sourcing: talks are underway with a couple of suppliers, with positive responses. Management said germanium is needed two years from now and its share of overall cost is low.
- Fibre capacity is going from 28 million to 34 million fkm, and cable capacity from 34 million to 63 million fkm. Connectivity capacity is being added, with revenue from new data-centre products expected in the last quarter of FY27 or the beginning of FY28.
- Total planned investment is approximately ₹1,800 crore across optical fibre, optical fibre cable and preform manufacturing.
- Ammunition complex in Andhra Pradesh: 1,000 acres allotted by the state government, construction to start soon, revenue expected in about two years. HFCL has participated in a tender for 800,000 multi-mode hand grenades to be made at the site.
- Restructuring: the board committee with E&Y is at the recommendation stage, with a board meeting expected in a week to 10 days. EPC is under active consideration.
- Debt: old debts are being repaid and new debt has been taken for capex. Management said debt reduction starts this year and debt will substantially come down in the March 2027 and March 2028 balance sheets.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	At least 80%	Raised from 40%+	Current expectation and business visibility; order book and pipeline
FY29 revenue milestone	₹10,000 crore, possibly earlier than FY29	Maintained, timing advanced	Current run rate
FY28 revenue	Better than the current year; no specific number	New	Order book execution, pipeline, capacity additions
EBITDA margin	Some improvement from current level	Maintained direction	More connectivity solutions, higher-fibre-count cables, backward integration
Data-centre connectivity revenue FY27	~₹800 crore, possibly better	Maintained	Orders in hand and deliveries started

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Data-centre connectivity revenue FY28	₹2,000 crore	New	Capacity addition and product introductions
Defence revenue FY27	₹500-600 crore	Widened from ~₹500 crore	Electro-optic sights, radars, aerospace acquisition consolidation
Defence revenue FY28	At least ₹2,000 crore	New	Aerospace order book and new orders expected
Defence revenue in three years	Around ₹5,000 crore	Maintained	Radars, aerospace, ammunition complex, grenade tender
Preform commissioning	October 2028, 600 MT/annum	Raised from 300 MT and advanced by 9-10 months	Machine deliveries, with 2-3 months of supplier delay already accounted for
EPC loss, next two quarters	No more than ₹75-100 crore combined	New	BharatNet billing in Q3 and Army AMC revenue
EPC segment profit	From Q1 FY28	New	AMC revenue offsetting expenditure
Debt	Reduction starts this year; substantial decline in March 2027 and March 2028 balance sheets	New	Repayment of old debt and internal cash generation
Order book delivery	Mostly up to 4 years; some contracts 4-6 months	New	Contract terms; not evenly distributed across years

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Preform price volatility	Market preform prices have risen 600% and are at "insane" levels because of non-availability. HFCL is covered by predetermined contracts, but management said these prices must fall to realistic levels as capacity comes up.
Germanium supply	Needed two years from now. Talks with suppliers are underway with positive responses. Management said the shortage is geopolitical, not a natural shortage of raw material, and that country-to-country export restrictions exist.
Raw material pass-through	Long-term contracts mostly have annual or 18-month price reset clauses; short-term contracts of 4-6 months have no reset clause, so raw material increases reduce margin on those. Management said short-term contract prices are higher to balance this.
EPC losses	₹121 crore in Q2 FY27. BharatNet billing was delayed by milestone verification across multiple steps. Management guided ₹75-100 crore of loss over the next two quarters.
US interest rates and data-centre funding	Management said data centres are a necessity and AI has become a common requirement. Any slowdown in debt-reliant data-centre expansion would be offset by demand from Europe, Asia and telcos.
Customer concentration	About 70% of the ₹18,500 crore OFC and data-centre interconnect order book is from hyperscalers. Management declined to give customer names or profiles, citing NDAs.
Capacity execution	Fibre expansion to 34 million fkm, cable to 63 million fkm, and the 600 MT preform plant must commission on schedule. Machine supplies already ran 2-3 months late.

RISK	WHAT MANAGEMENT SAID
Telco cable demand	Telcos have not bought much for two years because of price increases. Some telco cable capacity may sit idle if that demand does not return.
Geopolitical disruption	Management repeatedly flagged an uncontrollable geopolitical event as the main risk to revenue and margin expectations.

Q&A HIGHLIGHTS

Hyperscaler concentration in the order book Question: How much of the ₹18,500 crore OFC and data-centre interconnect order book comes from hyperscalers, and is there customer concentration risk? Answer: Management said a large portion, maybe 70%, of the export orders is from hyperscalers, and declined to give names or profiles under NDA. Indian orders are mostly from telcos, and Indian data centres have not picked up yet.

FY27 guidance versus run rate Question: With 80% growth guided, H2 appears flat or slightly down versus Q2. Is this conservatism, a capacity constraint, or a preform supply issue? Answer: Management said it is good to be conservative and surprise with better numbers, and that there is no preform or supply challenge.

Margin direction Question: With 26% margins already reached and connectivity a higher-margin business, how should margins trend this year and over two years? Answer: Management said the margin profile will only get better, driven by more connectivity solution orders and higher-fibre-count cables that few suppliers make.

US rates and data-centre demand Question: Could higher US rates slow data-centre build-out? Answer: Management said data centres are a necessity and AI has become a common requirement. Growth has not picked up in Europe or Asia yet, and telcos are returning to buying fibre, which would more than offset any slowdown by one or two companies.

Defence revenue path Question: How does defence revenue evolve over three years? Answer: FY27 ₹500-600 crore, FY28 at least ₹2,000 crore, and around ₹5,000 crore in three years. Radars are in late-stage trials, the aerospace acquisition with a ₹1,600 crore order book closes this quarter, and the ammunition complex starts revenue in about two years.

EPC loss and recovery Question: When does the EPC segment turn profitable? Answer: The Army AMC contract is a week to 10 days from BSNL approval, and BharatNet bills delayed by milestone verification will be submitted this quarter. The next two quarters combined should lose no more than ₹75-100 crore, with profit from Q1 FY28.

Preform capacity and germanium Question: Is 600 MT of preform enough for 45 million fkm of fibre capacity, and is germanium supply secured? Answer: The 600 MT covers about half the requirement, with the rest bought under long-term contracts. Talks with germanium suppliers are underway with positive responses, and germanium is a low share of overall cost.

Order book duration Question: Over what period will the ₹28,900 crore order book be delivered? Answer: Mostly up to four years, with some contracts of 4-6 months, and it is not evenly distributed. Management said new orders are being signed for four and five years, and that order inflow is exceeding supply.

Volume versus price in Q2 growth Question: How much of the 40% QoQ growth came from volume versus realisation, and will realisations rise further? Answer: Growth came from both volume and price, and the same trend is expected to continue. Management declined to give a ratio, saying it would be an incorrect statement.

Sejal Glass Limited

GROWTH TRIGGERS

Sejal Glass is an operating-leverage and capacity-ramp story. Q2 FY27 revenue rose 33.14% to ₹139.86 crore, EBITDA margin reached 18.35% and PAT margin 10.31%, while H1 revenue rose 41.84% to ₹259.29 crore. Taloja and Erode are still filling capacity, and the UAE third tempering and fire-rated lines are targeted for Q3-Q4 FY27. If the AED78 million UAE order book and India's ₹85 crore backlog convert, FY27 can land within the 25-40% revenue guidance with EBITDA above 18% and PAT around 10%.

1. FY27 revenue guidance of 25-40% is backed by H1 growth and a stocked order book

Q2 FY27 revenue rose 33.14% to ₹139.86 crore and H1 revenue rose 41.84% to ₹259.29 crore. Management reiterates FY27 growth of 25-40%. The UAE order book was about AED78 million in September 2026 with 6-9 months of visibility, and India had about ₹85 crore.

2. Q2 margin expansion shows fixed-cost absorption at Taloja and Erode

Q2 FY27 EBITDA margin expanded to 18.35% from 17.03%, and PAT margin to 10.31% from 7.73%. Taloja tempering utilization rose to 69% and Erode above 24%; Erode was EBITDA-positive around 10% and Taloja near breakeven. Incremental volume spreads fixed power and manpower costs.

3. UAE third tempering and fire-rated lines add capacity and higher-margin mix

The UAE third tempering line and fire-rated line are around 20 million AD, funded about 60% internally and 40% by bank finance. Management says both are more or less on track for Q3 FY27. Fire-rated trial production is planned in Q3, with commercial sale from Q4 FY27 and EBITDA margins above 30%.

4. India utilization and order book support the domestic ramp

Taloja tempering utilization rose to 69% and its IG line to almost 40%; Erode tempering exceeded 24% and IG exceeded 18%. The India order book was about ₹85 crore, and domestic projects aggregating about ₹150 crore were secured. Higher utilization absorbs fixed costs at the acquired plants.

5. FY28 growth and peak revenue extend the runway

Management expects at least 25% revenue growth in FY28 on the same capacity and sees peak revenue of ₹600-650 crore from existing infrastructure by FY28. Additional capacity additions would add further growth. That gives a multi-year volume ceiling beyond FY27.

6. Specialty products target about 5% of FY27 and 15-20% of FY28 revenue

Specialty and value-added products were still minimal in Q2 FY27. Management guides them at about 5% of FY27 revenue and 15-20% in FY28. Railway-grade glass has approved-

vendor status at three coach factories, and tenders exceed ₹100 crore a quarter, though the bid-win rate is below 5%.

7. UAE order book and July orders provide 6-9 months of execution visibility

The UAE order book was about AED78 million in September 2026, up from AED72 million, with 6-9 months of execution visibility. July 2026 brought five architectural glass orders worth AED27.6 million, around ₹71 crore, for hospitality, residential and healthcare projects.

INVESTMENT THESIS

Sejal Glass is an operating-leverage thesis, not a product-cycle story. The company buys float glass and converts it into specified architectural panels at three Indian plants (Silvassa, Taloja, Erode) and a UAE plant in Ras Al-Khaimah. The product is make-to-order: developers and facade contractors release sizes after architects specify the glass, so volume depends on project execution rather than spot demand. The economics are driven by fixed power and manpower costs across the plants. When utilization rises, incremental square metres carry a high contribution margin; when it falls, the same costs compress EBITDA. Q2 FY27 showed that mechanism: consolidated revenue rose 33.14% to ₹139.86 crore, EBITDA rose 43.44% to ₹25.66 crore and EBITDA margin expanded to 18.35% from 17.03%, while PAT rose 77.61% to ₹14.42 crore. H1 FY27 revenue was ₹259.29 crore, up 41.84%, with EBITDA margin 16.85% and PAT margin 8.34%. The margin gap between Q2 and H1 is the operating leverage story in miniature.

The earnings path is explicitly guided. Management expects FY27 revenue growth of 25-40%, an EBITDA margin above 18% for the full year, and a PAT margin of approximately 10%. On the Q2 call it said it was already at 18%+ in Q2 and expected to remain above 18% in H2. For FY28, it expects 25% revenue growth on the same capacity and sees peak revenue of ₹600-650 crore from existing infrastructure by FY28. Those are guidance, not achieved facts. The analyst inference is that the H1 revenue run-rate of ₹259.29 crore puts the 25-40% FY27 range within reach; the full-year margin depends on H2 holding the Q2 level, because H1 EBITDA margin was 16.85%, below the guided 18%.

The operating mechanism is utilization at the acquired Indian plants. Taloja and Erode were bought as distressed assets in April 2025. By Q2 FY27, Taloja tempering utilization was 69% and its IG line almost 40%; Erode tempering exceeded 24% and IG exceeded 18%. Erode was EBITDA-positive at around 10% and Taloja near breakeven. That is real progress, but both remain below peak. The India order book was about ₹85 crore in Q2 FY27, and the company secured domestic projects aggregating about ₹150 crore. If the utilization ramp continues, fixed costs spread and the India segment shifts from a drag to a contributor; if it stalls, the FY26 standalone loss persists.

The UAE is the profit engine and the near-term catalyst. The Ras Al-Khaimah plant runs around 90% utilization on insulated glass, its primary product. The order book was about AED78 million in September 2026, and July 2026 brought five orders worth AED27.6 million for hospitality, residential and healthcare projects. Execution visibility is 6-9 months. The third tempering line and fire-rated line are targeted for Q3 FY27. Fire-rated trial production and approvals are planned for Q3, with commercial sale from Q4 FY27; management says fire-rated EBITDA margins should be above 30% because it is a value-added product. The capex is described as around 20 million AD, funded about 60% by internal accruals and 40%

by bank finance. The economic test is commissioning and customer approval, not the announcement.

The product mix is the second lever. Specialty and value-added products, including fire-rated, railway-grade, bullet-resistant and digitally printed glass, were still minimal in Q2 FY27. Management guides them at about 5% of FY27 revenue and 15-20% in FY28. Railway-grade glass has approved-vendor status at three coach factories; management says tenders exceed ₹100 crore a quarter, but its bid-win rate is below 5% because it is a new entrant moving through supplier categories. Fire-rated is the larger near-term product because it carries a licensed technology and a regulatory-driven specification channel. The risk is timing: commercial sale is now targeted for Q4 FY27, and management deferred segment revenue guidance to Q1 FY28.

Capital allocation is conservative but not idle. The Glasstech acquisition added Taloja and Erode, and the UAE expansion is funded 60% internally and 40% by bank finance. India carries ₹52 crore of debt, including ₹38 crore of term loan and ₹14 crore of working capital. On the Q2 call, management said the debt is mostly long-term bank debt being paid on EMI, with no prepayment plan. The company pays no Indian income tax because of carry-forward losses, which management expects to absorb over four to five more years; the UAE pays 9% corporate tax. Working capital runs at about 98 days in India and 85 days in the UAE. These support the earnings path, but they also mean the margin and cash-flow math has little room for a volume miss.

Management delivery is mixed. FY26 revenue and the 15% EBITDA floor were cleared. FY25 revenue guidance was missed. The Glasstech profitability promise for Q2 FY26 slipped to a March 2026 breakeven, and full-year profitability is still open. Bulletproof glass has missed multiple market-entry dates, though testing has progressed in India. Fire-rated commercial sale has moved to Q4 FY27. The second acquisition remains unresolved. The Q2 FY27 call is a better data point than the prior record because group revenue and margins are tracking guidance, but the company still has a two-to-four-quarter optimism bias on new products and acquisitions.

The falsifiers are specific. Erode must keep lifting utilization from above 24% and Taloja from 69%; if they stall, the fixed-cost absorption story breaks. The UAE order book must convert over 6-9 months without logistics disruption; if monthly billing stalls, the 25-40% revenue range is at risk. Fire-rated commercial sale must start in Q4 FY27; a further slip leaves the 5% FY27 specialty revenue target and the 15-20% FY28 mix target exposed. The UAE capex must commission within the around 20 million AD budget and secure the 40% bank funding; a cost overrun or funding delay would add debt service before revenue. Finally, working capital must not stretch beyond current levels, because the company is funding growth from internal accruals and limited bank lines. If those conditions hold, operating leverage can take

FY27 revenue toward the middle or upper end of 25-40%, EBITDA above 18%, PAT around 10%, and FY28 growth of at least 25%.

RESEARCH REPORT

What Sejal Glass Limited does

Sejal Glass Limited processes raw float glass into value-added architectural glass products. It does not make the base glass itself. The company buys clear, tinted, and coated float glass (55% of its raw material cost) and runs it through tempering, lamination, and insulating assembly lines to produce glass that is stronger, safer, and more thermally efficient than the raw input. The output goes into building facades, windows, railings, skylights, railway coaches, and high-security installations.

The company operates four manufacturing facilities: Silvassa (10.68 lakh sqm annual capacity), Taloja (13.24 lakh sqm), and Erode (10.31 lakh sqm) in India, plus Ras Al-Khaimah (28.5 lakh sqm) in the UAE. FY26 was the first full year with the Glasstech acquisition (Taloja and Erode) integrated, taking total tempering capacity from 11.31 lakh sqm to 24.01 lakh sqm per annum. By Q2 FY27, management described the network as four plants with annual production capacity of approximately 61.94 lakh sqm across tempered, laminated and insulated glass, and reported improving utilization at Taloja and Erode after integration and machine overhaul.

Product-wise, the portfolio splits into three core categories plus specialty lines:

- Toughened (tempered) glass: the base product, heat-treated for strength. This is the highest-volume product line and roughly 50% of India's product mix.
- Insulated Glass Units (IGU): double-glazed assemblies for thermal efficiency. This is the highest-margin product and accounts for about 90% of UAE sales.
- Laminated safety glass: sandwich glass for strength, UV, and acoustic insulation. Silvassa's lamination line ran at 87-88% utilization through FY26.
- Specialty products: digitally printed glass, fire-rated glass (licensed from Polymer Technology SRO; trial production targeted Q3 FY27 and commercial sale Q4 FY27), bullet-resistant glass (testing progressed in India), railway-grade glass, and facade panels (commenced in UAE during FY26).

The revenue mix is heavily weighted toward the UAE. In FY26 the UAE was the majority of revenue, and Q1 FY27 was 69% UAE and 31% India (₹81.52 crores UAE vs ₹36.43 crores India). On the Q2 FY27 call management restated the target mix as 60% UAE and 40% India. Earlier calls had discussed a 50-50 medium-term split; the Q2 call did not repeat that medium-term target.

Q2 FY27 update

Q2 FY27 consolidated revenue was ₹139.86 crores, up 33.14%, EBITDA ₹25.66 crores at an 18.35% margin, and PAT ₹14.42 crores at a 10.31% margin. H1 FY27 revenue was ₹259.29

crores, up 41.84%, with EBITDA margin 16.85% and PAT margin 8.34%. Management guides FY27 revenue growth of 25-40%, EBITDA margin around 18% and PAT margin around 10%. Taloja tempering utilization rose to 69% and Erode above 24%; Erode was EBITDA-positive around 10% and Taloja near breakeven. The UAE order book was about AED78 million in September 2026 and India about ₹85 crores. The third UAE tempering line and fire-rated line are targeted for Q3 FY27, with fire-rated commercial sale from Q4 FY27.

India operations

India consists of three plants with distinct roles. Silvassa is the mature, profitable anchor, operating at 64-77% tempering utilization through FY26-Q1 FY27 with a lamination line at 87-88%. Taloja (Maharashtra) and Erode (Tamil Nadu) were acquired in April 2025 from Glasstech Industries (India) Private Limited as a slump sale for ₹3,460 lakhs. These plants were distressed at acquisition and are being re-engineered, which is why India standalone EBITDA margin compressed to 15% in FY26 (from 19% the prior year) - unabsorbed fixed costs from under-utilized capacity dragged on the numbers.

The turnaround is progressing. In the August 2026 call, management reported Silvassa at 77% tempering utilization, Taloja at 55%, and Erode at 15%. By the Q2 FY27 call, Taloja tempering had risen to 69% and its IG line to almost 40%, while Erode tempering exceeded 24% and IG exceeded 18%; Erode was EBITDA-positive at around 10% and Taloja was near breakeven. Taloja and Erode reached group EBITDA breakeven in March 2026. The FY27 India revenue target remains around ₹200 crores, split roughly ₹110 crores from Taloja/Erode and ₹90 crores from Silvassa, against an India order book of about ₹85 crores in Q2 FY27.

India also carries the specialty product development. Railway-grade glass (approved vendor at three railway coach factories) is ramping but still early; the company participates in tenders exceeding ₹100 crores a quarter but converts less than 5%. Fire-rated glass is being installed, with trial production and approvals targeted in Q3 FY27 and commercial sale from Q4 FY27. Digitally printed glass came with the Glasstech acquisition and is already selling. Management guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28.

UAE operations

The Ras Al-Khaimah plant is the profit engine. It runs at roughly 71% tempering utilization (up from 53% in FY25) and near 90% on its IG line, which is its primary product. The subsidiary delivered ₹287.51 crores revenue and ₹29.03 crores PAT in FY26 (per the AOC-1 disclosure), and the UAE pays 9% corporate tax while India pays none due to carried-forward losses.

The UAE operation serves the GCC construction market, selling mostly to facade contractors and developers. It has a roughly 10% market share in the UAE, per the November 2025 call. The company is adding a third tempering line plus fire-rated technology. The latest Q2 FY27 call describes the remaining investment as around 20 million AD (as transcribed), funded about 60% by internal accruals and 40% by bank finance, versus the earlier AED 15 million estimate with AED 7 million of debt. The third line and fire-rated line are reported on track for Q3 FY27; fire-rated commercial sale is targeted for Q4 FY27 after Q3 trial production. Post-expansion, total UAE tempering capacity is expected to reach 24 lakh sqm per annum.

The UAE business also has a facade panel division, commenced during FY26. Management said on the Q2 FY27 call that the facade division contributed to Q2 EBITDA, alongside better COGS in the UAE plant.

The order book as of the Q2 FY27 call was approximately AED 78 million in the UAE as of September 2026, up from AED 72 million, and about ₹85 crores in India, with execution visibility of 6-9 months. In July 2026 the UAE subsidiary secured five architectural glass orders aggregating about AED 27.6 million (around ₹71 crores) for hospitality, residential and healthcare projects. Domestic architectural glass projects aggregating about ₹150 crores were also secured across commercial, residential and institutional applications.

Business segments

India Operations

Sejal Glass's India business is a three-plant architectural glass processor. Silvassa in Dadra Nagar and Haveli is the original unit, roughly two decades old. Taloja in Maharashtra and Erode in Tamil Nadu were added through the April 2025 acquisition of Glasstech Industries, an asset purchase that took the group from a single domestic location to a multi-location network. Consolidated tempering capacity rose from 7.80 lakh sqm to 24.01 lakh sqm per annum as a result (annual report FY26). Tempering - toughened glass - is the base product line everything else builds on.

The Glasstech acquisition added a digitally printed glass line with its own furnace, plus product categories the old plant did not make: railway-grade glass, bullet-resistant glass and, through a technology license with Polymer Technology, fire-rated glass. Railway business is small today; management said on the Q2 FY27 call that railway and digital printed glass contributions are still minimal. It guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28, with fire-rated commercial sale targeted for Q4 FY27.

Customers are developers and the fabricators who execute their projects, with architects influencing specifications. Q1 FY27 brought India orders exceeding INR 50 crores from Godrej, L&T, Prestige and Raheja, with execution spread over six months (Aug 2026 concall).

The customer base is concentrated: 15 clients supply over 70% of India business, balanced by roughly 200 repeat accounts, and management reports on-time supply above 95% and bad debts below 0.5% over three years. The buying rationale is reliability. Developers run to quarterly completion deadlines, glass is a critical facade material, and Sejal sells the promise that supply will not slip. Multiple plants back that promise - if one unit breaks down, production shifts to another.

Competition is fragmented. Asahi India Glass is present in architectural glass but earns most of its revenue from automobiles, Saint-Gobain focuses on float glass manufacturing and supplies Sejal rather than competing for processing work, and Borosil sits in solar glass. Management argues no listed pure-play architectural processor exists, leaving regional organized, semi-organized and unorganized glass shops as the real rivals. The one-year exclusive material supply agreement with Saint-Gobain is the competitive edge: better pricing via credit notes of 4-5%, special glass sizes that cut wastage, and Saint-Gobain's sales team steering specified projects toward Sejal (Nov 2025 concall).

The segment is the balancing leg of the group. India contributed 28% of FY26 consolidated revenue. On the Q2 FY27 call management restated the target mix as 60% UAE and 40% India; earlier calls discussed a 50-50 medium-term split, but the Q2 call did not repeat that target. India standalone revenue was INR 110.63 crores in FY26 (annual report, standalone financials), and the FY27 plan is ~INR 200 crores total from India - about INR 110 crores from the Glasstech units and INR 90 crores from Silvassa - against group revenue of INR 500+ crores (May 2026 concall). Utilization tells the turnaround story: at Q1 FY27, Silvassa ran tempering at 77%, Taloja at 55% and Erode at 15%; by Q2 FY27, Taloja tempering was 69%, its IG line almost 40%, Erode tempering above 24% and IG above 18%, with Erode at around 10% EBITDA-positive and Taloja near breakeven (Q2 FY27 concall). The acquired units reached EBITDA breakeven in the final month of FY26:

> *"Yes, in the last month, we are at EBITDA breakeven."*
>
> **CFO, Q4 FY26 CONCALL (MAY 2026)**

Margins follow scale. Silvassa runs at 17-18% EBITDA, so the profit drag was the under-utilized Taloja and Erode plants. As those fill, the group expects fixed costs to spread wider. Q2 FY27 showed the operating leverage: consolidated EBITDA margin rose to 18.35% from 17.03%, and PAT margin to 10.31% from 7.73%; H1 FY27 EBITDA margin was 16.85% and PAT margin 8.34%. Management guides FY27 EBITDA margin at around 18% (above 18%) and PAT margin at approximately 10%. Two structural facts sharpen the math. India pays no income tax because of carry-forward losses - roughly four to five years of absorption left (Q2 FY27 concall) - so profit growth flows nearly dollar-for-dollar to the bottom line. And working

capital runs at 98 days in India versus 85 days in the UAE, which is why management is conservative about chasing revenue growth that requires matching credit.

> *"We continue to expect, expect year-on-year revenue growth in the range of 25 to 40%."*
>
> **AMRUT GADA, Q2 FY27 CONCALL (OCT 2026)**

The India segment is essentially a capacity-utilization story: the plants are built, the order book is stocked, and the remaining variable is how much of the fixed cost base gets absorbed as Taloja and Erode fill.

UAE Operations (Sejal Glass & Glass Manufacturing Products LLC)

The UAE business is Sejal Glass's largest and most profitable engine, contributing 72% of FY26 consolidated revenue of INR401.36 crores (FY26 Annual Report). It operates through the 99.01%-owned subsidiary Sejal Glass & Glass Manufacturing Products LLC, based in Ras Al-Khaimah (RAK). The core capability took a decade to build: management entered the UAE in 2014 by acquiring the assets of Burhani Glass Factory LLC, then scaled through a combination of European processing technology, a hard-won reputation with top-tier facade companies, and a steady move up the value chain from plain toughened glass toward insulated and laminated products. The plant's annual tempering capacity is 28,50,000 sqm, and as of Q1 FY27 it was running at 71% utilization on the tempering line, which management calls its base product line (Aug 2026 concall). The business model is make-to-order: glass arrives as float stock, but the final product is fabricated only when the customer releases the site-ready sizes, typically on a 10-15 day delivery window.

The product mix is concentrated in insulated glass (IG), which management says is roughly 90% of UAE sales, with lamination making up the rest. IG units are two or more panes sealed with a gas fill for thermal efficiency, which matters acutely in the Gulf's climate-driven construction market. Laminated glass adds safety and acoustic performance. The portfolio also includes toughened glass, specialty products, and facade panels; a facade panel manufacturing division was commenced during FY26. The newest additions are fire-rated glass, produced under a perpetual, exclusive, royalty-free license from Polymer Technology of Spain, and bullet-resistant glass, whose testing has progressed in India. Fire-rated trial production is targeted for Q3 FY27, with commercial sale from Q4 FY27. Management guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28.

Customers are facade contractors, fabricators, and developers across all seven Emirates, with exports to neighboring GCC states. Management names no specific UAE clients on the calls, but describes them as "well-known facade companies or the developers with whom we are working" and states that payments on post-dated cheques have been honored on time with zero bad debts during the geopolitical disruptions (May 2026 concall). About 25% of

UAE business is now transacted on letters of credit, a sign of customer quality (Nov 2025 concall). The order book stood at approximately AED 78 million in September 2026, up from AED 72 million, with execution spread over 6-9 months (Q2 FY27 concall). Demand is broad-based across the Emirates: management notes growth in Dubai, Abu Dhabi, Ras Al-Khaimah (driven by the Marjan casino project), Ajman, and Sharjah, and cites the start of the Africa export push (Nov 2025 concall).

The competitive position is defined by market share and product focus. Management says its UAE market share is around 10%, competing against "quite organized" local players and some imports from China (Nov 2025 concall). The differentiation is speed, quality, and reliability: a glass fabricator that misses a delivery stalls an entire building schedule, and Sejal's multi-plant network in India and UAE insulates customers from a single-facility breakdown. The UAE unit also gets a pricing advantage from its exclusive Saint-Gobain supply agreement for float glass in India, which management says provides credit notes of 4-5% on material lifted (May 2026 concall). The consolidated business booked cost-of-goods at 63-64% in FY26, with IG carrying better margins than plain tempering because it is further value addition (Feb 2026, Nov 2025 concalls).

The segment fits the group as the profit center and the geographic hedge. Management is deliberately rebalancing the revenue mix from last year's UAE-weighted split toward 60-40 this year (60% UAE, 40% India), as restated on the Q2 FY27 call; earlier calls discussed a 50-50 medium-term split, but the Q2 call did not repeat that target. UAE's financial profile differs sharply from India's: UAE carries a 9% corporate tax versus India's zero due to carry-forward losses, but it operates at higher capacity utilization, with UAE IG around 90%, which helps drive the consolidated EBITDA margin. The subsidiary also incurs the group's planned capex: the latest Q2 FY27 call describes around 20 million AD for a third tempering line and fire-rated technology, funded about 60% by internal accruals and 40% by bank finance, with the third line and fire-rated line on track for Q3 FY27. Working capital runs at 85 days in UAE versus 98 days in India.

Management has been explicit about the segment's trajectory and its constraints:

> *"We had given Rs.235 crores guidance for the UAE for '25-26. Yes, on a full capacity it can generate up to Rs.350 crores."*
>
> **AMRUT GADA, Q2 FY26 CONCALL (NOV 2025)**

That guidance was delivered at the group level: FY26 consolidated revenue reached ₹401.36 crores with EBITDA margin 16.5%, and the UAE remained the largest contributor. The near-term constraint is not demand but execution capacity. Management noted that geopolitical tensions raised logistics and input costs, but that raw material cost increases were largely passed through to customers. The order book at AED78 million, the new tempering line and

the fire-rated product launch are the three levers management expects to drive the UAE toward the upper end of its 25-40% FY27 guidance range. Fire-rated commercial sale is now targeted for Q4 FY27 after Q3 trial production. As management put it in the Nov 2025 call:

> *"The reason behind this, first, the Saint Gobain is the largest glass manufacturer... our 50% material is a glass."*
>
> **AMRUT GADA, Q2 FY26 CONCALL (NOV 2025)**

The UAE segment is not a satellite operation; it is the financial core of the group, funding the domestic expansion that management says will eventually make the two geographies equal partners in the portfolio.

Customers

Sejal Glass sells through a B2B model where the buyer is a facade fabricator or contractor, but the decision-maker is often the architect or developer. The company describes its model as one where developers are the clients, fabricators are the buyers, but architects and developers influence product decisions. This means the selling effort targets both the specifier (who writes the product into the project) and the purchaser (who places the order).

The customer base spans 750+ customers across India and the GCC. Within India, the business is concentrated: roughly 15 clients contribute over 70% of revenue, with about 200 regular clients providing the rest. The top-15 concentration is deliberate risk management - management stated it wants to move toward 50% of India turnover from top-15 clients and 50% from 100+ clients. In Q1 FY27, the company secured orders exceeding ₹50 crores from Godrej, L&T, Prestige, and Raheja. In Q2 FY27 it reported domestic architectural glass projects aggregating about ₹150 crores and an India order book of about ₹85 crores.

Why customers pick Sejal over alternatives comes down to reliability and technical capability. Glass is a critical-path material for facades, and delays in delivery stall entire building schedules. The company's pitch is on-time supply (above 95%), customer satisfaction scores (above 95%), four plants that provide supply-chain redundancy (a breakdown at one unit does not disrupt supply), and European-sourced processing technology. The Saint-Gobain material supply agreement also gives Sejal access to special glass sizes that reduce wastage, which improves yield and pricing flexibility on specified projects.

Switching costs are moderate. Once a product is specified into a project, substitution is difficult and requires architect approval. This creates stickiness at the project level. For repeat business, the company relies on delivery performance and technical support rather than lock-in, noting that about 200 clients are repeat customers.

In the UAE, the customer base consists of "well-known facade companies or the developers" with a track record of zero bad debts and zero payment delays. Management has shifted

roughly 25% of UAE business to letter-of-credit terms since the geopolitical tensions, a defensive move to protect collections. Working capital days are 98 in India and 85 in the UAE.

Competitive landscape

The architectural glass processing industry is fragmented across three tiers: multinational float-glass makers who also process (Saint-Gobain, Asahi), organized regional processors (Sejal's direct competitors), and a large unorganized sector of small shops. Sejal positions itself in the organized tier, competing on quality, delivery reliability, and technical capability rather than price.

Saint-Gobain is both a competitor and a supplier. It is the largest float glass manufacturer in India with about 45% market share, operating plants in Jhagadia, Chennai, and Rajasthan that supply Sejal's base glass. Sejal signed a one-year exclusive material supply agreement with Saint-Gobain in FY26, which provides price advantages (4-5% credit notes on lifted material), special glass sizes for better yield, and marketing support through Saint-Gobain's sales team specifying Sejal as a preferred processor. The relationship matters because Saint-Gobain controls the input and competes for the same downstream business - but its focus is float manufacturing and coated glass, not small-batch processing, so the two companies have a mutually beneficial arrangement rather than head-to-head competition.

Asahi India Glass is often cited as a comparable but is not a direct architectural competitor. Roughly 90% of Asahi's revenue comes from automotive glass. Sejal management argues this keeps Asahi focused elsewhere: "They have focused on the automobile. And I think, they have so much focus that there is no dilutions from 90% market share in India in the automobile." The same logic applies to Saint-Gobain's float focus. This leaves architectural processing as a segment with no listed pure-play in India, which Sejal counts as an advantage for investor visibility but does not protect it from regional competition.

In India's toughened glass segment, the competition is intense and includes unorganized players who undercut on price. Sejal does not win those orders, and does not want to. The company targets organized developers, large infrastructure projects, and premium residential towers where quality, timely delivery, and performance specifications matter more than the lowest quote. Management stated: "We are in a very niche market. So very organized developers, big projects, where the quality is required, timely delivery is required, then the performance of the glass itself is on different level. So there much more competitions is not exist, particularly on the differences of the pricing of the raw material."

The UAE market is a different competitive environment. Management described competitors there as "quite organized," with Sejal holding roughly 10% market share. The market includes sizable local processors and imports from China. The company's edge is its European-

sourced processing technology and its position as an established local manufacturer with delivery capability across all seven emirates. Competition in fire-rated glass includes Saint-Gobain's product and organized Indian players, though Sejal's entry via the Polymer Technology license gives it access to proven technology without the years of R&D a domestic challenger would need.

The overall competitive picture: Sejal wins where specifications matter and loses where price is the only variable. Its moat is a combination of four geographically dispersed plants (redundancy), European technology, approved vendor status in railways, and the Saint-Gobain supply relationship.

Industry

The flat glass industry splits into two layers: float glass manufacturing (making the base glass, capital-intensive, dominated by large players like Saint-Gobain, Asahi, and a few others) and processing (cutting, tempering, laminating, insulating - the layer Sejal operates in). The processing layer is where value addition happens: raw float glass sells at a commodity price, but a laminated insulated unit commands a significant premium.

The global flat glass market was estimated at USD 339.47 billion in 2026, projected to reach USD 468.19 billion by 2033, a CAGR of 4.7% (annual report, citing Coherent Market Insights). The architectural segment accounts for 38.2% of the market. The Indian flat glass market was valued at roughly USD 3.93 billion in 2025, with construction contributing about 45% of demand and fabricated (processed) glass products accounting for nearly 60% of the market. It is projected to reach USD 6.39 billion by 2034, a CAGR of 5.55% (annual report, citing IMARC).

Demand drivers are structural and multi-year:

- **Real estate premiumization.** Premium and mid-income housing demand remains healthy across major Indian cities, with high-rise towers using more glass per square foot than low-rise developments. The August 2026 call noted continued momentum across residential and commercial segments.
- **Infrastructure investment.** Airports, metro rail networks, hospitals, and institutional buildings all use architectural glass. India's FY26-27 Union Budget raised public capex to ₹12.2 lakh crores. The annual report points to sustained investment in transportation, urban development, and public infrastructure as a core demand driver.
- **Energy efficiency regulation.** Green building certifications and stricter energy codes are pushing developers toward insulated glass units, Low-E glass, and solar-control glass. Rising temperatures and energy costs accelerate this shift. Sejal's product mix is aligned: IG units are 90% of UAE sales and the highest-margin product in the portfolio.

- **Data center construction.** Digitalization and cloud adoption are driving capacity additions, and data centers need high-performance facades and insulating glass. The annual report lists data centers among the fastest-growing end markets.
- **Railway modernisation.** India's high-speed train programme and rolling stock upgrades create demand for specialized glazing. Sejal is an approved vendor for three rail manufacturing facilities, and the overall railway glass market is estimated at ₹500 crores-plus.
- **Fire safety regulation.** The fire-rated glass market in India is roughly ₹500 crores and growing, driven by increasingly stringent fire safety requirements in commercial buildings, airports, and healthcare facilities.

India's place in the global supply chain is as a processing hub for domestic construction plus a growing export base. The UAE subsidiary serves the GCC, and Sejal is expanding into Africa (targeting 10-15% of production) and Europe (targeting ~5%). The company benefits from India's GDP growth (7.6% in FY25-26), with real estate and infrastructure as direct beneficiaries.

Regulation is a tailwind. Building codes are tightening safety, thermal, and fire-resistance standards, which forces developers toward higher-value glass products and away from plain tempered glass. Sejal's India mix is still about 60% plain tempered glass, but the shift toward IG and laminated products is the industry-wide trajectory. The company's gross margin is 33-34% at the consolidated level, with IG at a higher margin than tempered.

Cyclicality is the counterweight. Architectural glass demand tracks construction spending, which is sensitive to interest rates, credit availability, and government capex cycles. The industry also faces input cost pressure from float glass pricing, which rose roughly 8% in the two months before the May 2026 call due to higher energy costs, partially offset by energy surcharges passed through to customers. Geopolitical disruption in the Gulf can hit supply chains and margins. On the Q2 FY27 call, management said logistics and input costs had increased due to geopolitical tensions, but that it was still passing these on to end users; raw material pass-through has historically been 70-90%, with residual absorption hitting EBITDA by 1-1.5% in disrupted quarters.

Growth triggers

UAE third tempering line + fire-rated technology capex (around 20 million AD total), commercial production targeted Q3-Q4 FY27

Sejal Glass is spending around 20 million AD at its Ras Al-Khaimah plant on two linked additions: a third, high-end tempering line and fire-rated glass production, according to the Q2 FY27 call; the earlier estimate was AED 15 million with AED 7 million of debt. Funding is about 60% internal accruals and 40% bank finance. The machines are in installation, with

the third line and fire-rated line reported on track for Q3 FY27. Fire-rated trial production is targeted in Q3 FY27, and commercial sale from Q4 FY27. The work originally slipped one quarter due to geopolitics, after the machines had already been ordered (Q4 FY26 concall, May 2026).

The mechanism matters because of how the plant's product mix is constrained. The UAE plant sells mostly insulated glass, and its IG/lamination lines were running near ~90% utilization, while the two tempering lines sat at ~71% as of Q1 FY27. Tempered glass is the input for IG units, so tempering capacity is the bottleneck. A third line relieves it and lets the existing IG capacity run harder.

> *"once the toughening capacity is added, the IG line, we have already two IG lines, the second IG line will also start running well. And that will give around 20 to 30 Mn AED business next year further."*
>
> **CHANDRESH RAMBHIA, CFO, Q3 FY26 CONCALL (FEB 2026)**

IG is also the higher-margin product line (Q2 FY26 concall, Nov 2025). After the third line, total UAE tempering capacity is expected at ~24 lakh sqm per annum. The new line starts at 15-20% utilization in Q3, while the existing lines step from 71% toward an 85% target. On the Q2 FY27 call, management said peak utilization is above 85% for IG and laminates and close to 100% for tempering.

The fire-rated segment uses polymer gel technology licensed from Polymer Technology. Management pegs the fire-rated market at above ₹500 crores including India and the UAE, and says fire-rated EBITDA margins should be above 30% because it is a value-added product. It guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28. Commercial sale from the fire-rated line is targeted for Q4 FY27 after Q3 trial production. The order book is absorbing the ramp: UAE orders rose from ~AED 50 million to ~AED 72 million and then ~AED 78 million by September 2026.

Specialty products targeted at ~5% of FY27 revenue and 15-20% in FY28

At the Q1 FY27 results call (August 2026), management put a number on where the new product verticals stood. Railway-grade glass was under 1% of revenue for the quarter, and fire-rated glass had not yet begun commercial sales. By the Q2 FY27 call, railway and digital printed glass were still described as minimal, with fire-rated trial production targeted for Q3 FY27 and commercial sale for Q4 FY27:

> *"right now in Q1, there is, I think maybe around 1% is from the railway, less than 1%. But this is increasing, and we constantly now started participating in the tender. And number 2, on the fire product, it will start in Q3."*
>
> **AMRUT GADA, PROMOTER, Q1 FY27 CONCALL (AUGUST 2026)**

Asked about the specialty product contribution, management said the earlier 5-7% FY27 and 15-20% FY28 range was broadly unchanged; on the Q2 FY27 call it put the FY27 figure at about 5% of revenue and FY28 at 15-20%:

> *"More or less the same thing. We are expecting 5% in this year from the value-added products and next year 15% or 20%."*
>
> **CHANDRESH RAMBHIA, Q2 FY27 CONCALL (OCT 2026)**

The railway business is tender-driven. Sejal is an approved vendor at three railway coach factories (management named Kapurthala, Raibareli and Chennai in the August 2026 call), has won initial orders, and is bidding on Vande Bharat and AC coach glass programs. On the Q2 FY27 call, management said railway tenders exceed ₹100 crores every quarter, but its bid-win rate is below 5% because it is a new entrant moving through supplier categories C to B to A. Each won tender converts into recurring supply of laminated and toughened panels for specific coach programs, feeding the underutilized Taloja and Erode plants.

Fire-rated glass is a licensed, branded product. Sejal holds a perpetual, exclusive, royalty-free license for polymer gel-based fire-rated glass technology from Polymer Technology, covering India and the UAE, with rights to sell worldwide under its own brand (Q2 FY26 concall, November 2025). The manufacturing line and technology have been imported and are being installed. Trial production and approvals are targeted in Q3 FY27, with commercial production and sale targeted from Q4 FY27, part of the UAE capex that also includes a new tempering line (Q2 FY27 concall).

Management's earlier framing has shifted. At the Q4 FY26 call (May 2026) it guided railway to 2-3% of revenue and new products to 15-20% of revenue next year, with 5-7% in FY27. The August 2026 call put railway plus fire at about 10% of revenue next year. The Q2 FY27 call put value-added products at about 5% of FY27 revenue and 15-20% in FY28, removing the 5-7% FY27 range. Management sizes the railway glass market and the fire-rated market at roughly INR 500 crores each, with fire-rated above ₹500 crores including India and UAE, and has said fire-rated and bulletproof products will carry higher margins.

India revenue target of ~₹200 crores in FY27 (₹110 from Glasstech Taloja/Erode, ₹90 from Silvassa)

Management's FY27 plan puts India at about ₹200 crores within the ₹500+ crores consolidated revenue guidance, split as ₹110 crores from the acquired Glasstech units at Taloja and Erode and ₹90 crores from the existing Silvassa plant (Q4 FY26 concall, May 2026). The CFO framed the target directly:

> *"For FY27, we are considering total overall (500+) crores. In that 40% will be from India."*
>
> **CHANDRESH RAMBHIA, CFO, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is a utilization ramp over existing capacity, not new plants. Sejal acquired Glasstech in April 2025 as a distress asset; Taloja began operations in June 2025 and Erode in July 2025, and most of FY26 went into re-engineering the machines, workforce, and customer base. At Q2 FY26 the two units together delivered just ₹11 crores at 5-12% utilization on some lines (Q2 FY26 concall, Nov 2025). Earlier, management put their combined potential at over ₹150 crores of revenue with EBITDA near 15% (Q3 FY26 concall, Feb 2026).

Revenue turns into orders, and orders into production. In Q1 FY27, India booked orders exceeding ₹50 crores from Godrej, L&T, Prestige, and Raheja, with execution planned over the next 6 months (Q1 FY27 concall, Aug 2026). In Q2 FY27, domestic architectural glass projects aggregating about ₹150 crores were secured, and the India order book stood at about ₹85 crores:

> *"Our India business also witnessed a healthy order inflow during the quarter, securing orders exceeding INR50 crores from leading developers such as Godrej, L&T, Prestige, and Raheja, with execution planned over the next 6 months."*
>
> **AMRUT GADA, Q1 FY27 CONCALL (AUG 2026)**

India revenue hit ₹36.43 crores in Q1 FY27, up 67% year on year, as tempering utilization climbed to 77% at Silvassa, 55% at Taloja, and 15% at Erode from 64%, 33%, and 13% entering the year (Q1 FY27 concall, Aug 2026). By Q2 FY27, Taloja tempering was 69% and Erode above 24%; Erode was EBITDA-positive at around 10%, Taloja near breakeven. Glasstech reached EBITDA breakeven in Q4 FY26. Silvassa already operates at 17-18% EBITDA margin, and India pays no income tax against carry-forward losses that management expects to absorb for about four to five more years. The ₹200 crores FY27 India target is mainly a matter of filling the acquired lines with orders that are already being signed.

Taloja/Erode (Glasstech) reached EBITDA breakeven in Q4 FY26; Erode at ~10% EBITDA and Taloja near breakeven in Q2 FY27

The trigger: Sejal acquired the Glasstech architectural glass business in April 2025, picking up two distressed units - Taloja in Maharashtra and Erode in Tamil Nadu. Both ran at 5-34% utilization for most of FY26, producing EBITDA-level losses that dragged the standalone result to a ₹222.81 lakh loss (FY26 Annual Report). Management's goal was to get Glasstech EBITDA-positive by Q4 FY26, and they confirmed hitting it.

The mechanism is fixed-cost absorption. The major cost components in glass processing are power and manpower, which stay roughly constant regardless of volume. As order inflow fills the lines, those fixed costs spread over more square meters of tempered, laminated and insulated glass, so each additional unit carries a higher margin. The FY26 Annual Report states this directly: the standalone loss came from "unabsorbed overheads and lower

absorption of fixed operating costs arising from the under-utilisation of capacity at the newly acquired units."

The timeline: acquired in April-May 2025, with Taloja operational from June and Erode from July (Q2 FY26 concall, Nov 2025). Q2 FY26 combined revenue was ₹11 crores at 5-34% utilization. FY26 full-year Glasstech revenue crossed ₹40 crores, and EBITDA breakeven arrived in the final month of the year. By Q1 FY27, Taloja tempering utilization had jumped from 33% to 55%, with Erode at 15%. By Q2 FY27, Taloja tempering was 69% and its IG line almost 40%; Erode tempering exceeded 24% and IG exceeded 18%.

> *"Yes, in the last month, we are at EBITDA breakeven."*
>
> **CFO, Q4 FY26 CONCALL (MAY 2026)**

> *"This quarter, we are expecting at least 10% EBITDA positive."*
>
> **CFO, Q4 FY26 CONCALL (MAY 2026)**

The target trajectory: management guided FY27 India revenue of ₹200 crores, of which ₹110 crores is expected from the Glasstech units and ₹90 crores from Silvassa (Q4 FY26 concall, May 2026). The earlier pledge - "We are expecting that fourth quarter should be a positive for Glasstech on EBITDA" (Q2 FY26 concall, Nov 2025) - was met at breakeven in March 2026. On the Q2 FY27 call, Erode was EBITDA-positive at around 10% and Taloja near breakeven, so the remaining test is full-year profitability and the step-up to the guided run-rate.

Saint-Gobain exclusive raw material supply agreement (1-year trial; 4-5% credit notes; improved yield and marketing support)

In late 2025 Sejal signed a one-year exclusive raw material supply agreement with Saint-Gobain, India's largest float glass producer. Glass accounts for roughly half of Sejal's raw material cost, and Saint-Gobain holds about 45% of the Indian float market with plants in Chennai, Jhagadia (Gujarat) and Rajasthan (Q2 FY26 concall, Nov 2025). By February 2026 management described it as the "sole supply agreement" for glass (Q3 FY26 concall, Feb 2026).

The deal generates business through four mechanisms.

Pricing. On orders finalized and material lifted, Saint-Gobain issues credit notes of 4-5% of pricing. On projects where Saint-Gobain glass is specified and the order goes to Sejal, Sejal can renegotiate the price against the Saint-Gobain quote, an option competitors do not have (Q4 FY26 concall, May 2026).

Yield. Access to multiple Saint-Gobain glass sizes reduces cutting wastage. Management estimated a 1-2% EBITDA improvement from better raw material yield (Q2 FY26 concall, Nov 2025).

Logistics. Saint-Gobain's Jhagadia plant sits near Silvassa, Chennai near Erode, and Jhagadia and Rajasthan near Taloja. This allows Sejal to run with minimal glass inventory and continuous daily supply in a tailor-made, make-to-order market (Q2 FY26 concall, Nov 2025).

Marketing. Saint-Gobain's pan-India sales team specifies its glass in projects and positions Sejal to enter negotiations at order finalization, effectively acting as a channel for Sejal's products (Q4 FY26 concall, May 2026).

> *"Wherever the Saint Gobain glass are specified in some of the projects and that order has been given to us we can renegotiate the pricing on that front. So, which is not there for the other suppliers."*
>
> **CFO, Q4 FY26 CONCALL (MAY 2026)**

Management also cited the tie-up as a reason for reasonable, stable glass pricing, since Saint-Gobain monitors import volumes and demand-supply balance (Q3 FY26 concall, Feb 2026). The agreement was active through FY26 and into FY27, with the August 2026 call reporting no change to its terms.

Potential acquisition under due diligence ('one plant, due diligence over, legal process on'; 'It is still under the process. It will take some time.')

Sejal Glass has been pursuing a second Indian plant acquisition since late 2025. In November 2025 management said due diligence was "going on" for "one of the acquisitions, maybe after one month" (Q2 FY26, Nov 2025). By February 2026 the picture sharpened: one specific plant, diligence complete, legal work underway. In May 2026 the CFO pushed the timeline out: "It is still under the process. It will take some time." On the Q2 FY27 call in October 2026, management said it was still evaluating acquisition or capacity-addition opportunities, with "nothing as such concrete to disclose as of now."

> *"So we have one plant, where the due diligence is over and certain legal process is on. So on certain valuations point and certain legal point, the deal is under process. So it's in the discussion stage. Maybe we can get a result in month's time."*
>
> **PROMOTER, Q3 FY26 CONCALL (FEB 2026)**

In May 2026 the CFO pushed the timeline out: "It is still under the process. It will take some time." (Q4 FY26, May 2026). The Q1 FY27 call in August 2026 contained no update, and the Q2 FY27 call in October 2026 said there was nothing concrete to disclose, leaving the deal unresolved roughly a year after first disclosure.

The mechanism is the Glasstech playbook from April 2025. Sejal buys a low-utilization architectural glass processing plant in India, re-engineers the machinery, retrains the workforce, revives customer relationships, and ramps capacity. Management confirmed the

target is "similar line of business. So we are not diversifying in any way" (Q3 FY26, Feb 2026), with the benefit described as "geographical reach will be expanded" (Q3 FY26, Feb 2026). That reach matters because India contributed 28% of FY26 revenue, and management wants to rebalance toward a 60-40, eventually 50-50 India-UAE split (Q4 FY26, May 2026).

Funding is available. The annual report earmarks preferential issue proceeds for "financing of business opportunities, strategic initiatives and/or investment in subsidiaries" (Annual report FY26), and the CFO said the ₹22.20 crore warrant proceeds would be "structured in that" for acquisitions (Q4 FY26, May 2026).

Growth math is explicit: with or without the acquisition, management's FY27 guidance is 25-40% revenue growth. The deal is upside on top of a floor the company has already restated on the Q2 FY27 call.

Geographic expansion from UAE into Africa (~10-15% production share target) and Europe (~5% target)

Sejal Glass's UAE subsidiary, which drives the majority of consolidated revenue and most of consolidated profit, is deliberately diversifying its customer base beyond the GCC. Management has stated the goal of shifting 10-15% of production share to Africa and around 5% to Europe over the next 3-4 quarters. On the Q2 FY27 call, exports to Europe and Africa were still less than 5% of revenue, and management said Africa is being developed with one salesperson and remains a low-volume market.

The mechanism is straightforward: the Ras Al-Khaimah plant already operates at high utilization, so new African and European orders fill existing capacity rather than requiring new capex. In the Q2 FY26 concall, management explained the African push had already begun and laid out the timeline:

> *"Africa market now we have started penetration. So I think gradually after three to four quarters, there will be a 10% and above market share for the Africa and 5% for the Europe market also from our production. In UAE market, which we are now at 75%."*
>
> **AMRUT GADA, Q2 FY26 CONCALL (NOV 2025)**

Management framed this as a deliberate derisking move. The company has been actively pulling trade receivables into Letters of Credit, with roughly 25% of UAE business now transacted through LCs, which reduces collection risk when entering new markets with less established credit relationships.

The UAE subsidiary's existing product mix supports the expansion: currently around 90% of UAE output is insulated glass (IG), which carries better margins than plain toughened glass

because it involves further value addition. Exporting this higher-value product into Africa and Europe means the geographic expansion targets the most profitable part of the UAE portfolio.

At the current stage, the push is in early execution. The company has identified the target timeline of 3-4 quarters for meaningful contribution, but the Q2 FY27 call shows Europe and Africa still below 5% of revenue, with Africa described as a lower-volume market. Management has said the Europe market had already received its first order as early as the Q4 FY26 period.

Fire-rated glass commercial sale targeted Q4 FY27 after Q3 trial production

Sejal Glass entered a technology licensing and supply arrangement with Polymer Technology SRO, identified in the annual report as a Czech Republic-based company, for polymer gel-based fire-rated glass technology. The FY26 annual report describes it as a "technology licensing and supply arrangement" that gives Sejal Glass a perpetual, exclusive, and royalty-free license to manufacture and brand fire-rated glass in India and the UAE, with rights to sell and distribute globally. This is a licensed technology, not an acquisition - Sejal paid for the know-how and now owns exclusive manufacturing rights in its two key markets.

The mechanism is straightforward. Fire-rated glass is a certification-heavy product with a distinct channel: it must be installed by authorised fabricators who are part of the approval ecosystem, and every country has separate product rules. Management flagged in the Feb 2026 concall (Q3 FY26) that market entry requires building this fabricator network, not just installing machines:

> *"we have to certify our project and we have to take the approval. Certain approval is from the government. In different, different country there is a different rules for the product related to fire. And also in the fire product we have to tie up with the certain fabricator, so whole ecosystem will work with fire installation."*
>
> **PROMOTER, Q3 FY26 CONCALL (FEB 2026)**

The commercial timeline has slipped more than once. At the Nov 2025 concall (Q2 FY26), management expected the fire product to reach the market "within one quarter." By the May 2026 concall (Q4 FY26), that became "Q3" of the next financial year. The August 2026 call still pointed to commercial production at end-Q3 FY27. The Q2 FY27 call clarified that Q3 FY27 is for trial production and approvals, with commercial sale from Q4 FY27, and revenue contribution to follow after that.

The potential revenue is not trivial. Management sized the fire-rated market at above ₹500 crores including India and the UAE (Q2 FY27 concall), and the railway glass market at roughly ₹500 crores (Q2 FY26 concall). It guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28. On a FY27 consolidated revenue base of roughly

₹500-560 crores, 5% is a modest but real contribution; the 15-20% FY28 target is the larger step. The margin profile is materially better than standard architectural glass: management said fire-rated EBITDA margins should be above 30%, though no specific revenue band was disclosed.

What makes this a genuine growth trigger rather than a speculative line item is the exclusivity structure. Sejal owns the license for India and the UAE, its two operating geographies. It is not importing finished product and reselling - it is manufacturing locally under its own brand in India and the UAE, where the fire-rated technology is being installed alongside the third tempering line as part of the around 20 million AD UAE capex. The product addresses a regulatory-driven market (stricter fire safety requirements across commercial buildings, airports, healthcare) where specifications, not price competition, drive purchasing decisions. Management confirmed at the Nov 2025 concall that Saint-Gobain already has fire-rated products in India, so Sejal is entering an established category with a licensed European technology rather than creating demand from scratch.

Key risks

- **UAE concentration and geopolitics.** The UAE subsidiary contributed 72% of FY26 consolidated revenue (annual report), and the Q1 FY27 split was even sharper at 69-31 (₹81.52 crores UAE vs ₹36.43 crores India, Aug 2026 call). June 2026 war-related disturbances hit UAE logistics, added roughly 1% to cost of goods through diesel and energy surcharges, and forced a one-time hit in Q1 FY27 (Aug 2026 call). Management passed on 80-90% of incremental costs in May 2026, but on a monthly revenue base of AED 11-12 million, the absorbed 10-20% still moves EBITDA by 1-1.5% in a quarter. The strategic answer is geographic diversification: Africa at a 10-15% target of production and Europe around 5%, both "3-4 quarters out" (Nov 2025 call). Until those exports actually ship, a regional shock in one Gulf state is a consolidated earnings event.
- **UAE order-book conversion depends on project release schedules.** The UAE order book was about AED78 million in September 2026, with execution visibility of 6-9 months (Q2 FY27 call). Management describes the business as make-to-order, with architects and facade consultants releasing sizes. If site readiness or approvals delay, monthly billing can stall even with a stocked order book. The India order book was about ₹85 crores with a 6-8 month delivery timeline.
- **Fixed-cost absorption risk in the acquired India units.** Taloja operated at 33% tempering utilization and Erode at 13% in Q4 FY26 (May 2026 call), improving to 55% and 15% by Q1 FY27 (Aug 2026 call). By Q2 FY27, Taloja tempering was 69% and its IG line almost 40%, while Erode tempering exceeded 24% and IG exceeded 18%; Erode was EBITDA-positive at around 10% and Taloja near breakeven (Q2 FY27 call). Q1 FY27 had a one-off

people-cost hit of around ₹1 crore from appraisals and a Taloja labor union agreement. Management targets 75% utilization for Taloja and 25-30% for Erode by year-end, which would swing these units to small profitability. If order execution slips instead, India standalone stays loss-making and drags consolidated margins for a second straight year.

- **The Taloja/Erode ramp is a steep step-up, though Q2 FY27 showed progress.** The two acquired units did roughly ₹11 crores of quarterly revenue at 5-12% utilization in Q2 FY26 (Nov 2025 call), and management guides ₹200 crores per year from both units, with ₹110 crores expected in FY27 (May 2026 call). That is a multi-fold production increase in roughly four quarters. By Q2 FY27, Taloja tempering was 69% and Erode above 24%, but both remain below the year-end targets. The promoter is candid that the constraint is not demand but delivery capacity: skilled labor, machine re-engineering, debtor management, and logistics all have to scale together. The company deliberately caps growth to avoid bad debt, which has held realised bad debts under 0.5% over three years, but it also means capacity stays under-sold for longer than the guidance implies.
- **Customer credit risk in the UAE.** Payment discipline has been flawless historically: zero bad debts and zero delays (May 2026 call). The company already shifted about 25% of UAE business to LC-based terms (Nov 2025 call), which protects against default but tightens terms and can slow order conversion. The remaining business runs on post-dated cheques, with monthly collection at 90-95% of target (Nov 2025 call). Working capital days sit at about 98 days in India and 85 days in the UAE (Aug 2026 call). On the Q2 FY27 call, management said UAE works on PDC but about 25% is on LC, while India large projects require advance glass inventory, causing some working-capital blockage. With the majority of revenue concentrated in one region, a single large developer or facade company delaying payments would expand receivables against the company's own working capital debt and compress the cash they need to fund the expansion.
- **Debt and debt service.** Consolidated debt was around ₹138 crores as of May 2026, of which about ₹70 crores was promoter-funded. India carried ₹52 crores (₹38 crores term loan, ₹14 crores working capital, Aug 2026 call). The UAE expansion is being funded about 60% by internal accruals and 40% by bank finance on an around 20 million AD programme (Q2 FY27 call), versus the earlier AED 15 million estimate with AED 7 million of debt. On the Q2 FY27 call, management said the debt is mostly long-term bank debt being paid on EMI, with no prepayment plan. The ₹77.70 crore preferential issue brought the FY26 debt-to-equity ratio down to 1.09 from 4.16, and the remaining ₹22.20 crores warrant balance is due on conversion. That debt math works only if EBITDA keeps compounding; a revenue miss leaves fixed interest costs absorbing margin.

- **New verticals are small and unproven for now.** Railway glass was under 1% of Q1 FY27 revenue despite approved-vendor status at three railway coach factories, and Q2 FY27 still described railway and digital printed glass as minimal. Fire-rated glass does not start commercial sale until Q4 FY27, after Q3 trial production. Management guides specialty/value-added products at about 5% of FY27 revenue and 15-20% in FY28, but the addressable markets are modest, above ₹500 crores for fire-rated including India and UAE and ₹500 crores-plus for railway glass. If commercialization slips, the product-mix margin story rests on insulated glass alone, and the guided ~18% EBITDA margin has to come from utilization.
- **Guidance-setting has a wide band and a public overhang.** Management frames 25% as the minimum it is "100% going to achieve" and 40% as the upside (Aug 2026 call), and cites a TV interview figure higher than that when pressed. The stated policy is deliberate conservatism: "we will remain always conservative while giving the guidance, and we don't then overcommit and then fail" (Aug 2026 call). That protects against disappointment but creates earnings-day volatility risk if actuals land between 25% and 40% after investors anchor on the upper end or the television number.

Scenarios

Bull case

The Gulf passes the geopolitical noise. The UAE order book, already up from AED 50 million to AED 72 million and then about AED 78 million by September 2026, converts into monthly billing above AED 12 million, and the third tempering line plus fire-rated production hit commercial run in Q3-Q4 FY27, lifting total UAE tempering capacity to around 24 lakh sqm per annum and utilization toward 85%. India scales in parallel: Taloja heads to 75% and Erode to 25-30% utilization, Glasstech turns EBITDA-positive, and India revenue reaches the ~₹200 crores guide, shifting the mix toward 60-40 India-UAE. Revenue lands toward the 40% upper band of guidance, EBITDA margin holds around 18%, PAT margin reaches the guided ~10%, and the four-to-five-year carry-forward tax shield keeps India tax outgo at zero. Fire-rated and railway verticals compound off a small base, contributing toward the 5% FY27 and 15-20% FY28 specialty revenue targets, and the acquisition under evaluation closes to extend India capacity further.

Base case

The 25% minimum guidance is met within the 25-40% range, landing consolidated revenue between roughly ₹500 crores and ₹560 crores. H1 FY27 revenue was ₹259.29 crores, up 41.84%, and Q2 alone was ₹139.86 crores, so the run-rate is already near the middle of the full-year range. UAE grows on the AED78 million order book and monthly billing around AED11-12 million. Glasstech swings to small EBITDA-positive as Taloja reaches 60-70% and

Erode 20-25% utilization; Q2 FY27 showed Taloja at 69% and Erode above 24%, with Erode around 10% EBITDA-positive and Taloja near breakeven. Consolidated EBITDA margin holds around 18% as the Q2 18.35% is partly offset by H1 16.85%, and PAT margin reaches about 10%. New verticals contribute about 5% of revenue this year with fire-rated commercial sale in Q4, the Saint-Gobain trial is renewed, and working capital holds near current levels of 98 days India and 85 days UAE.

Bear case

Gulf disruption returns and cuts deeper. Logistics delays stretch delivery timelines, pass-through that held at 80-90% slips as customers push back, and the cost pressure seen in Q1 FY27 from diesel and energy surcharges recurs and widens. The AED monthly run-rate stalls below AED 11 million, the UAE order book fails to convert, and with the majority of revenue concentrated in one region, the miss goes straight to the consolidated top line. India does not rescue it: Erode stays below 25-30% tempering utilization, Taloja fails to clear 75%, and the FY26 standalone loss persists as fixed costs stay unabsorbed. UAE payment collection slips for the first time, stretching working capital past the current 98/85-day benchmarks, and the bear case forces a cut from even the 25% floor, with the ₹52 crore India debt and new UAE bank debt service compressing net profit faster than revenue.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E
Revenue (₹ Cr)	244	397	550	685
Revenue growth	0.0%	+62.8%	+38.7%	+24.5%
EBITDA (₹ Cr)	-	-	98.40	127
EBITDA margin	14.5%	16.7%	17.9%	18.6%
Depreciation (₹ Cr)	7.50	15.40	19.80	24.70
Interest (₹ Cr)	16.30	21.20	22.00	23.30
PBT (₹ Cr)	11.60	31.60	56.60	79.40
Tax (₹ Cr)	0.60	2.60	4.80	6.80
Tax rate	5.2%	8.2%	8.5%	8.5%
PAT (₹ Cr)	11.00	29.00	51.80	72.70
PAT growth	-	+162.2%	+78.5%	+40.2%
EPS (₹)	10.85	27.12	43.48	60.98
P/E	82.2x	32.9x	20.5x	14.6x
PEG	2.0x	0.8x	0.5x	0.4x

CAGR FY27E-FY28E: Revenue +24.5% · EBITDA +29.5% · PAT +40.3%

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Q2 FY27 concall notes

TLDR

Sejal Glass reported Q2 FY27 consolidated total income of ₹139.86 crore, up 33.14% YoY, with EBITDA of ₹25.66 crore (18.35% margin, up 132 bps) and net profit of ₹14.42 crore (10.31% margin, up 258 bps). H1 FY27 income reached ₹259.29 crore (+41.84% YoY) with PAT of ₹21.63 crore (+72.6%). Growth came from higher utilization at Taloja and Erode, COGS improvement in UAE, and the UAE facade division. The UAE order book stands at AED78 million (about ₹200 crore) and India at ₹85 crore, with 6-9 month execution visibility. Management guides FY27 revenue growth of 25-40%, EBITDA margin above 18%, and PAT margin around 10%. Fire-rated glass commercial production is targeted for end of Q3 FY27, with trial production in Q3. Watch points include geopolitical tensions in the Middle East raising logistics costs, working capital blockage from advance glass purchases, and low railway tender conversion at under 5%.

WHAT CHANGED SINCE Q1 FY27

- **Revenue guidance maintained at 25-40%**: Q1 FY27 guided 25% minimum, up to 40%. Q2 FY27 repeats 25-40% for FY27, with management stating minimum 25% and maximum 40%.
- **EBITDA margin guidance raised**: Q1 FY27 guided about 1% improvement in EBITDA margin. Q2 FY27 guides sustaining EBITDA margin above 18% for FY27, with Q2 already at 18.35%.
- **PAT margin guidance maintained**: Q1 FY27 guided 9-10% annualized. Q2 FY27 guides PAT margin around 10%, with Q2 at 10.31%.
- **Q2 revenue guidance delivered**: Q1 FY27 guided Q2 revenue of ₹142-145 crore. Q2 FY27 reported total income of ₹139.86 crore, slightly below the guided range.
- **Margin recovery delivered earlier than guided**: Q1 FY27 said margin recovery would be weighted to Q3/Q4 and Q2 would still be below target. Q2 FY27 PAT margin reached 10.31%, above the 9-10% annualized target.
- **Glasstech units turned profitable**: Q1 FY27 said Taloja and Erode reached breakeven with PAT-positive expected from Q2. Q2 FY27 reports Erode at positive EBITDA of around 10%, Taloja more or less at breakeven.
- **UAE order book grew**: Q1 FY27 reported UAE order book of about ₹175 crore (AED72 million). Q2 FY27 reports AED78 million as of September 2026, with AED27.6 million (about ₹71 crore) in new orders secured in July 2026.
- **India order book grew**: Q1 FY27 reported India order book above ₹50 crore. Q2 FY27 reports India order book around ₹85 crore, with about ₹150 crore in domestic projects secured.
- **Fire-rated glass timeline shifted**: Q1 FY27 said fire-rated glass commercial production expected in Q3. Q2 FY27 says trial production in Q3 and commercial production targeted for end of Q3 FY27, with commercial sale expected from Q4.
- **Specialty products guidance maintained**: Q1 FY27 targeted about 10% of revenue from railway, fire-rated, and specialty verticals. Q2 FY27 guides 5% from value-added products this year and 15-20% next year.
- **New disclosure on railway tender conversion**: Q2 FY27 discloses railway tender conversion at under 5%, with more than ₹100 crore of tenders every quarter from the railway side.
- **New disclosure on UAE facade division**: Q2 FY27 discloses a facade division in UAE that contributed to Q2 EBITDA, not mentioned in Q1 FY27.
- **New disclosure on export markets**: Q2 FY27 says exports to Europe and Africa are less than 5% of revenue, with one salesperson developing the Africa market. Q1 FY27 mentioned expansion into Africa and Europe without a

revenue figure.

- **Tone shift on capacity ceiling**: Q1 FY27 said pre-expansion capacity supports maximum revenue of about ₹600 crore, extending to about ₹675 crore with the UAE third line. Q2 FY27 says peak revenue from existing infrastructure is ₹600-650 crore, expected to be reached in FY28.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated total income	₹139.86 crore	+33.14% YoY	Capacity utilization at Erode and Taloja, efficiency improvement in Dubai operations, UAE facade division contribution
Consolidated EBITDA	₹25.66 crore	+43.44% YoY	COGS improvement from product mix change, better negotiation on input costs, manpower and machine efficiency
Consolidated EBITDA margin	18.35%	+132 bps YoY	COGS reduction, fixed cost absorption from higher revenue, UAE facade division
Consolidated net profit	₹14.42 crore	+77.61% YoY	EBITDA growth and margin expansion
Consolidated PAT margin	10.31%	+258 bps YoY	Operating leverage and COGS improvement
Earnings per share	₹12.52	vs ₹7.95 YoY	Higher net profit
H1 FY27 total income	₹259.29 crore	+41.84% YoY	H1 performance across India and UAE
H1 FY27 EBITDA	₹43.68 crore	+43.79% YoY	Margin improvement and revenue growth
H1 FY27 PAT	₹21.63 crore	+72.6% YoY	EBITDA growth and lower effective tax
UAE order book	AED78 million (about ₹200 crore)	Up from AED72 million in Q1 FY27	AED27.6 million (about ₹71 crore) new orders in July 2026 for hospitality, residential, healthcare
India order book	₹85 crore	Up from above ₹50 crore in Q1 FY27	About ₹150 crore domestic projects across commercial, residential, institutional
Taloja tempering utilization	69%	Up from 55% QoQ	Improved capacity utilization
Taloja IG utilization	About 40%	Up from 24% QoQ	Improved capacity utilization
Erode tempering utilization	Above 24%	Up from 13% QoQ	Improved capacity utilization
Erode IG utilization	Above 18%	Up from less than 5% QoQ	Improved capacity utilization
Silvassa IGU utilization	43%	Targeting 50% by FY27	Project-based sales of IG and laminate products

SEGMENTS & GEOGRAPHIES

- **India operations**: Three plants at Silvassa, Taloja, and Erode. Taloja and Erode remain underutilized. Management expects India revenue to grow from capacity utilization of Taloja and Erode, and is looking at acquisitions or capacity addition. India order book at ₹85 crore with 6-8 month delivery timelines. Exports from India to Israel, Cyprus, and Sri Lanka; exports to Europe and Africa are less than 5% of revenue.

- **UAE operations**: Operating at about 90% capacity in IG glass. Third tempering line and fire-rated line coming in Q3. UAE order book at AED78 million. UAE is completely selling IG glass and laminated glass. Facade division contributed to Q2 EBITDA. Geopolitical tensions have increased logistics and shipment costs, which are being passed on to customers.
- **Glasstech units (Taloja and Erode)**: Erode at positive EBITDA of around 10%, Taloja more or less at breakeven. Utilization improved QoQ across tempering and IG lines. Management expects fixed cost absorption to add to EBITDA as utilization rises.
- **Product mix**: IG glass is the highest in terms of sales in UAE. In India, product mix is gradually changing from plain tempered to IG and laminate glass. Value-added products including decorative, digital printed, fire-rated, and bulletproof glass are niche margin products. Fire-rated glass EBITDA margin is more than 30% according to management.

STRATEGY & COMPANY-SPECIFIC

- **UAE capacity expansion**: Third tempering line and fire-rated glass line capex is around AED20 million total investment. More or less on track for Q3. Funded 60% from internal accruals and 40% from banking finance.
- **Fire-rated glass**: Manufacturing line and technology imported and being installed. Trial production in Q3, commercial production targeted for end of Q3 FY27, commercial sale expected from Q4. Market size estimated above ₹500 crore including India and UAE. EBITDA margin more than 30%.
- **Railway grade glass**: Approved vendor for three railway coach factories. Participating in tenders with more than ₹100 crore of tenders every quarter from the railway side. Tender conversion at under 5%. Management expects order flow to increase as the company moves from C to B to A category supplier.
- **Bullet-resistant glass**: Progressed through testing in India.
- **Digital printing**: Capability expanded for decorative and specialized architectural glass.
- **Geographic mix**: India-UAE revenue mix targeted at 60-40, with 60% from UAE and 40% from India. Strategy to increase India share through Taloja and Erode utilization and potential acquisitions or capacity addition.
- **Export expansion**: Started exporting to Israel and Cyprus since last year, supplying to Sri Lanka this year. One salesperson developing the Africa market. Exports to Europe and Africa less than 5% of revenue.
- **Working capital**: UAE market operates on PDC concept; company insists on LC terms for 25% of business to improve working capital cycle. India requires advance purchase of coated or reflective glass, causing working capital blockage. Working capital managed within internal resources.
- **Debt**: Long-term debts from banks being paid on EMI system. No prepayment or debt reduction plan currently.
- **Plant visit**: Management will arrange a plant visit soon.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	25-40% YoY	Maintained	Market conditions, real estate activity, infrastructure development, operational progress
FY27 EBITDA margin	Above 18%	Raised	COGS improvement, capacity utilization, operational efficiencies, value-added product mix
FY27 PAT margin	Around 10%	Maintained	Better capacity utilization, operational efficiencies, value-added product contribution

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY28 revenue growth	Minimum 25% YoY on same capacities	Maintained	India 2047 targets, glass industry growth, real estate and infrastructure development
Peak revenue from existing infrastructure	₹600-650 crore, expected in FY28	Maintained	Current installed capacity across India and UAE
Fire-rated glass commercial production	End of Q3 FY27	Shifted from Q3 FY27	Trial production in Q3, commercial sale from Q4
Specialty products revenue contribution	5% this year, 15-20% next year	Maintained	Railway, fire-rated, digital printed, bulletproof glass
UAE third tempering line	Q3 FY27	Maintained	More or less on track
Peak utilization	Tempering near 100%, IG and laminate above 80-85%	New	Tempering product used for IG and laminate production
Silvassa IGU utilization	50% by FY27	New	Project-based sales of IG and laminate
Fire-rated glass market size	Above ₹500 crore including India and UAE	New	Management estimate
Fire-rated glass EBITDA margin	More than 30%	New	Value-added product

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Geopolitical tensions in Middle East	Doing well despite tensions. Logistics and shipment costs increased, input costs increased to some extent, being passed on to end users. Developer and facade company activities still ongoing.
Working capital blockage	UAE operates on PDC concept; 25% of business on LC terms. India requires advance purchase of coated or reflective glass, causing inventory blockage. Working capital managed within internal resources.
Railway tender conversion	Under 5% conversion. New entrant, C category supplier. Order flow depends on moving to B and A categories.
Taloja utilization	More or less at breakeven. Capacity utilization improvement needed for EBITDA contribution.
Africa and Europe export market	Less than 5% of revenue. Africa market not mature, lower in product and quantities. Time-taking process.
Debt reduction	No prepayment or debt reduction plan currently. Long-term debts paid on EMI system.
Fire-rated glass timeline	Commercial production targeted for end of Q3 FY27, commercial sale from Q4. Guidance on market size and margins only in Q1 FY28.
Customer concentration	Not discussed in Q2 FY27.

Q&A HIGHLIGHTS

EBITDA margin sustainability Question: Is the 18% EBITDA margin target for H2 or FY27 as a whole, and what drove the product mix improvement? Answer: Management is at 18%+ in Q2 and expects to remain above 18% in H2, with overall FY27 margins above 18%. Product mix improvement came from changes in raw material composition, negotiating purchases, and using different vendors for silicon and PVB, resulting in lower COGS.

Taloja and Erode utilization and margins Question: What are current utilization levels and revenue contribution from Taloja and Erode? Answer: Erode has positive EBITDA of around 10%, Taloja is more or less at breakeven. Taloja

tempering utilization improved from 55% to 69%, IG from 24% to about 40%. Erode tempering improved from 13% to above 24%, IG from less than 5% to above 18%. Fixed cost absorption will add to EBITDA as utilization improves.

Fire-rated glass market and margins Question: What is the market size and margin differential for fire-rated glass? Answer: Guidance on market size and margins will be given in Q1 FY28 once the product is out and tested. EBITDA margin is more than 30% as it is a value-added product. Market size estimated above ₹500 crore including India and UAE.

India order book and execution timeline Question: What is the India order book and over what timeline will it be executed? Answer: India order book is around ₹85 crore. Projects have 6-8 month delivery timelines. Sizes are released by architects and facade consultants, so new projects are added monthly and old projects delivered continuously.

India revenue mix strategy Question: What is the strategy to increase India's share of consolidated revenue toward 60-40? Answer: India-UAE mix targeted at 60-40, with 60% from UAE and 40% from India. Strategy is capacity utilization of Taloja and Erode units, and looking at acquisitions or capacity addition. Nothing concrete to disclose as of now.

Railway tender conversion Question: What is the current order inflow for railway grade glass and bid-win ratio? Answer: Railway is a continuous tendering process with more than ₹100 crore of tenders every quarter. Conversion is under 5%. As a new entrant in C category, order flow will increase after moving to B and A categories. No tender fees.

Working capital and cash flow Question: How is the company improving working capital given weak cash flow? Answer: UAE market operates on PDC concept; company insists on LC terms for 25% of business to get discount and improve working capital cycle. India requires advance purchase of coated or reflective glass, causing inventory blockage. Working capital managed within internal resources from profits.

UAE capacity and expansion Question: Is UAE operating at 95% capacity and what is the expansion plan? Answer: UAE is working at about 90% capacity in IG glass. Second line expanding tempering capacity in Q3, which will add capacity. India has three plants with Erode and Taloja still underutilized, and real estate and infrastructure development will add revenue and capacity utilization.

Kross Ltd.

GROWTH TRIGGERS

Q2 FY27 revenue rose 80% to INR 235 crore and H1 reached INR 419.4 crore, with management guiding Q3 and Q4 volumes above Q2. The operating lever is the extruded beam moving from 80% to 100% of axle output, alongside price settlements and exports. The seamless tube plant and tipping jacks are the next dated tests.

1. Q3 and Q4 FY27 volumes guided above Q2 after 80% revenue growth

Q2 FY27 revenue rose 80% year on year to INR 235 crore and H1 reached INR 419.4 crore. Management expects Q3 and Q4 CV and trailer volumes to be stronger than Q2, with H2 historically about 20% above H1. Q2 axle volumes exceeded 10,500 units and H1 almost reached 20,000, so the near-term operating leverage is already visible.

2. Extruded beam conversion to 100% lifts in-house content and cost position

Commercial production of the single-piece extruded axle beam has started, and about 80% of current trailer axle output used the extruded route in Q2 FY27. Management targets 100% in one to two quarters. The process shifts more axle manufacturing in-house and is the clearest operating lever, although the Q2 call does not quantify the current margin benefit.

3. Price revisions support Q3 and Q4 margin recovery from 13.0%

Q2 FY27 EBITDA margin was 13.0%, up from 12.23% in Q1. Steel and conversion settlements with most OEMs and Tier 1 customers were recently concluded, and management expects the impact in Q3 and Q4. The margin lever is recovery of already-incurred costs rather than a new pricing initiative, and management did not give a timeline back to 14-15%.

4. Exports reach 7.5-8% of components and FY27 growth is guided at 45%

Exports were about 7.5-8% of the component business in Q2 FY27, and management expects FY27 exports to be 45% higher year on year. The Q2 call did not reiterate an 8%-of-total-revenue target. A new European propeller shaft customer is under validation and not yet in mass production, so near-term growth still depends on the existing European customer.

5. Tipping jack utilisation guided to 50-60% of 800-unit capacity by Q4 FY27

Tipping jack volumes in Q2 FY27 were similar to Q1's 226 kits. Management guides at least 50-60% utilisation of the 800-unit monthly capacity by Q4 FY27, with realisation of about INR 1.4 lakh per set. The product is being sold first to existing trailer fabricators, with OEM sales planned after field validation.

6. Seamless tube trials dated for February-March 2027 with 8-10% input saving

The seamless tube plant has received and installed the sizing and straightening mills, with production trials planned for February or March 2027. Management expects full backward integration by end-H1 and says captive tubes should be 8-10% cheaper than current purchase prices, with about a 3-4% overall margin benefit once integrated. The benefit is guided, not yet achieved.

7. Preferential issue funds about INR 60 crore of immediate capacity

Kross is raising a preferential issue of INR 63.6 crore and plans about INR 60 crore of immediate capex over the next two quarters for axle shaft capacity, cold-drawn tubes, robotic automation in forging and machining, and capacity for CV and trailer demand. The cold-drawn tube and metal treatment spend alone is estimated at INR 20-25 crore. Commissioning dates are not disclosed.

8. Working capital improves to 81 receivable days in Q2

Q2 FY27 receivable days were about 81 and H1 about 90, versus above 100-110 in H1 FY26. Management targets about 80 days and a working capital cycle below 90-95 days. The improvement reduces the cash drag from the fabricator channel as volumes rise, though export receivables above 120 days remain for 4-4.5% of the business.

INVESTMENT THESIS

Kross Ltd is a converter of steel and bought-out parts into trailer axles, suspension assemblies and forged or machined components for M&HCV and tractor OEMs. The business economics are volume-driven and cyclical, with pricing in the trailer axle business capped by the market leader and the component business made to customer designs. Q2 FY27 revenue was INR 235 crore, up 80% year on year, with EBITDA of INR 30.6 crore at 13.0% and PAT of INR 19.69 crore; H1 revenue was INR 419.4 crore, EBITDA INR 53.32 crore and PAT INR 33.16 crore. The trailer segment was 49% of Q2 revenue and components 51%. The company is the second-largest trailer axle player at 26-28% share, and its own-design axle and suspension business is the main source of brand and aftermarket pull. The component business supplies Tata Motors, Ashok Leyland, TAFE and export customers including Leax, but it is a made-to-print business where the customer owns the design. That limits proprietary advantage and means Kross competes on quality, delivery and cost. The response is backward integration: forging, casting, machining, the new extruded axle beam line and the planned seamless tube plant.

The near-term earnings path has improved materially. Q2 FY27 volumes exceeded the prior record, with more than 10,500 trailer axles and H1 almost 20,000, and management expects Q3 and Q4 CV and trailer volumes to be stronger than Q2. H2 is historically about 20% above H1. The extruded beam line is the clearest operating lever: about 80% of current axle output used the single-piece process in Q2, with 100% targeted in one to two quarters. Management has cited an approximately 2% cost saving on axle realisation value in prior research, which becomes more material as the mix reaches 100%. The Q2 call does not quantify the current margin benefit. The other near-term lever is price recovery. Q2 EBITDA margin recovered to 13.0% from 12.23% in Q1, but gross margin was lower sequentially because steel and consumable costs rose. Steel settlements are retrospective, and conversion settlements with most OEMs and Tier 1 customers were only recently concluded, with impact expected in Q3 and Q4. Management declined to time a return to 14-15% margin, so margin recovery is a guidance-dependent outcome, not a delivered annual margin.

The 18-24 month path depends on three capital projects. First, the seamless tube plant has an about INR 170 crore budget. The Q2 call described overall capacity as 1 lakh, with phase 1 at 30% and initially captive for axle beams and tipping jacks. About INR 120 crore was indicated as spent or tied by Q2 FY27, with about INR 50 crore left for H2. Sizing and straightening mills are installed and production trials are planned for February or March 2027, with full backward integration by end-H1. Management says captive tubes should cost 8-10% less than current purchase prices and add about 3-4% overall margin once fully integrated. That is a plan, not an achieved result, and the benefit is exposed to commodity spreads. Second, the INR 63.6 crore preferential issue, which is ongoing, funds about INR 60

crore of immediate capex over the next two quarters for axle shaft capacity, cold-drawn tubes, robotic automation and capacity for CV and trailer demand. The cold-drawn tube and metal treatment spend alone is estimated at INR 20-25 crore. These projects extend the integration chain but have no disclosed commissioning dates. Third, the tipping jack line has 800 units monthly capacity, but Q2 volumes were similar to Q1's 226 kits, and the Q4 FY27 utilisation target is 50-60%, down from 65-70%. The earlier FY27 revenue target of INR 45-50 crore has not been reiterated.

Management delivery is mixed. The extrusion line arrived about two quarters late but is now running, and the Q2 volume ramp is real. Working capital improved to about 81 receivable days in Q2 and 90 in H1, against above 100-110 in H1 FY26, but the target of about 80 days is not yet met. Against that, prior research records FY26 revenue growth of 8.5% versus a 10-12% guide, exports at 4% versus a 5% target, trailer axle volume around 3,500 per month versus a 7,000-7,500 commitment, and tipping jack revenue in FY26 under INR 1 crore versus a INR 10-12 crore H2 guide. The pattern is projects delivered late and volume promises missed, not a failure to build. The Q2 FY27 call did not give a total FY27 revenue growth percentage. The current explicit guidance is directional: Q3 and Q4 volumes stronger than Q2, FY27 exports 45% higher year on year, extruded beams at 100% of output within one to two quarters, tipping jacks at 50-60% of 800-unit capacity by Q4, and seamless tube trials in February-March 2027.

The investment case therefore hinges on whether the Q2 volume surge is the start of a durable operating leverage cycle or a peak in a cyclical recovery. The bull mechanism is straightforward: higher volumes absorb fixed costs, the extruded beam cuts axle cost, price settlements recover past inflation, exports carry better margins and the seamless tube adds a captive input advantage from FY28. The bear mechanism is equally clear: CV demand is cyclical, the Q3 and Q4 guidance is an OEM indication rather than a contract, cost pass-through may lag again, the extrusion conversion to 100% may take longer, the seamless tube may slip, tipping jack adoption may stay slow, and working capital may stretch if fabricators delay payments. The main falsifiers are a Q3 or Q4 volume print below Q2, extrusion conversion still below 100% by the next call, no visible price recovery in gross margin, seamless trials slipping beyond February-March 2027, tipping jack utilisation missing 50-60% in Q4, and receivable days moving back above 90. No price target or valuation judgment is implied.

RESEARCH REPORT

What KROSS does

Kross Limited is a Jamshedpur-based manufacturer of trailer axles, suspension assemblies, and forged and precision-machined automotive components for the medium and heavy commercial vehicle (M&HCV) and tractor industries. The company was incorporated in 1991, started bulk exports in 2023, and listed on the BSE and NSE in September 2024. It operates six manufacturing facilities across the Adityapur Industrial Area in Jamshedpur, spanning 17 acres, with capabilities in design, forging, casting, machining, heat treatment, and assembly.

The business splits into two segments. The trailer axles and suspension segment contributed 49% of revenue in Q2 FY27, 41% in Q1 FY27, 43% in FY26, and 44.1% in FY25. The component business - parts sold to M&HCV OEMs, tractor OEMs, and export customers - contributed 51% in Q2 FY27, 59% in Q1 FY27, 57% in FY26, and 55.9% in FY25. The trailer axle business is the company's own design and brand, sold to trailer fabricators and dealers. The component business is made-to-print work for OEMs and Tier 1 suppliers, where the customer owns the design.

The trailer axle product range covers 12-ton to 18-ton axles, with both mechanical and air suspension variants. Kross produces the axle beams, hubs, brake drums, and suspension components in-house, and also sells the complete axle and suspension assembly. The company's own-design axle business is where it holds roughly 26-28% market share and is the country's second-largest manufacturer, per the Nov 2025 call. The component business includes axle shafts (8-9% of total revenue), coupling flanges (8%), anti-roll bars, planet carriers, bevel gears, differential spiders, inter-axle kits, rear end spindles, and tractor components like PTO shafts and rockshafts.

The core capability that took years to build is the fully integrated manufacturing chain. Kross does its own forging (with presses up to 2,000 tons), casting (a foundry with high-pressure mold lines), machining (CNC turning, VMCs, HMCs), heat treatment, and surface protection like phosphating and CED coating. In FY25, the company produced 40,100 trailer axle and suspension units at about 67% capacity utilization, 660,000 coupling flanges at ~85%, 206,000 differential spiders at ~74%, 201,000 axle shafts at ~74%, and 78,300 anti-roll bars at ~78%. The R&D team of 26 people handles design and simulation in-house.

Management's stated strategy, repeated across concalls, is to produce in-house rather than offload work. This backward integration is the margin lever. The company is in the middle of a large capex cycle to deepen it further, funded by the INR 500 crore IPO (INR 250 crore fresh issue) completed in September 2024.

The three major new projects are:

- **Axle beam extrusion line**: commercial production commenced in Q1 FY27. By Q2 FY27 about 80% of the roughly 4,000-4,200 trailer axles made each month used the single-piece extruded beam, with management targeting 100% within one to two quarters. The line lifts capacity from 5,000 to 7,500 units per month, with a view to 10,000. Management said in the Nov 2025 call that the extruded beam carries a cost saving of approximately 2% of axle realisation value. The line cost about INR 24 crore including machining setup.

Seamless tube plant: the largest capital project, intended to bring tube supply in-house for axle beams and tipping jacks and reduce dependence on purchased tube. The overall capacity is described in the Q2 FY27 call as 1 lakh, with the unit not restated, and phase 1 at 30%, initially captive. The approved budget is approximately INR 170 crore; current spend, funding and trial timing are set out in the next paragraph.

- **Seamless tube plant**: an approximately INR 170 crore project. The Q2 FY27 call described overall capacity of 1 lakh (the unit was not restated in the call), with phase 1 at 30% and initially for captive consumption in axle beams and tipping jacks. About INR 120 crore of the budget had been incurred or tied to the project by Q2 FY27, with about INR 50 crore left for H2, funded by an approximately INR 110 crore term loan plus internal accruals. The sizing and straightening mills have been received and installed, and production trials are planned for February or March 2027. Management expects full backward integration by end-H1, with captive tubes 8-10% cheaper than current purchase prices and a 3-4% overall margin benefit once integrated. The Q2 call did not update the earlier plan for meaningful revenue from FY28.

The foundry is also being expanded. A high-pressure mold line is expected to start in Q3 FY27 and will double casting capacity, supporting hubs and brake drums for trailer axles. A robotic forging line for rear axle shafts using material-gathering press forging is on track for September 2026 commissioning.

Q2 FY27 update on capital allocation: Kross announced a preferential issue of INR 63.6 crore. Management said it is raising close to INR 60 crore through warrants and preferential shares and plans about INR 60 crore of immediate capex over the next two quarters for axle shaft capacity, cold-drawn tubes, robotic automation in forging and machining, and capacity for CV and trailer demand. The cold-drawn tube and metal treatment spend is estimated at INR 20-25 crore. These are proposed or planned projects; commissioning and revenue dates are not disclosed.

The company's financial trajectory shows the cyclicality of its end markets. Revenue was INR 6,204 mn in FY25, flat versus INR 6,202 mn in FY24, after growing from INR 4,886 mn in FY23. EBITDA margin was 13.1% in FY25, and PAT was INR 480 mn. The first half of FY26

was weak - H1 revenue was INR 270 crore, down 5% year on year - but H2 recovered sharply, with Q4 FY26 revenue of INR 225.4 crore, up 22% year on year, and EBITDA margin of 14.9%. Q1 FY27 revenue was INR 185.35 crore, up 32% year on year, with EBITDA margin of 12.23% and PAT of INR 133.12 million. Q2 FY27 revenue rose to INR 235 crore, up 80% year on year, with EBITDA of INR 30.6 crore at 13.0% margin and PAT of INR 19.69 crore; H1 FY27 revenue was INR 419.4 crore, EBITDA INR 53.32 crore, and PAT INR 33.16 crore.

Q2 FY27 transcript note: The opening remarks referred to EBITDA of INR 36 crore and PAT of INR 196 million, while the CFO's reconciliation and the H1 figures indicate EBITDA of INR 30.6 crore and PAT of INR 19.69 crore. This report uses the reconciled CFO figures and flags the opening remarks as an ambiguous transcription.

Q2 FY27 trailer revenue reconciliation note: Management stated Q2 FY27 trailer segment revenue close to INR 115 crore, against INR 75 crore in Q1 FY27 and INR 58-60 crore in Q2 FY26. A later question referred to about INR 150 crore for the segment and management agreed; the transcript is ambiguous, so this report uses the directly stated INR 115 crore and flags the alternative.

Q4 FY26 axle volumes were above 10,500 units with over 3,500 suspensions, both mechanical and air. Q1 FY27 axle volumes were about 9,500 units and suspensions about 3,200-3,300. Q2 FY27 axle volumes exceeded 10,500 units and H1 FY27 almost reached 20,000 axles; management said H1 volume growth was 55-60% year on year and Q2 growth was similar at 50-55%. The company is running roughly 4,000-4,200 trailer axles per month, with about 80% on the extruded beam route and the balance conventional.

Business segments

Customers

Kross has two distinct customer sets that behave very differently.

Trailer fabricators and dealers buy the company's own-brand axles and suspensions. This was 49% of revenue in Q2 FY27, versus roughly 40-43% in earlier periods. The customer base is fragmented - over 200 fabricators across India, with sales teams in every state and warehousing in Jaipur, Udham Singh Nagar, Chennai, Hoshiarpur, Raigad, and other locations. The industry is concentrated in a few states: Rajasthan, Chhattisgarh, Jharkhand, Maharashtra, and Gujarat. These are the states where tipping trailers are heavily used in mining and construction. Kross also supplies the country's largest trailer manufacturer, Tata DLT - TIVA Trailers.

The buying decision for fabricators and fleet owners is driven by price, brand trust, and service network. Kross positions on having a nationwide sales and service presence, which matters for a safety-critical component that needs replacement parts and support. The

company runs free trailer check-up camps across states and organizes customer meets to deepen relationships. Kross added five new fabricator customers in Q3 FY26 and has been expanding into Gujarat and Maharashtra beyond its traditional strongholds.

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OEMs and Tier 1 suppliers buy the component business. This includes Tata Motors and Ashok Leyland for M&HCV components, TAFE and International Tractors Limited for tractor components, and Dana as a Tier 1 customer. Exports go to European customers, principally Leax AB, a Swedish Tier 1. The FY25 annual report lists the customer relationships: Kross has supplied axle shafts to Tata Motors since 2008, flanges to Ashok Leyland since 2006, and tractor components to TAFE since 2004. The company won awards from TAFE in 2013, 2014, and 2015, and from Ashok Leyland including a "Super 8 Supplier" recognition.

The OEM business is made-to-print, where the customer owns the design. The buying decision is about quality, delivery reliability, and cost competitiveness. OEMs run validation processes and supplier approval systems, which creates real switching costs once a part is qualified. Kross has worked with its two main tractor OEMs for 15-20 years and has now added a third OEM, with development completed and revenue starting from Q1 FY27. The company is also diversifying product content with existing customers - more forgings, shaft components, and casting parts.

Customer concentration has been declining. Management said in the July 2026 call that top five customers were about 58-59% of revenue, down from 60-63% at the time of the DRHP. In the Q2 FY27 call, management said the largest customer was about 15-16% of top line. The top five span CV, trailer, and tractor segments. Management stated no business has been lost from the top five in the last couple of years; the percentage decline is diversification into new segments and customers.

The OEM relationship includes a price pass-through mechanism for raw material and input costs. When steel prices rise, Kross files claims with OEMs, and the industry settles retrospectively. In July 2026, a steel price settlement of INR 4,700 per tonne was given retrospective to suppliers. Conversion cost increases for LPG, gases, tooling, and oil are also being settled, with the tractor industry settling first and the CV industry following. These

settlements typically lag by one quarter, which is why Q1 FY27 margins of 12.23% were below the FY26 exit rate of 14.9%. In Q2 FY27, EBITDA margin recovered to 13.0%, but gross margin was lower sequentially; management said price revisions with OEMs and Tier 1 customers should support Q3 and Q4, without giving a timeline back to 14-15%.

The export customer relationship is the most valuable. Exports have the best margins of any product line, according to management in the May 2026 call. Exports contributed 4% of revenue in FY26, growing 45% year on year in Q1 FY27. By Q2 FY27, exports were about 7.5-8% of the component business, and management expects FY27 exports to be 45% higher than the prior year. The Q2 FY27 call did not reiterate the earlier target of 8% of total revenue within two years; it said the company remains committed to increasing export contribution year on year. The business is 99% to Europe, not the US. Kross started bulk exports to Leax AB in 2023 with universal joint crosses, and has since added product families. One family is in mass production, three more were scheduled from H2 FY27. The company has added a new European customer for propeller shaft parts, currently under validation and not in mass production.

The export margin profile matters for the overall mix. In the May 2026 call, Kunal Rai said export margins are the best across all product lines, followed by axles and suspension and tipping jacks, with tractor components the most price-competitive. The export ramp is therefore a margin expansion driver, not just a growth driver.

Competitive landscape

The trailer axle and suspension market in India is an oligopoly with a clear pecking order. Kross holds 26-28% market share, per the Feb 2026 call, and the market leader holds about 45%. The annual report describes Kross as "one of the fastest-growing organized players" and "No. 2" in the segment, with the stated ambition to become No. 1 within two years. The identity of the market leader is not named in the sources, but management's framing is consistent: pricing is set by the leader, and Kross prices just below or in line.

The trailer axle and suspension market in India is an oligopoly with a clear pecking order. Kross holds 26-28% market share, per the Feb 2026 call, and the market leader holds about 45%. In the Q2 FY27 call, management named York as the trailer-segment market leader, with Tata Motors, BPW and Hendrickson also supplying axles and suspensions. The annual report describes Kross as "one of the fastest-growing organized players" and "No. 2" in the segment, with the stated ambition to become No. 1 within two years. Pricing is set by the leader, and Kross prices just below or in line.

The tipping jack market is a different competitive picture. This is a precision hydraulic assembly used in dumpers and tip trailers. Management said in the Feb 2026 call that the existing players are "all large multinationals" and that no Indian component manufacturer

had entered this space. Kross is entering from its position as an established supplier to the same trailer fabricators who buy tipping jacks. The product is safety-critical, requires validation, and has no external agency like ARAI to certify it - validation is done by the manufacturer itself. This slows the ramp but also creates a barrier for lesser-equipped entrants.

The component business faces a more fragmented competitive set. Kross competes with other Indian forging and machining companies for OEM business. The company's edge is backward integration and a diversified product range - axle shafts, coupling flanges, anti-roll bars, planet carriers, bevel gears, differential spiders - which lets it bundle and serve multiple needs of a single OEM. Management noted in the Feb 2026 call that certain product lines grow faster than the industry cycle. The anti-roll bar business grew from 2,000 units per month to 5,000-6,000 per month because the AC cabin mandate pushed the customer to use anti-roll bars in 80-85% of vehicles versus 40% the prior year. CV components revenue jumped from INR 48 crores in Q2 to INR 82 crores in Q3 FY26, a 70% increase that outpaced industry growth.

The tractor component business is the most price-competitive segment. Management said in the May 2026 call that tractor components have the most competitive pricing of all segments, and that growing tractor share will not expand margins. The opportunity there is volume and diversification - a third OEM added, more forgings and castings per vehicle - rather than pricing power.

The competitive landscape in the OEM component space is also defined by the validation cycle. Once a part is qualified with an OEM, it is sticky. The export business to European Tier 1s like Leax went through a rigorous validation process, which is why management is confident about the revenue ramp even though it takes time. The new European propeller shaft customer is under validation now and not in mass production; the Q2 FY27 call did not disclose an order start date.

The key competitive risks are pricing pressure from the market leader in axles, new entrants in the trailer axle space (management acknowledged 'a number of new players entering' in the Nov 2025 call), and the cost pass-through lag with OEMs. The 14-15% margin ambition discussed in May 2026 remains unquantified for timing; in the Q2 FY27 call management said it is 'difficult currently' to give a sense of when margins return to that level, with compensation expected retrospectively but settlements still underway. The margin path depends on the steel and conversion settlements, the extrusion conversion to 100%, and exports.

Industry

Kross sits in the Indian auto component industry, which the FY25 annual report sizes at INR 3.32 lakh crores (US$ 39.6 bn) for H1 FY24-25, growing 11.3% year-on-year, with exports of US$ 11 bn. The industry is projected to grow 7-9% in FY25-26 per CRISIL and ICRA. The M&HCV segment, Kross's core end market, is expected to grow at a CAGR of 2-4% between FY23-24 and FY28-29, per the annual report. The India automotive trailer market is projected to grow at a CAGR of 8.4% between CY 2025 and CY 2031, driven by freight volumes and logistics needs.

The company's demand is cyclical and tied to the M&HCV cycle, which had been subdued for seven quarters before turning in October 2025. The recovery was driven by dumper, tipper, and prime mover demand, which aligns with Kross's product portfolio. Both Tata Motors and Ashok Leyland reported strong Q4 FY26 volume growth, and management said OEMs are targeting high single-digit volume growth across all segments for FY27. In Q2 FY27, management said commercial vehicle momentum continued with robust OEM demand indications, and expected Q3 and Q4 volumes to be stronger than Q2; historically H2 is about 20% above H1.

The trailer segment is a direct function of goods movement by road. The trailer industry in India is fragmented, with the major manufacturing states being Rajasthan, Chhattisgarh, Jharkhand, Maharashtra, and Gujarat. Kross is a preferred brand in tipping trailer applications in Rajasthan, Chhattisgarh, and Jharkhand, where mining and construction drive demand. The trailer market is also shifting toward cost- and fuel-efficiency, with operators moving from rigid trucks to trailer combinations for the lowest cost per ton-kilometer. This favors lighter axle technologies like Kross's extruded beam.

The tractor segment is a growth engine. The Indian agricultural tractor market sold 876,000 units in FY23-24, per TMA and CRISIL MI&A Consulting data in the annual report. The segment is driven by farm mechanization - underpenetrated eastern states offer room for first-time buyers - and by non-farm usage, with nearly 20% of tractors now used for haulage, construction, and mining. Kross targets growing tractor contribution to 15% of revenue within two years, from about 10-11% in Q2 FY27. Management said Q2 agri demand was consistent and Q3 should be similar, supported by lower tractor inventory; TAFE planned 13,000-14,000 tractors in October-November.

Government policy is a meaningful demand driver. The GST rate rationalization announced in late 2025 cut rates on CVs, which caused a temporary demand deferral in Q2 FY26 as buyers postponed purchases, then a sharp pickup in Q3. The scrappage policy targeting vehicles older than 15 years is a long-term replacement demand enabler, though management noted in the annual report it has yet to take off at scale. The Parivartan scheme, announced in 2026 and effective from October 30, 2026, will not allow BS4 or older vehicles into the Delhi NCR

region. Transporters who replace old vehicles get a 10-year road tax holiday, free registration, and about 13% discount (5% subsidy plus 8% from the OEM). Management said this will be good for the CV segment.

The annual report flags a structural consideration: the dedicated freight corridor (DFC) and improved rail logistics could moderate CV volume growth over the long term by improving logistics efficiency. Management's view, from the May 2026 call, is that the impact on trailers will be limited. The chairman argued that rail freight costs are far higher than road transport for most goods, and that trailers carry a wide range of materials - coal, iron ore, steel, cars, bikes, FMCG goods, road-building materials - of which the freight corridor would take only a portion. Sumeet Rai added that the freight corridor would likely impact rigid body vehicles more than trailers.

India's place in the global supply chain is central to the export opportunity. The annual report notes that the global trailer axle market is dominated by Chinese manufacturers using extrusion technology, and that India has anti-dumping duties protecting domestic producers. Kross's export strategy is to use its cost competitiveness and quality consistency to win European Tier 1 business, starting with Leax AB and expanding to other customers. The exports are 99% to Europe, with no meaningful US exposure, which management cited as a buffer against tariff uncertainty. The India-EU trade deal being discussed could further reduce duties, though management said in the Feb 2026 call that current duties are already 0-4% and the company already has order books in hand.

Import substitution is a core theme. The seamless tube plant addresses a product India currently imports, and management emphasized in the Nov 2025 call that no other auto component manufacturer in India is setting up a seamless tube facility. The extrusion line substitutes for imported single-piece axle beams, which are subject to anti-dumping duties. These projects are also about margin - in-house tubes save 3-4% on cost, and the extruded beam saves 2% on axle realization.

Regulation shapes the near-term demand picture. The AC cabin mandate for CVs drove the anti-roll bar volume growth. The GST rate cut drove the H2 FY26 pickup. The Parivartan scheme will drive replacement demand from October 2026. The M&HCV segment is not under immediate threat from electrification, which management cited in the Nov 2025 call as a structural comfort - the segment is heavy-duty and long-haul, where battery technology is not yet viable.

The industry's cyclicality is the single biggest risk to Kross's near-term performance. The company's revenue was flat for two years (FY24 and FY25) because the M&HCV industry was flat to declining. The recovery that began in October 2025 is real - Q4 FY26 grew 22%, Q1 FY27 grew 32%, and Q2 FY27 grew 80% - but it follows a seven-quarter downturn.

Management's latest demand indication is for Q3 and Q4 FY27 CV and trailer volumes stronger than Q2, with H2 historically about 20% above H1; that is an indication, not a guaranteed outcome. The company has not reiterated a specific FY27 revenue growth percentage.

Growth triggers

Key risks

- **Commercial vehicle cyclicality is the dominant earnings driver.** The M&HCV segment was subdued for seven straight quarters before recovering in Q3 FY26, and Kross's revenue was flat at INR 620 crore for FY25 and FY24 because the industry was flat. When the CV cycle turns down, both the OEM component business and the trailer axle business decline together, since trailers are pulled by CVs. The GST rate cut in August 2025 caused customers to postpone purchases for two months, showing how quickly policy events can compress a quarter. Q2 FY27 revenue grew 80% and management expects Q3 and Q4 stronger than Q2, but that is an OEM indication and historical seasonality, not contracted volume.
- **Q2's 80% growth compares with a weak base.** Q2 FY26 trailer revenue was about INR 58-60 crore against INR 115 crore in Q2 FY27. The sequential increase from INR 75 crore in Q1 FY27 is a better gauge of the current demand step-up, and the year-on-year rate will normalise as the weak base rolls off.
- **Input cost inflation is passed through with a one-quarter lag, and sometimes not at all.** Steel price increases are settled retrospectively with OEMs, but the settlement takes about a quarter to land, meaning Kross absorbs the higher cost in the interim. The May 2026 call confirmed this: the steel settlement of INR 4,700 per tonne was only given around July 15, 2026, after Q1 FY27 was largely done. Conversion cost increases for LPG, tooling, and lubricants were still being negotiated with CV OEMs as of the July 2026 call; by the Q2 FY27 call management said most OEM and Tier 1 settlements were recently concluded, with impact expected in Q3 and Q4, but could not guide a return to 14-15% margin. In the trailer axle business there is no retrospective settlement, so price hikes must be implemented from day one and are capped by what the market leader does.
- **The top five customers still represent roughly 58-59% of revenue.** While this is down from 60-63% at the time of the DRHP, the concentration remains high. Management confirmed in the July 2026 call that no business has been lost from the top five in the last two years, but the diversification is happening slowly. A single OEM cutting schedules or dual-sourcing more aggressively would hit revenue directly. The component business is made to OEM-owned designs, so Kross has no proprietary position there and can be replaced if a competitor offers better pricing.

- **The extrusion line is no longer a commissioning risk; the remaining test is conversion and customer acceptance.** By Q2 FY27 about 80% of current output used the extruded beam, with 100% targeted in one to two quarters. The plant adds 50% axle capacity, from 5,000 to 7,500 units per month, and the cost benefit only materialises at high utilisation. If the switch to 100% is slower than guided, or fabricators resist the new beam, the margin benefit and market share gains slip.

The seamless tube plant is a large capex with a long payback and execution risk. The project is about INR 170 crore, funded by a term loan of approximately INR 110 crore plus internal accruals. Management said about INR 120 crore of the budget had been incurred or tied by Q2 FY27 and about INR 50 crore remained for H2. Production trials are planned for February or March 2027, with full backward integration by end-H1 after that; revenue timing beyond that integration path is not specified. This is a new manufacturing capability, and management's 8-10% input-cost benefit is before commodity price swings.

- **The tipping jack is a safety-critical product with a long validation cycle.** There is no external agency like ARAI that validates tipping jacks, so Kross must validate the product itself. Management sold 226 units in Q1 FY27, Q2 volumes were similar, and it now guides 50-60% utilisation of the 800-unit monthly capacity only by Q4 FY27, below the 65-70% target given in July 2026. The product is being sold to trailer fabricators first, with OEMs only to be approached after 18 months of field performance. If the product has reliability issues in the field, the reputation damage would extend to the core axle business since the same fabricators buy both.

- **The tractor segment is the most price-competitive part of the portfolio.** Management stated in the May 2026 call that the tractor segment is "the most competitive on prices" and that increasing tractor contribution will not expand margins. The plan to grow tractors from roughly 11% to 15% of revenue over two years relies on new customer addition and new products, including a third OEM that only started contributing from Q1 FY27. Tractor OEMs are large and have strong negotiating power, so volume growth here does not translate into margin growth.

- **Working capital is structurally stretched by the fabricator channel.** The trailer axle and suspension business sells to over 200 fabricators, and this channel was 49% of revenue in Q2 FY27. Management said Q2 receivable days were about 81, H1 about 90, and it targets about 80 days with a working capital cycle below 90-95 days. Export receivables for 4-4.5% of the business remain above 120 days. This is an improvement from H1 FY26, when receivable days were above 100-110, but the target is not yet achieved.

- **The Parivartan scheme is a double-edged sword for demand timing.** The scheme, effective October 30, 2026, restricts BS4 and older vehicles from entering Delhi NCR and

offers 10 years of road tax holiday, free registration, and roughly 13% total discount (5% subsidy plus 8% OEM discount) for transporters who replace old vehicles. This should pull forward replacement demand, but it also creates a cliff: transporters may hold off buying until the scheme starts, depressing Q2 FY27 volumes, and the replacement wave could be front-loaded and then fade. The same dynamic played out with the GST rate cut in August 2025, which caused a two-month demand pause.

- **Export growth is concentrated in a single European customer.** Exports were about 7.5-8% of the component business in Q2 FY27, and management expects FY27 exports to be 45% higher than the prior year. The plan is to reach 8% of total revenue in two years. A second European Tier 1 customer's propeller shaft parts are under validation and not yet in mass production, so near-term export growth still depends on the existing European customer. The export margin is the best across all product lines, so any disruption would hit both revenue and the margin mix.
- **The preferential issue and new capex add fixed cost and dilution before they add revenue.** Kross is raising INR 63.6 crore through a preferential issue and plans about INR 60 crore of immediate capex over the next two quarters for axle shaft capacity, cold-drawn tubes, and robotic automation. The cold-drawn tube and metal treatment spend is estimated at INR 20-25 crore. These projects are at approval or planning stage, with no disclosed commissioning or revenue dates. If the CV cycle softens while these lines are ramping, the fixed cost drag would be significant.

Scenarios

Bull case

The CV cycle stays strong through FY27 and FY28. Q2 FY27 revenue grew 80% and management expects Q3 and Q4 volumes stronger than Q2, with H2 historically about 20% above H1. The Parivartan scheme pulls forward replacement demand starting October 2026, and OEM schedules hold. The extrusion line moves from 80% to 100% of output within one to two quarters, the lighter beam wins fabricator acceptance, market share moves from 26-28% toward 35%, and the cost benefit flows through. The seamless tube plant starts production trials in February-March 2027, completes backward integration by end-H1, and captures the 8-10% input-cost benefit on captive tubes; the Q2 call did not update external sales timing. The new European tier-1 customer completes validation and FY27 export growth of 45% takes exports higher, though the Q2 call did not reiterate an 8%-of-total-revenue target. Tipping jacks reach 50-60% of 800-unit monthly capacity by Q4 FY27 and scale from there. Revenue grows faster than the underlying CV cycle, and EBITDA margin recovers from 13.0% in Q2 FY27 as price revisions and mix improve.

Base case

The CV cycle continues but with normal quarterly volatility. Q2 FY27 was strong, Q3 and Q4 are guided stronger, then FY28 grows at a more normalised pace. Kross converts the extrusion line to 100% in one to two quarters but the cost benefit is modest in FY27 and only meaningful in FY28 as utilisation builds. The seamless tube plant starts trials in February-March 2027 and stabilises through FY28, contributing little in FY27. Exports grow 45% in FY27 from the existing European customer; the new European propeller shaft customer starts small volumes after validation, with no total-revenue export target reiterated in the Q2 call. Tipping jacks reach 50-60% of 800-unit monthly capacity by Q4 FY27, below the old 65-70% target. EBITDA margin stays around 13-14%, with steel and conversion pass-through arriving in Q3 and Q4 but not fully recovering the 14-15% ambition. Tractor share stays around 10-11% in Q2 FY27 and grows gradually toward 15% over two years at competitive pricing.

Bear case

The CV cycle peaks sooner than expected. Q2 FY27's 80% growth and management's Q3 and Q4 optimism mark the top; the replacement wave is front-loaded and FY28 demand softens, leaving expanded capacity underutilised. The extrusion line reaches 80% but the switch to 100% is slow, fabricators resist the new beam, and the market leader defends its 45% share with price. Kross cannot hold its price revisions and trailer axle margin compresses. The seamless tube plant's February-March 2027 trials slip, leaving the term loan and INR 50 crore H2 spend without revenue; full integration misses end-H1. The second European customer's validation takes longer, export growth stalls below 45%, and concentration on the existing customer persists. Tipping jack Q2 volumes stay at Q1 levels and Q4 utilisation misses the already-lowered 50-60% target. Working capital stays near 90 days, with export receivables above 120, just as capex peaks. Revenue growth decelerates, EBITDA margin stays below 13%, and the fixed cost base is higher.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	673	915	1,121	1,332
Revenue growth	+8.5%	+36.0%	+22.4%	+18.8%
EBITDA (₹ Cr)	87.90	123	161	200
EBITDA margin	13.1%	13.4%	14.4%	15.0%
Depreciation (₹ Cr)	9.10	13.50	22.50	27.00
Interest (₹ Cr)	8.10	11.40	14.00	11.50
Other income (₹ Cr)	4.20	5.00	5.50	6.00
PBT (₹ Cr)	75.00	103	130	167
Tax (₹ Cr)	19.80	26.70	33.30	42.70
Tax rate	26.4%	26.0%	25.5%	25.5%
PAT (₹ Cr)	55.20	76.00	97.20	125
PAT growth	+15.0%	+37.7%	+27.8%	+28.2%
EPS (₹)	8.56	11.79	15.07	19.33
P/E	32.4x	23.5x	18.4x	14.3x
PEG	1.2x	0.8x	0.7x	0.5x

CAGR FY27E-FY29E: Revenue +20.6% · EBITDA +27.6% · PAT +28.0%

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Q2 FY27 concall notes

TLDR

Kross reported Q2 FY27 revenue from operations of ₹235 crores, up 80% YoY, with EBITDA of ₹30.6 crores at a 13% margin and PAT of ₹19.69 crores, up more than 100% YoY. H1 FY27 revenue was ₹419.4 crores against ₹270 crores last year, EBITDA ₹53.32 crores and PAT ₹33.16 crores. The trailer segment contributed 49% of Q2 revenue and components 51%, with trailer revenue at roughly ₹115 crores versus ₹58-60 crores in Q2 FY26. Commercial production of extruded axle beams began, with about 80% of the roughly 4,500 axles made per month now on the extruded process, moving to 100% over one to two quarters. Exports are about 8% of the component business and management expects 45% growth this year. Management guides Q3 and Q4 volumes above Q2, conversion-cost settlements landing in Q3 and Q4, and seamless tube trials by Q4 FY27. Watch steel escalation each quarter, settlement timing, and receivable days at about 90 for H1.

WHAT CHANGED SINCE Q1 FY27

- Revenue growth accelerated sharply: Q1 FY27 was ₹184.3 crores (+32.3% YoY); Q2 FY27 was ₹235 crores (+80% YoY). Trailer segment revenue rose to roughly ₹115 crores in Q2 from ₹75 crores in Q1 FY27 and ₹58-60 crores in Q2 FY26.
- EBITDA margin expanded to 13% in Q2 from 12.23% in Q1 FY27, but management said it is difficult to give a timeline for returning to a 14-15% EBITDA margin, a more cautious stance than Q1's "sequential expansion through FY27."
- Conversion-cost settlement, which Q1 said was under discussion with the CV industry expected to follow the tractor industry, was concluded with most OEMs and Tier 1 companies; the impact is now guided for Q3 and Q4 rather than Q1's expectation of sequential recovery through FY27.
- Extruded axle beam moved from productionized in Q1 to commercial production in Q2, with about 80% of roughly 4,500 axles per month on the extruded process and a plan to reach 100% by Q3 or Q4. Q1 had not given a share-of-output figure.
- Tipping jack utilization guidance was cut: Q1 targeted 65-70% of 800/month capacity by Q4 FY27; Q2 guides 50-60% of that capacity by Q4, with Q2 volumes similar to Q1's 226 units.
- Seamless tube timeline firmed: Q1 said production trials by Q4 FY27 with sizing and straightening mills on high seas; Q2 confirmed those mills received and installed, trials planned for February or March 2027, and total budgeted cost of approximately ₹170 crores, of which about ₹120 crores spent (₹50 crores term loan plus ₹60 crores internal accruals).
- New disclosures: a ₹63.6 crore preferential issue to fund axle shaft expansion, cold-drawn tube forward integration, and robotic automation for forging and machining; a new European customer for propeller shaft parts under validation; and a stated largest customer at approximately 15-16% of top line.
- Export share reached about 8% of the component business in Q2, versus 4-4.5% of total revenue in Q1, and management reiterated 45% growth for the year against Q1's 40-45% guidance.
- Receivable days were disclosed for the first time: about 81 days for Q2, about 90 days for H1, versus excess of 100-110 days in H1 FY26, with management targeting about 80 days and a working capital cycle below 90-95 days.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹235 crores	+80% YoY	Trailer segment demand after monsoon ended in July, higher share of business with larger customers, strong CV demand since GST rationalization, exports
EBITDA	₹30.6 crores	Management cited 13% margin	Sequential volume improvement in commercial vehicles and trailers
EBITDA margin	13%	vs 12.23% in Q1 FY27 (QoQ)	Volume and mix, partly offset by rising consumable and commodity costs
PAT	₹19.69 crores	More than +100% YoY	Operating performance; PBT ₹26.94 crores, up more than 100%
H1 FY27 revenue	₹419.4 crores	vs ₹270 crores in H1 FY26	Same drivers as Q2
H1 FY27 EBITDA / PAT	₹53.32 crores / ₹33.16 crores	Not stated	Capacity expansion and backward integration contributing to operational readiness
Trailer segment revenue	~₹115 crores	vs ₹58-60 crores in Q2 FY26; vs ₹75 crores in Q1 FY27	Monsoon ending, share gains with existing customers, new customers, Chhattisgarh demand
Segment mix	Trailer 49%, components 51%	vs 41% trailer in Q1 FY27	Trailer segment outperformance
Trailer axle volumes	In excess of 10,500 in Q2; over 20,000 in H1	+50-55% YoY for Q2 and H1	Extruded beam rollout from August, market share gains
Extruded axle share of output	~80% of ~4,500 axles/month	New disclosure	Commercial production commenced; 20% still conventional
Exports	~8% of component business	Management expects +45% for the year	Direct sales to OEMs and Tier 1s; new European propeller shaft customer under validation
Tipping jacks	Similar volumes to Q1 (226 units); realization ~₹1.4 lakh per set	Flat QoQ	Validation cycles; 50-60% of 800/month capacity targeted by Q4
Largest customer	~15-16% of top line	New disclosure	Diversified product base across CV, trailer, and tractor
Receivable days	~81 days in Q2; ~90 days in H1	vs 100-110 days in H1 FY26	Trailer segment receivables improving; export receivables above 120 days on 4-4.5% of business

SEGMENTS & GEOGRAPHIES

- **Trailers, axles, suspensions and tipping:** Contributed 49% of Q2 revenue at roughly ₹115 crores. Management said Q2 volumes exceeded the earlier record of Q4 FY26 and expects Q3 and Q4 to sustain or increase, with the segment revenue run-rate holding for the financial year absent unforeseen events. Extruded axle beams are in commercial production at about 80% of roughly 4,500 axles per month, moving to 100% by Q3 or Q4.
- **M&HCV and commercial vehicle components:** Contributed 51% of Q2 revenue. Management said demand has been exceptionally good since GST rationalization and expects Q3 and Q4 volumes stronger than Q2, noting H2 is historically about 20% above H1. Tractor segment is close to 10-11% of revenue, all with OEMs.

- **Agri/tractors:** Demand consistent, with Q3 expected similar to Q2 on lower tractor inventory. Management flagged a possible post-Diwali dip, noting TAFE plans 13,000-14,000 tractors in October-November, and said Q4 depends on manufacturer inventory and production plans.
- **Exports:** About 8% of the component business, sold directly to OEMs and Tier 1s. A new European customer for propeller shaft parts is under validation and not in mass production. Management expects 45% growth this year over last year.

STRATEGY & COMPANY-SPECIFIC

- **Extruded axle beam:** Commercial production commenced, with about 80% of roughly 4,500 axles per month on the extruded single-piece beam process and the balance conventional. Management plans 100% extruded output by Q3 or Q4 and cited cost benefit and customer feedback from plant visits.
- **Seamless tube facility:** Total budgeted cost approximately ₹170 crores, funded by ₹110 crores term loan and the rest internal accruals. About ₹120 crores spent as of Q2 (₹50 crores term loan plus ₹60 crores internal accruals). Furnace mostly ready, piercing mill almost ready, remaining equipment in transit for end-November or December receipt, production trials planned for February or March 2027. Phase 1 is captive use at 30% of the one lakh capacity, with full backward integration targeted by end of H1. Management said own seamless tubes should be 8-10% cheaper than current purchase prices and add approximately 3-4% margin on the overall business once used for axles.
- **Preferential issue:** ₹63.6 crores being raised via warrants and preferential shares, to be spent over the next two quarters on axle shaft production expansion, cold-drawn tube forward integration, and robotic automation for forging and machining.
- **Cold-drawn tubes:** Forward integration from hot-drawn tubes, with spend of about ₹20-25 crores including metal treatment. Management said the facility must be in-house at Jamshedpur as no cold drawing capacity exists there, and that cold-drawn tubes are needed for precision sizes including the company's own tipping jacks.
- **Debt:** Total term loan ₹80 crores and working capital/CC limit approximately ₹32 crores as of September 30. Term loan availability of approximately ₹110-120 crores for seamless tube, with the balance to be drawn. No further debt planned for any expansion.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Q3 and Q4 volumes	Stronger than Q2 overall volumes	New	OEM indications; H2 historically about 20% above H1
Trailer segment revenue	Run-rate of about ₹150 crores per quarter to hold for FY27	New	Sustained demand; management said unless something unforeseen happens
Export growth	45% higher than previous year	Maintained (Q1: 40-45%)	Existing European Tier-1 supplies; new propeller shaft customer under validation
EBITDA margin	Difficult to give a timeline for 14-15%	Cut (Q1: sequential expansion through FY27)	Ongoing steel escalation each quarter and settlement timing
Conversion cost settlement	Impact in Q3, mostly Q3 and Q4	Maintained (Q1: expected soon)	Settled with most OEMs and Tier 1 companies
Tipping jack utilization	50-60% of 800/month capacity by Q4 FY27	Cut (Q1: 65-70%)	Validation cycles; Q2 volumes flat versus Q1

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Extruded axle share	100% of output by Q3 or Q4	New	Current 80% of ~4,500 axles/month
Seamless tube trials	February or March 2027	Maintained (Q1: Q4 FY27)	Sizing and straightening mills installed; remaining equipment in transit
Seamless tube full integration	End of H1	New	Phase 1 captive at 30% of one lakh capacity
Seamless tube margin benefit	~3-4% on overall business	New	Own tubes 8-10% cheaper than current purchase prices
Capex	~₹110 crores in H2 (₹60 crores preferential issue plus ~₹50 crores seamless tube)	New	Equipment receipt timelines
Debt	No further debt beyond seamless tube term loan	Maintained	Only seamless tube project debt planned for FY27
Receivable days	~80 days; working capital cycle below 90-95 days	New	Trailer segment receivables improving

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Steel cost escalation	Steel has been increasing every quarter; only part of the compensation received in Q1 and Q2. OEMs and mills are talking about another increase in Q3.
Settlement timing	Conversion cost settlements concluded with most OEMs and Tier 1s, but compensation is retrospective and the impact comes in Q3 and Q4. Management said it is difficult to give a timeline for returning to 14-15% EBITDA margin.
Tipping jack ramp	Q2 volumes were similar to Q1 and Q4 utilization guidance was cut to 50-60% of 800/month capacity from 65-70%.
Export validation	New European propeller shaft customer is under validation and not in mass production.
Receivable days	H1 at about 90 days; export receivables above 120 days on 4-4.5% of business. Management targets about 80 days but said the export portion would remain.
Agri seasonality	Q3 expected similar to Q2, with a possible post-Diwali dip; Q4 depends on tractor manufacturer inventory and production plans.
Competition	York named as market leader in trailer axles, with Tata Motors, BPW and Hendrickson also supplying axles and suspensions. Management said it competes against different competitors across product families.
Commodity price variability	Management said seamless tube benefit of 8-10% versus current buying prices is subject to commodity prices changing significantly.

Q&A HIGHLIGHTS

Growth above industry Asked what drove tractor axle, suspension and CV component growth above underlying M&HCV industry growth, management cited the monsoon ending in July with demand picking up in August, higher share of business with larger customers, strong CV demand since GST rationalization, a diversified component product base, and exports now at 7.5-8% of the component business.

Extruded axle beam utilization Asked whether 70-80% utilization referred to the expanded 7,500 axle per month capacity, management clarified it is about 80% of the roughly 4,500 axles made per month, with a switch to 100% extruded over the next one or two quarters.

Trailer axle volumes and revenue Management said Q2 trailer axle volumes were in excess of 10,500, H1 crossed 20,000, and volume growth was 50-55% YoY for both Q2 and H1. Trailer segment revenue was about ₹115 crores in Q2 versus ₹58-60 crores in Q2 FY26 and ₹75 crores in Q1 FY27.

Tipping jacks Q2 volumes were similar to Q1, with realization of approximately ₹1.4 lakh per set. Management targets 50-60% of 800/month capacity by Q4.

Seamless tube capex and funding Total budgeted cost approximately ₹170 crores, funded by ₹110 crores term loan and the rest internal accruals. About ₹120 crores spent so far (₹50 crores term loan plus ₹60 crores internal accruals), with trials planned for February or March 2027 and full integration by end of H1.

Seamless tube margin benefit Phase 1 is captive at 30% of one lakh capacity. Management said own tubes should be 8-10% cheaper than current purchase prices and add approximately 3-4% margin on the overall business once used for axles, subject to commodity price changes.

Gross margin pressure Asked why Q2 gross margins were lower than Q1 despite Q1 price escalations, management said steel has risen every quarter with only partial compensation received, consumable and input cost increases were not compensated in previous quarters, and conversion settlements with most OEMs and Tier 1s will show up in Q3 and Q4.

Receivable days Management said receivable days were about 81 for Q2 and about 90 for H1, versus 100-110 days in H1 FY26, and targets about 80 days with a working capital cycle below 90-95 days. Export receivables above 120 days remain on 4-4.5% of business.

Customer and channel mix Management said sales are direct to OEMs and Tier 1s on both export and domestic fronts, tractor is close to 10-11% of revenue all with OEMs, and the largest customer is approximately 15-16% of top line.

Lumax Auto Technologies Limited

GROWTH TRIGGERS

Lumax's forward operating leverage rests on a INR 1,879 crore order book that is 85% new business, a Mechatronics vertical scaling from BCM SOP and a new Manesar plant, and Greenfuel's first-time localization of ferrule-less CNG tubes. Those mechanisms can support about 20% revenue growth and the reaffirmed FY28 EBITDA target of about INR 1,000 crore.

1. Order book gives multi-year visibility, with 59% scheduled in FY28

The order book rose to INR 1,879 crore at end-Q2 FY27 from INR 1,600 crore at end-Q1. About 59% is scheduled for FY28 and 27% for FY29, with 85% classified as new business. That gives multi-year visibility, though only 14% converts in FY27.

2. Mechatronics scales from BCM SOP and a INR 512 crore order book

Mechatronics H1 FY27 revenue grew 45% to INR 177 crore, with a INR 512 crore order book. Body Control Modules entered SOP in July 2026 as standalone Mechatronics revenue and carry a INR 250 crore order book. Management targets close to INR 1,000 crore Mechatronics revenue by 2031 and plans to expand from six product categories to about ten.

3. New Manesar plant adds about INR 500 crore peak turnover from Q3 FY28

The board approved a new Manesar mechatronics facility with about INR 150 crore capex, two-phase commissioning from Q3 FY28 and peak annual turnover of about INR 500 crore. The BCM order book is the disclosed demand anchor. The economic test is filling the plant after commissioning.

4. Greenfuel localizes ferrule-less CNG tubes and starts Mahindra supply

Greenfuel is the first Indian localizer of ferrule-less tubes and fittings, previously imported. Nashik commenced production in Q3 FY27, supplying Mahindra with tubes, fittings and receptacles; Maruti Suzuki has firm orders and Hyundai is engaged for other CNG parts. Content per vehicle rises from about INR 3,200 toward INR 6,700 on served models.

5. FY27 revenue guidance raised and FY28 EBITDA target reaffirmed

Management expects FY27 revenue growth of about 20-odd percent, implying revenue close to INR 6,000 crore, after an initial 12-14% plan. H2 FY27 growth is guided at 15-20%. It reaffirms about INR 1,000 crore absolute EBITDA for FY28.

6. 20% FY25-FY31 revenue CAGR and INR 11,000 crore FY31 aspiration

Management reaffirmed a 20% revenue CAGR from FY25 to FY31 and aspires to more than double revenue to about INR 11,000 crore by FY31. It is more confident that 20% can be achieved organically, with inorganic actions adding upside rather than being required for the base target.

7. Margin ambition moves toward 17-18% over the next few years

H1 FY27 EBITDA margin was 14.9%, up 90 bps YoY. Management said current margins can sustain for FY27 and aims to add at least 100-200 bps over the next few years, moving toward a 17-18% framework, with a longer-term 20% ambition over five to seven years.

INVESTMENT THESIS

Lumax Auto Technologies is an Indian Tier-1 automotive systems supplier that is trying to become a broader Tier-0.5 integrator. It sells interior cockpit modules and plastics through the IAC-led Advanced Plastics division, gear shifters and structures through Lumax Mannoh and the metallics business, mechatronics through joint ventures and a new standalone Body Control Module line, CNG fuel systems through Greenfuel, and aftermarket parts through a distribution network. FY26 consolidated revenue was INR 4,870 crore with EBITDA of INR 705 crore and PAT of INR 337 crore. The Q2 FY27 call adds a more current operating picture: Q2 revenue of INR 1,556 crore, up 35% YoY; H1 revenue of INR 2,919 crore, up 34%; H1 EBITDA of INR 434 crore, up 42%, at a 14.9% margin; and H1 PAT of INR 215 crore, up 64%.

The business economics are a mix of mature, high-share mechanical products and newer, faster-growing electronic and localized systems. Lumax Mannoh has more than 65% of the Indian gear-shifter market, and IAC has deep design-in and just-in-time module capability with Mahindra. Those are qualification-heavy positions with long program lives. The newer growth comes from Mechatronics and Greenfuel. Mechatronics H1 FY27 revenue grew 45% to INR 177 crore, with a INR 512 crore order book and a 14.5-15% margin that management says is in line with the group. Greenfuel is the first Indian localizer of ferrule-less CNG tubes and fittings, a component previously imported, and has begun supplying Mahindra from Nashik. The group's blended margin is not uniformly high: the 14.9% H1 EBITDA margin reflects a large, competitive plastics and interiors base around stronger niches in aftermarket, Mechatronics and CNG systems.

The earnings path is now guided by management, not just inferred. For FY27, management expects revenue growth of about 20-odd percent versus FY26, implying revenue close to INR 6,000 crore, after an initial 12-14% plan; H2 growth is guided at 15-20% because of a higher base. For FY28, it reaffirms about INR 1,000 crore absolute EBITDA. The order book at end-Q2 FY27 was INR 1,879 crore, up from INR 1,600 crore at end-Q1, with 14% scheduled into FY27, 59% into FY28 and 27% into FY29. The back-end loading means FY27 revenue relies more on H1 momentum and the 15-20% H2 guide than on immediate order-book conversion. The longer-term North Star is a 20% revenue CAGR from FY25 to FY31 and an aspiration to reach about INR 11,000 crore by FY31, with a 20% EBITDA margin ambition over five to seven years. Those are management aspirations, not analyst projections.

The operating milestones over the next two to three years are specific. Body Control Modules entered SOP in July 2026 as standalone Mechatronics revenue and carry a INR 250 crore order book. The board approved a new Manesar mechatronics facility with about INR 150 crore capex, two-phase commissioning from Q3 FY28 and peak annual turnover of about INR 500 crore. Greenfuel's Nashik line has started ferrule-less tube and receptacle supply to Mahindra, with Maruti Suzuki firm orders and Hyundai engagement for other CNG parts;

management expects significant utilisation across Mahindra and Maruti over about two years. The IAC Chakan Plant 4 is in SOP phase, with product launch expected around December-January. These projects are the visible capacity and product triggers behind the 2031 Mechatronics target of close to INR 1,000 crore and the broader 20% CAGR.

Capital allocation has been conservative on the latest disclosure. FY27 capex is guided at about INR 300 crore, including greenfield expansion in Mechatronics, Advanced Plastics and Alternate Fuel, with SOPs in H2 FY27; Q1 capitalisation was INR 60 crore. As of September 2026, free cash reserves were INR 442 crore and debt-to-equity was 0.26, within internal comfort thresholds. That is a stronger balance-sheet position than the roughly INR 1,000 crore debt stack and 0.46 debt-to-equity recorded in earlier research. The company has also been willing to exit non-fitting JVs, with the YOPP Germany separation described as amicable because technology portfolios and scalability ambitions did not align.

Management delivery on the latest call is mixed but not weak. The positive is that FY27 revenue guidance was raised and FY28 EBITDA was reaffirmed. The caution is order-book timing: the latest schedule converts only 14% into FY27, below the 25% share earlier research recorded for a smaller book. The base changed, so this is not a clean like-for-like deterioration, but it does mean near-term revenue depends more on H2 execution than on locked FY27 order conversion. The other open item is aftermarket, where H1 growth was 9% against a 15-20% full-year guide. BCM SOP and Greenfuel's Mahindra start are delivered milestones; the new Manesar plant and Mechatronics scale-up are still ahead.

The thesis needs three things to hold. First, H2 FY27 revenue must grow 15-20% so the about 20-odd percent FY27 guide lands near INR 6,000 crore. Second, the FY28-weighted order book must convert on schedule while input-cost pass-through keeps margin near 14.5-15% and supports the path toward FY28 EBITDA of about INR 1,000 crore. Third, the new Mechatronics plant and BCM ramp must move from commissioning and SOP into utilisation. The main falsifiers are a H2 FY27 growth miss below 15%, a further slide in order-book conversion, or a margin squeeze that prevents recovery of input costs within the stated one-quarter lag. IAC's Mahindra concentration remains the largest single-customer dependency, even as the order book broadens toward Mechatronics and Alternate Fuels.

RESEARCH REPORT

Q2 FY27 update

Q2 FY27 revenue was INR 1,556 crore, up 35% YoY and 14% QoQ, with EBITDA of INR 228 crore including other income, up 34%, and a 14.7% margin. H1 revenue was INR 2,919 crore, up 34%; EBITDA INR 434 crore, up 42%, margin 14.9%; PAT INR 215 crore, up 64%. The order book rose to INR 1,879 crore at end-Q2 from INR 1,600 crore at end-Q1, and management guided FY27 revenue growth to about 20-odd percent, implying revenue close to INR 6,000 crore.

What Lumax Auto Technologies Limited does

Lumax Auto Technologies is an Indian Tier-1 automotive systems manufacturer spanning five distinct product verticals: interior cockpit systems, transmission controls, mechatronics, CNG fuel systems and aftermarket parts. It started as a lighting business within the Lumax Group, whose origins go back to 1945, and has since grown through a deliberate layering of technology joint ventures with Japanese, Israeli, Italian, Spanish and German partners.

FY26 consolidated revenue reached INR 4,870 crore, up 34% over the prior year, with EBITDA of INR 705 crore (14.5% margin) and PAT of INR 337 crore (Q4 FY26 concall, Jun 2026). The company operates 28 manufacturing facilities across Haryana, Gujarat, Madhya Pradesh, Maharashtra, Uttarakhand, Rajasthan and Karnataka, serving over 20 OEM customers. It also runs a software-and-electronics tech centre in Bengaluru called SHIFT (Smart Hub for Innovation and Future Trends), a representative office in China, and a satellite office in Japan.

The corporate strategy, called BRIDGE (Bold Roadmap Integrating Diverse Growth Engines), runs through FY 2030-31. On the Q2 FY27 call management reaffirmed a 20% revenue CAGR from FY25 to FY31, an aspiration to reach about INR 11,000 crore revenue by FY31, and a 20% EBITDA margin ambition over the next five to seven years. It also targets 20%+ ROCE and 20%+ of revenue from clean mobility solutions (Annual Report FY26), and frames its strategic ambition as a shift from a traditional Tier-1 component supplier to a "Tier-0.5 systems integrator", meaning it wants to sell integrated hardware-software packages directly to OEMs rather than individual parts.

The five product verticals in FY26 (Annual Report FY26 segment pie, Q4 FY26 concall financials):

SEGMENT	FY26 REVENUE MIX	FY26 REVENUE	YOY GROWTH	ORDER BOOK
Advanced Plastics & Interiors	53%	INR 2,566 cr	25%	INR 700 cr
Structures & Control Systems	17%	INR 816 cr	17%	INR 170 cr
Aftermarket	10%	~INR 487 cr	15%	-
Mechatronics	6%	INR 281 cr	~150%	INR 400 cr
Alternate Fuels (Greenfuel)	6%	INR 383 cr	-	INR 180 cr
Others	8%	-	-	-

Q2 FY27 order-book composition and execution:

VERTICAL	SHARE OF INR 1,879 CRORE ORDER BOOK
Advanced Plastics	44%
Mechatronics	27%
Alternate Fuels	20%
Structures & Control Systems	8%

Execution is scheduled 14% in FY27, 59% in FY28 and 27% in FY29. About 85% is new business; EV and CNG together are 29% (CNG 20%, pure EV about 9%), and new future technologies are 22% (Q2 FY27 call, Oct 2026).

Advanced Plastics and Interior Systems (53% of revenue)

This vertical is the largest and has two distinct parts. The IAC division (Intelligent Ambient Comfort), which makes up roughly two-thirds of the segment, supplies complete cockpit systems: instrument panels, door panels, headliners, central consoles and interior trim for premium passenger vehicle platforms. The balance one-third is conventional plastics and lighting: air intake systems, urea tanks, plastic fuel tanks, louvers, head lamps, tail lamps and front/rear fenders.

The IAC division came from IAC India, which Lumax first held at 75%, then acquired the remaining 25% in May 2025, and merged into the parent company with an appointed date of October 1, 2025. This merger is structurally important: it brings the interior business into the standalone entity, which changes the reported standalone financials and enables an integrated product offering across lighting, plastics and interiors.

The core capability that took years to build is full interior module integration. IAC supplies cockpits and door panels just-in-time, in sequence to the OEM assembly line, and holds design responsibility for the parts. That is a different business from selling individual plastic mouldings: the supplier has to manage the complete module, align dozens of piece parts from sub-suppliers, and deliver them in the exact order vehicles come down the line.

Mahindra & Mahindra dominates this division, accounting for over 90% of IAC's order book (Q4 FY26 concall, Jun 2026).

Revenue grew 25% in FY26 to INR 2,566 crore, with an order book of INR 700 crore (Q4 FY26 concall). The annual report adds that the division won interior component programs for Mahindra's XUV 7XO and XEV 9e, and that Mahindra is launching at least seven new models over the next three years, with IAC bidding on most of them. In H1 FY27, the division that houses IAC reported revenue up from INR 1,138 crore to INR 1,655 crore, with IAC about 60% of that division (Q2 FY27 call, Oct 2026).

Structures and Control Systems (17% of revenue)

This vertical produces gear shifters, metallic assemblies, control systems, and chassis/swing arm components for two-wheelers. The market leadership position is in gear shifters: Lumax Mannoh, the joint venture with Mannoh Industrial of Japan (55% held), holds more than 65% market share in India and generated INR 396 crore revenue in FY26 (Q2 FY26 concall; Annual Report FY26).

The segment is at an interesting inflection point. Manual and automatic (AT) shifters dominate the Indian market at 95-97% today, but the industry is migrating toward electronic "shift-by-wire" shifters. Management said that in about 36 months, the mix is expected to be 50% traditional AT shifters and 50% shift-by-wire. The company claims to be already in SOP on three major shift-by-wire platforms spanning both hall-sensor-based and CAN-based systems (Q4 FY26 concall).

FY26 revenue was INR 816 crore, up 17%. The segment's growth tracks passenger vehicle production closely, since gear shifters are fitted to essentially every vehicle, with the value uplift coming when OEMs move from manual to automatic or shift-by-wire. In H1 FY27, Structures & Control Systems revenue grew 24% from INR 380 crore to INR 476 crore, with an order book of about INR 150 crore (Q2 FY27 call, Oct 2026).

Aftermarket (10% of revenue)

The aftermarket business sells replacement lighting, filters, mirrors, wipers, horns, control cables, lubricants, coolants and electrical items through 500+ channel partners covering more than 35,000 retail touch points (Annual Report FY26). It also operates an e-commerce store called Lumax eStore.

This is the highest-margin vertical in the portfolio, with management citing EBITDA in the 18-20% range (Q1 FY26 concall), and it grew 15% in FY26 after a period of single-digit growth. The growth acceleration came from a strategic shift toward demand generation at the retail and mechanic level, rather than just pushing products through distributors, plus aggressive product expansion. In H1 FY27, aftermarket revenue grew 9% from INR 216 crore to INR 234 crore, while Q2 grew 11%; management attributed the slower first half to input-cost

pass-through dampening non-lighting demand and said it remains optimistic of 15-20% growth (Q2 FY27 call, Oct 2026). Management is targeting 20% growth in the segment and views it as a structural margin-accretive engine.

Mechatronics (6% of revenue)

This is the smallest but fastest-growing vertical, up almost 150% in FY26 to INR 281 crore. It is built on four joint ventures plus a Body Control Module technology tie-up with Nidec, which is not a JV and is reported in standalone Mechatronics revenue:

- **Lumax Alps Alpine** (50% held): switches and sensors, including power window switches, steering wheel switches, steering angle sensors and throttle position sensors. Revenues INR 127 crore, up from a small base, and the fastest growth driver in the portfolio.
- **Lumax Yokowo** (50% held): vehicle antennas, including shark fin antennas, supplying Mahindra, Toyota, Honda and Maruti Suzuki.
- **Lumax Ituran** (50% held): telematics control units (TCUs) and EV-specific eCAN solutions, with Daimler India as the anchor customer.
- **Lumax FAE** (84.03%, now 100% after acquisition): oxygen sensors for two-wheelers, supplying Mahindra Motorcycles and Royal Enfield.

The company is adding a new mechatronics manufacturing facility at Manesar with about INR 150 crore capex, two-phase commissioning from Q3 FY28 and peak annual turnover of about INR 500 crore (Q2 FY27 call, Oct 2026). Body Control Modules entered SOP in July 2026 as standalone Mechatronics revenue, with a INR 250 crore order book. Management expects close to INR 1,000 crore revenue for the mechatronics vertical by 2031, supported by an order book of INR 512 crore at H1 FY27.

Alternate Fuels (6% of revenue)

The Greenfuel Energy business, acquired in November 2024, supplies high-pressure fuel storage and delivery systems for CNG, LNG and hydrogen vehicles. It generated INR 383 crore in FY26 in its first full year of consolidation, with an order book of INR 180 crore. In H1 FY27, Alternate Fuels revenue grew 30% from INR 170 crore to INR 220 crore, with an order book of INR 379 crore. The Nashik facility commenced production in Q3 FY27, supplying ferrule-less tubes, fittings and receptacles to Mahindra & Mahindra (Q2 FY27 call, Oct 2026).

The business is deliberately asset-light: most parts are procured from outside and assembled internally, with imports reduced from 65% to 35-40% through localization. The strategic milestone is the Indian-first localization of ferrule-less tubes and fittings for CNG vehicles, a component previously imported by every domestic manufacturer. Content per vehicle is currently about INR 3,200 out of an addressable INR 11,500 per vehicle; with ferrule-less tubes added, this rises to about INR 6,700 (Q3 FY26). At the Q2 FY27 update,

Nashik had commenced production in Q3 FY27, supplying ferrule-less tubes, fittings and receptacles to Mahindra & Mahindra; Maruti Suzuki had firm orders and Hyundai was engaged for other CNG parts, with significant utilisation expected across Mahindra and Maruti over about two years.

Joint venture structure and portfolio realignment

The company's portfolio strategy is visible in its recent structural moves. It has merged IAC India and Lumax Ancillary into the parent, merged Greenfuel with its SPV holding company, and is exiting small or strategic-fit businesses. In FY26 it approved the sale of its entire 50% stake in Lumax JOPP Technologies (a gear shifter tower maker) to German JV partner Jopp Holding, and acquired the remaining 15.97% of FAE to take it fully owned (Annual Report FY26; Q4 FY26 concall). On the Q2 FY27 call, management said one JV with YOPP of Germany was dissolved in the prior quarter because technology portfolios and scalability ambitions did not align (Q2 FY27 call, Oct 2026).

The logic is stated consistently by management: focus resources on businesses where the company sees scalability and margin expansion, and exit or restructure those that do not fit. JOPP was described as "a very small base and a very small contributor from a top line perspective, but it also continued to have a negative impact on the bottom line" (Q4 FY26 concall). CRISIL upgraded the company's long-term credit rating from AA- to AA during the year, reflecting what the agency judged as strong financial strength and prudent capital management (Q4 FY26 concall).

Business segments

Advanced Plastics & Interior Systems

Advanced Plastics & Interior Systems is Lumax Auto Technologies' largest business, generating INR 2,566 crore in FY 2025-26, up 25% year-on-year (Q4 FY26 concall, Jun 2026). The segment splits into two parts. Roughly two-thirds comes from the IAC - Intelligent Ambient Comfort division, which builds complete vehicle interiors: instrument panels, center consoles, door panels, headliners and interior trim systems. The remaining third holds the legacy plastics lines: air intake systems, urea tanks, plastic fuel tanks, louvers, headlamps, rear lamps and fenders (Annual Report FY 2026).

The core capability is module-level supply. IAC delivers fully integrated cockpit assemblies just-in-time to the OEM assembly line, using a sequential supply system that matches each unit to the specific car being built. That competence came from the December 2021 acquisition of IAC India, the local arm of the global interiors group International Automotive Components. Lumax bought the remaining 25% of IAC India in May 2025 for roughly INR

150 crore in acquisition debt, then merged the entity into the standalone company with an appointed date of October 1, 2025 (Q2 FY26 concall, Nov 2025; Q4 FY26 concall, Jun 2026).

The customer base is narrow but deep. More than 90% of IAC's order book comes from Mahindra & Mahindra, whose premium SUV and EV platforms (XUV 7XO, XEV 9e) drive the division (Q4 FY26 concall, Jun 2026). Beyond IAC, the segment supplies Maruti Suzuki (interior components for the Victoris platform), Tata Motors (emission-related parts for the Sierra) and two-wheeler OEMs including TVS and Bajaj. Management says the Mahindra dependence will persist for three to five years; a significant order from an alternative OEM is not expected before FY 2028-29 because the engagement-to-SOP cycle runs two to three years (Q4 FY26 concall, Jun 2026).

Why do OEMs buy from Lumax rather than build in-house? The answer is the same reason IAC won the Mahindra business: OEMs increasingly prefer to hand a fully assembled cockpit module to a single supplier rather than coordinate dozens of loose components. Management describes the offer as modular supply of complete interior systems with one interface for the customer, supported by design-to-cost engineering from the concept stage (Annual Report FY 2026; Q3 FY26 concall, Feb 2026).

The competitive position rests on two pillars that the sources document. First, IAC holds a dominant share of cockpit and interior panel supply to Mahindra's premium platforms (Annual Report FY 2026). Second, the segment has added a technology-scouting edge: the China representative office, operational January 2026, secured the ambient lighting business for Maruti Suzuki's upcoming program, codename Y2V, through a collaboration with a Chinese partner (Q3 FY26 concall, Feb 2026). The sources do not name direct Indian competitors for this segment.

The segment's financial profile is strong. IAC delivered 17.5% EBITDA margins in H1 FY 2025-26, against a group consolidated margin of 14-15% in the same period (Q2 FY26 concall, Nov 2025). The segment's order book stood at INR 700 crore at year-end (Q4 FY26 concall, Jun 2026). Capacity is being expanded to meet it: INR 100 crore of FY 2025-26 capex went into IAC and the Alps Alpine mechatronics joint venture, the Chakan Plant 4 is in the SOP phase with product launch expected around December-January, and management declined to quantify efficiency gains until launch (Q2 FY27 call, Oct 2026). INR 44-45 crore was spent on strategic land parcels in Sanand (Gujarat) and Kharkhoda (Haryana) (Q4 FY26 concall, Jun 2026).

The segment is the group's revenue anchor, with passenger vehicles contributing 53% of consolidated revenue in FY 2025-26 (Q4 FY26 concall, Jun 2026). The integration into the standalone company matters for two reasons: it lets Lumax bundle interiors with lighting and plastics into one proposal to OEMs, and it creates the platform for the SHIFT tech centre in

Bengaluru to add embedded electronics and software to the cockpit offering (Annual Report FY 2026).

One episode from FY 2026 shows how pricing works in this business. IAC's Mahindra BEV programs had a price settlement that dragged on from the first day of SOP through the end of Q1, leaving a cumulative impact of roughly INR 7 crore uncollected. The settlement was reached in July 2025 and booked in Q2 with retrospective effect, which is why Q1 margins dipped to 13.2% before recovering to 14.7% in Q2 (Q1 FY26 concall, Aug 2025; Q2 FY26 concall, Nov 2025). Base effect explains IAC's reported 2025-26 growth of roughly 20%: the prior year's H2 carried heavy tooling revenue from the Mahindra BEV launches, so like-for-like product revenue grew 25-27% (Q3 FY26 concall, Feb 2026).

Structures & Control Systems

Structures & Control Systems is the mechanical and transmission backbone of Lumax Auto Technologies. The segment produces gear shifters, metallic assemblies and control systems for passenger vehicles, plus metallic chassis and swing arms for two-wheelers. The capability that took years to build is precision transmission engineering, assembled largely through Japanese partnerships. Lumax Mannoh Allied Technologies, a joint venture with Mannoh Industrial of Japan in which Lumax holds 55%, owns the gear shifter franchise and holds a market leadership position with more than 65% of the Indian market, per CEO Vikas Marwah in the Q2 FY26 call. The segment also houses the standalone metallics business that makes chassis components for two-wheeler OEMs.

The product mix inside the segment follows the transmission value chain. Lumax Mannoh supplies manual, AMT and automatic transmission (AT) shifters to passenger vehicle OEMs. In FY26 it did INR 395.5 crore of revenue (INR 39,554.63 Lakhs per the annual report), roughly half of the segment total. A second joint venture, Lumax JOPP Allied Technologies, made shift towers, AMT kits and automatic gear shift modules, but at INR 16.9 crore (INR 1,687.71 Lakhs) it was a marginal contributor. Outside transmissions, the metallic division supplies chassis and swing arms to two-wheeler customers. The shift-by-wire transition is where the segment is betting its future: the company has entered SOPs on three major platforms, using both whole sensor-based and CAN-based shift-by-wire, per management.

The customers buy for a specific reason: the segment rides the industry's move from manual to automatic transmissions, which raises both unit prices and content per vehicle. The annual report MD&A attributes growth to "increasing adoption of automatic transmission systems, portfolio expansion into higher-value products and export opportunities through joint venture partnerships." The Japanese JV structure provides the technology transfer, while the Indian plants provide local manufacturing and just-in-time delivery to OEMs.

On competitive position, management does not name rivals in the concalls. The disclosed evidence is Lumax Mannoh's more than 65% market share and its maturity. The forward moat is the shift-by-wire pipeline, which management expects to play out over roughly three years:

> *"The migration of AT shifters towards the e-shifters, which we call a shift by wire is currently in progress. However, the total transition would take another about 36 months when it would become 50-50."*
>
> **VIKAS MARWAH, CEO, Q4 FY26 CONCALL (JUN 2026)**

The segment's financial trajectory was steady but unspectacular within a high-growth group. Revenue grew 10% in Q1 FY26 (INR 180 crore), 13% in H1 (INR 382 crore), 15% in 9M (INR 588 crore) and 17% for the full year, closing at INR 816 crore versus INR 693 crore in FY25. The order book was INR 170 crore at year-end, having risen to INR 180 crore at 9M from INR 110 crore in Q1. That order book is small relative to the group's INR 1,450 crore total, reflecting the segment's maturity. Structures & Control Systems contributed 17% of group revenue in FY26, per the annual report's segment revenue mix, against Advanced Plastics at 53%.

The segment also went through deliberate portfolio surgery. In May 2026 the board approved selling the entire 50% stake in Lumax JOPP to its German partner, Jopp Holding GmbH. The rationale was candid:

> *"Lumax JOPP was a very small base and a very small contributor from a top line perspective, but it also continued to have a negative impact on the bottom line. We took that decision to exit that joint venture."*
>
> **ANMOL JAIN, MANAGING DIRECTOR, Q4 FY26 CONCALL (JUN 2026)**

The exit leaves the segment as essentially Lumax Mannoh plus the 2W metallic business. Management had earlier considered integrating JOPP's shift tower technology into the group's transmission division, but concluded the scalability was not there. The segment now stands as the cash-generative, mature half of the portfolio: high market share, solid OEM relationships, and a measured technology transition into shift-by-wire that will determine whether it keeps its share as transmissions go electronic.

Aftermarket

Lumax Auto Technologies' aftermarket division sells replacement auto components through a distribution network rather than to vehicle manufacturers. The independent aftermarket in India is a replacement-driven business: parts are bought when vehicles age, not when they roll off the assembly line.

The products are deliberately basic, high-turnover items. Lighting (bulbs, headlamps, rear lamps), filters, mirrors, horns, wiper blades, control cables, lubricants and coolants. The Lumax eStore sells these online as well. The core asset is the distribution channel: 500+ channel partners and more than 35,000 retail touch points, per the FY 2026 annual report. That network took years to build, and it is what makes the segment attractive. A component maker with no distribution arm has nothing to sell into the repair market.

The customers are distributors, retailers and ultimately the mechanics who fit the parts. They buy from Lumax because the brand is established across the legacy automotive lighting business and because the distribution network makes the parts available when needed. The segment's economics are different from the OEM business: replacement parts carry higher margins, grow on vehicle parc (the total number of vehicles on the road) rather than on new vehicle production, and are less cyclical.

The division fits the group as a margin accretive counterweight to the OEM-dependent segments. Management notes the segment's margins sit well above the consolidated average. Anmol Jain flagged this in the Q4 FY26 call (June 2026), pointing to the segment's long-term positioning:

> *"As a high-margin business, the Aftermarket segment is positioned to remain significantly margin-accretive to the Company's overall performance."*

The strategic priority is accelerating growth. Aftermarket grew 15% in FY26, up from roughly 6-7% the prior year. Anmol Jain attributed the step-up to an aggressive product expansion and a shift toward demand generation at the retail and mechanic level rather than relying only on channel partners. That shift was named explicitly across multiple calls. In Q2 FY26, Sanjay Bhagat, Head of Aftermarket Business, noted the industry itself was growing 8-9%, meaning Lumax was already growing ahead of it, and described the levers driving the change: expanding the channel, launching new products, and building a secondary product innovation team. He cited October 2025 as evidence the strategy was working:

> *"In the month of October, we did a 20% growth over last year. So between 15% to 20% is something which we can certainly look at in H2 also."*
>
> **HEAD OF AFTERMARKET BUSINESS, Q2 FY26 CONCALL (NOV 2025)**

The segment's contribution to group revenue is stable at 10% of consolidated revenue, a share that has held through the recent acquisitions of IAC and Greenfuel. Growth on a small base means the margin math works well for the group: a 20% growth rate in a 10% revenue mix business that carries EBITDA margins in the 18-20% range adds proportionally more to consolidated margin than a similar percentage growth in the larger, structurally lower-margin

OEM segments. Vikas Marwah mentioned in the Q2 FY26 call that the segment would be a target for pull-driven demand generation, and the strategy now involves secondary market pull rather than just pushing inventory into the channel.

The export angle is a stated opportunity but not yet a material one. Anmol Jain said in Q1 FY26 (Aug 2025) that aftermarket exports have aggressive plans, but he explicitly separated them from the OEM export business, calling the aftermarket export chapter "a completely different chapter." No export revenue numbers were disclosed.

The competitive position is typical of the Indian organized aftermarket. The segment competes with other replacement-parts distributors and with unorganized local parts makers. Lumax has brand recognition from its lighting heritage and the scale of its distribution network, which matters for mechanics who stock known brands to avoid warranty claims. The strategy of moving beyond channel partners to direct retailer and mechanic engagement is what management believes differentiates the growth trajectory from peers that simply push inventory to distributors.

Alternate Fuels (Greenfuel)

The Alternate Fuels segment is the Greenfuel business, acquired in November 2024 and housed under Lumax Greenfuel Energy Solutions Private Limited, a 60%-owned subsidiary. It supplies high-pressure fuel storage and delivery systems for CNG, LNG, and hydrogen platforms. The segment operates as an asset-light assembly business: most components are procured externally, some imported, and assembled in-house. Management says it is positioned to grow in alignment with the national shift toward alternate fuel platforms and rising OEM adoption (Q4 FY26, Jun 2026).

The core capability under development is localization of components that were previously imported by every manufacturer in India. The flagship achievement is the ferrule-less tubes and fittings for CNG passenger vehicles, a safety-critical component that governs gas flow and fugitive emissions. Greenfuel is the first company in India to domesticate this technology (Q2 FY26, Nov 2025). Management frames this as a first-mover advantage: localization gives OEMs a significant cost and weight advantage over imported alternatives, which is the primary reason Tata and Maruti Suzuki are adopting it (Q3 FY26, Feb 2026).

The product portfolio spans pre-bend tubes, CNG manifolds, H2 receptacles, CNG safety kits, and the localized ferrule-less tubes and fittings (Annual Report FY 2026). For CNG passenger vehicles, the current content per vehicle is approximately INR 3,200, and the ferrule-less technology adds roughly INR 3,500 more per vehicle. The first confirmed order for the localized technology came from Maruti Suzuki's Celerio CNG model, and management expects other platforms to follow as the technology gains visibility (Q3 FY26, Feb 2026). By the Q2 FY27 update, Nashik had commenced production in Q3 FY27 and was supplying

ferrule-less tubes, fittings and receptacles to Mahindra & Mahindra; Maruti Suzuki had firm orders and Hyundai was engaged for other CNG parts.

The primary customer is Tata Motors, which accounts for roughly one-third of Greenfuel's revenue across passenger and commercial vehicles. Other customers include Maruti Suzuki. The Q2 FY27 call also names Mahindra & Mahindra and Maruti Suzuki as customers for the localized CNG tubes and receptacles (Q2 FY27 call, Oct 2026). OEMs buy from Greenfuel because of the localization cost advantage and because CNG retains strong demand pull against gasoline. Management noted that customers with large CNG portfolios continue to grow them, even with CNG price escalations, because petrol has seen larger price increases (Q4 FY26, Jun 2026).

The revenue mix for FY 2026 was 6% of group revenue (Annual Report FY 2026), with segment revenue of INR 383 crore for the full year, INR 270 crore for 9M, INR 170 crore for H1, and INR 95 crore for Q1 (Q4 FY26, Q3 FY26, Q2 FY26, Q1 FY26 concalls). The segment holds an order book of INR 180 crore, and management expects margins to be accretive to the group average over the medium term (Q4 FY26, Jun 2026). In H1 FY27, Alternate Fuels revenue grew 30% from INR 170 crore to INR 220 crore, with an order book of INR 379 crore (Q2 FY27 call, Oct 2026). Management's stated growth target for Greenfuel is a 15-20% CAGR (Q1 FY26, Aug 2025).

The segment fits the group's clean mobility strategy, which targets 20% of total revenue from clean and future mobility solutions by FY 2030-31 (Annual Report FY 2026). Because the business is asset-light, it improves group asset turns, and its higher margin profile supports the group's trajectory toward a 20% EBITDA margin. The group's other segments, particularly plastics and mechatronics, supply adjacent components for the same OEM platforms.

> *"if you look at a few years ago, the import content was almost as high as 65%. We have already brought it down to 35% to 40%. And as we move forward, we are looking at localizing more products."*
>
> **MD, GREENFUEL, Q3 FY26 CONCALL (FEB 2026)**

Competitors are the component suppliers who previously held the ferrule-less import monopoly. Management explicitly positions Greenfuel as the sole domestic supplier of this technology, which gives it a pricing and supply advantage. The challenge is scale: the localized ferrule-less order for the first Celerio model carries annual revenue of approximately INR 20 crore, and management expects meaningful scale-up over 3-5 years as other OEMs adopt the technology (Q2 FY26, Nov 2025).

Mechatronics

Mechatronics is the smallest reported vertical at 6% of FY 2026 revenue, but it is the segment the group is betting on for the shift from mechanical components to software-defined vehicles. It is built almost entirely through Japanese, Israeli, and Spanish joint ventures: Alps Alpine (switches and sensors), Yokowo (antennas), Ituran (telematics), and FAE (oxygen sensors). The Q2 FY27 call describes five global partnerships, adding Nidec for Body Control Modules, which is a technology tie-up rather than a JV and is reported in standalone Mechatronics revenue (Q2 FY27 call, Oct 2026). The core capability that took years to build is electronics and software integration, not plastic molding or metal forming - the group's historical strengths.

The products break down by JV. Lumax Alps Alpine makes switches and sensors: power window switches, steering wheel switches, steering angle sensors, and throttle position sensors. The throttle position sensor SOP for HMSI drove much of the segment's early growth. Lumax Yokowo makes vehicle antennas, including shark fin antennas, supplying Honda, Toyota, and Mahindra. Lumax Ituran makes telematics control units (TCUs) and EV-specific eCAN solutions, with Daimler India as its anchor customer. Lumax FAE makes oxygen sensors for two-wheeler emission control, supplying Royal Enfield and Mahindra Motorcycles. Body Control Modules, developed with Nidec technology, entered SOP in July 2026 and are reported in standalone Mechatronics revenue (Q2 FY27 call, Oct 2026). These are all safety-critical or regulation-driven parts, which is why OEMs do not switch suppliers casually.

The customers are the same OEMs the group serves elsewhere - Maruti Suzuki, HMSI, Mahindra, Bajaj, Tata - but the buying logic is different. In plastics and interiors, Lumax wins on design, scale, and just-in-time delivery. In mechatronics, it wins on validated electronics, localization of imported technology, and the ability to engineer for Indian platforms. The order book reflects the demand: mechatronics held INR 400 crore of orders at FY 26 close, against FY 26 revenue of INR 281 crore (Q4 FY26 concall). In H1 FY27, Mechatronics revenue grew 45% from INR 122 crore to INR 177 crore, with an order book of INR 512 crore; BCM alone carried a INR 250 crore order book (Q2 FY27 call, Oct 2026). Revenue grew almost 150% year-on-year in FY 26, from INR 115 crore to INR 281 crore, and the 9M FY 26 number rose ~200% from INR 67 crore to INR 198 crore (Q3 FY26 concall).

The competitive field is concentrated among global electronics suppliers and their Indian subsidiaries - Japanese firms like Tokai Rika and Omron in switches, and Bosch and Continental in sensors - alongside smaller domestic mechatronics makers. Lumax's edge is the same one the group has in interiors: deep OEM relationships and localization. But the segment is still small relative to those players. Management's stated ambition is close to INR 1,000 crore of Mechatronics revenue by 2031, with five global partnerships, including Nidec

for Body Control Modules, and plans to expand from six product categories to about ten by 2030-31. About 20-25% of the vertical's revenue is targeted from Lumax internal technology and about 75% from JV partners.

The segment fits the group through shared infrastructure rather than shared products. A new mechatronics manufacturing facility at Manesar was approved on 24 October 2026 with about INR 150 crore capex, two-phase commissioning from Q3 FY28 and peak annual turnover of about INR 500 crore. It is expected to support the BCM order book; the call does not update the earlier four-JV consolidation timeline (Q2 FY27 call, Oct 2026). The SHIFT tech centre in Bengaluru, inaugurated October 2025 with a team of software engineers, writes the software and embedded electronics that the mechatronics JVs then industrialize. Management describes SHIFT as the vehicle for the Tier 0.5 transition, embedding software into mechatronics and telematics products that were previously pure hardware (Q2 FY26 concall; Annual Report FY 2026).

Management has been explicit about where the growth comes from and where the weak spots are. On Alps Alpine, the story is product line expansion beyond switches:

> *"We have now gone into the steering wheel switches. We have gone into steering angle sensors, and there are 4 new switches that have been added to the product portfolio. The full impact of these would be visible in H2 as most of these launches have come between July till September."*
>
> **VIKAS MARWAH, CEO, Q2 FY26 CONCALL (NOV 2025)**

On Ituran, management acknowledged the segment's immaturity but pointed to a second product entering SOP with a new OEM, a regulation-driven product that would not exist without regulatory demand. On Yokowo, the turnaround is visible: it reached PBT positivity for a full quarter in Q3 FY 26 after years of losses, and is now supplying to Mahindra in addition to its Japanese OEM base (Q3 FY26 concall).

On the Q2 FY27 call, management said Mechatronics margins are 14.5-15%, in line with the group, and the vertical is reaching critical mass with a INR 500 crore order book (Q2 FY27 call, Oct 2026). Minority interest and JV-level profitability still affect consolidated PAT. The direction is clearer than the absolute margin: the group is concentrating its highest-engineering bets here, and the order book plus the new Manesar plant give it capacity to scale. The strategic pivot from mechanical to electronic content in vehicles is direct: if the industry's value is moving into electronics, this segment is where Lumax Auto Technologies has positioned itself to capture it.

Customers

Lumax sells to essentially every major OEM in India. The customer list across the group includes Maruti Suzuki, Mahindra & Mahindra, Tata Motors, Bajaj Auto, Hero MotoCorp,

Honda Motorcycle and Scooter India (HMSI), TVS, Royal Enfield, Toyota, Ashok Leyland and Daimler India (Annual Report FY26). In FY26, the customer type mix was: passenger vehicles 53%, two- and three-wheelers 24%, aftermarket 10%, commercial vehicles 9%, and others 4% (Q4 FY26 concall, Jun 2026).

Concentration risk is real and concentrated in Mahindra

Mahindra & Mahindra is the single largest customer, and the dependence is sharpest in the IAC interiors business: more than 90% of IAC's INR 500 crore order book comes from M&M programs (Q4 FY26 concall). Management is candid about the near-term trajectory:

> *"Mahindra will continue to dominate the lion's share of IAC's pie. However, as a part of our derisking, we are in advanced stages of discussions with other OEMs."*

The structural concentration works in the company's favour while Mahindra's UV and EV portfolio grows, but it is a genuine single-customer risk. Management expects diversification into other OEMs (Maruti Suzuki, Honda Cars, Tata Motors) to materialize in FY 2028-29 at the earliest, because automotive design cycles take time.

Tata Motors is the other significant concentrated exposure, mainly through Greenfuel, which counts Tata as about a third of its revenue across passenger and commercial vehicles (Q1 FY26 concall). This concentration is a natural consequence of Tata's leadership in CNG passenger vehicles.

How the buying relationship works

OEMs select suppliers through a rigorous RFQ process that takes years. The typical cycle from initial engagement to an awarded program to SOP runs two to three years minimum (Q4 FY26 concall). For full interior systems, the relationship starts at the design stage: suppliers are involved early to help with design-to-cost, and then must execute JIT sequential supply once production starts. This design-in process creates high switching costs, because the supplier holds the engineering for the module and the OEM would face re-tooling and re-certification to change suppliers mid-program.

The business is program-based, tied to vehicle model lifecycles. Tooling revenue spikes at new model launches and is therefore cyclical: Q4 FY26 had elevated tooling revenue of INR 90-100 crore in the IAC division, which is why reported Q1 FY26 revenue looked sequentially soft even though manufacturing revenue was steady (Q1 FY26 concall).

Pricing has a negotiated inflation pass-through mechanism. Raw material and energy cost increases are recovered from OEMs through back-to-back arrangements, with a lag of up to one quarter according to the Q2 FY27 call. Management said a INR 100 raw-material increase was recovered in full, but the higher revenue carried similar cost and diluted EBITDA by 30-40 bps in the quarter (Q2 FY27 call, Oct 2026). The mechanism does not

always work cleanly: in Q1 FY26, a price correction for Mahindra's BEV models was delayed by commercial negotiations, creating a INR 7 crore cumulative adjustment that had to be recognized in Q2 instead (Q1 FY26 concall). Management describes the Q1 episode as unusual, not the norm.

Customer relationships are reinforced through supplier conferences where OEMs publicly recognise performance. In FY26 the group won: Localization of Design and Development and Part Development awards at the Maruti Suzuki Vendor Conference, the Mahindra Supplier Excellence Award for execution, Excellence in Quality Management at the HMSI Supplier Convention, and Runner-Up Partner of the Year at Daimler India's annual supplier meet (Q4 FY26 concall; Annual Report FY26). These awards matter commercially: they are how OEMs signal preferred supplier status and they feed directly into future order wins.

The aftermarket relationship is different

Aftermarket distribution runs through 500+ channel partners and more than 35,000 retail touch points, and the company is deliberately shifting from a channel-push model to a demand-pull model by engaging directly with retailers and mechanics (Annual Report FY26). This is a lower switching-cost business than OEM supply, but it is also less concentrated and carries higher margins. Growth is driven by product portfolio expansion and distribution reach, not by OEM program wins.

Competitive landscape

The source documents do not name most of Lumax's competitors directly, so a precise competitive map must stay honest about what management has disclosed. The company claims outright market leadership in one segment, faces import competition in newer ones, and is a challenger in interiors outside Mahindra.

Where Lumax holds a leadership position

Gear shifters: Lumax Mannoh holds more than 65% market share in India (Q2 FY26 concall), making it the dominant player in a segment with high barriers to entry: gear shifters are safety-critical, design-in components with long qualification cycles. The transition to shift-by-wire creates a new competitive front, and management says it is already in SOP on three platforms across both major technical approaches (hall-sensor and CAN-based). The risk is that shift-by-wire shifts value toward electronics and software, where the competitive set could widen beyond traditional mechanical shifter makers.

CNG fuel systems: Greenfuel was competing against imports for ferrule-less tubes and fittings. Being the first domestic localizer gives a cost and supply security advantage over imported alternatives. By Q3 FY27, Nashik had commenced production of ferrule-less tubes and receptacles for Mahindra, with Maruti Suzuki firm orders (Q2 FY27 call, Oct 2026). The

competitive threat here is not a domestic rival but continued import competition and the pace of OEM adoption of the localized product.

Where Lumax is a challenger

Full interiors (IAC): Outside Mahindra, Lumax is still building position. It has secured some business with Maruti Suzuki, is in talks with Honda Cars and Tata Motors, and received a Tata order that is currently on hold (Q3 FY26 concall). Management is clear that new OEM wins will take until FY 2028-29 to become meaningful. The competitive set for premium interiors in India includes global interior suppliers and other Tier-1s, though the sources do not name them.

Mechatronics: The Alps Alpine JV competes against what management describes as "one dominant competitor" (unnamed) in switches and sensors, where it has to be price competitive while building scale. The strategy is product line expansion: from power window switches alone to steering wheel switches, steering angle sensors and other sensing products. The BCM programme entered SOP in July 2026 and is reported in standalone Mechatronics revenue, with a INR 250 crore order book (Q2 FY27 call, Oct 2026).

Aftermarket: The replacement parts industry grows at roughly 8-9%, and Lumax's 15% growth in FY26 means it is gaining share (Q2 FY26 concall). The aftermarket is fragmented, with a large unorganized segment, and the stated strategy is to outgrow the industry through product line expansion and stronger retail-level demand generation rather than by competing on price alone.

The competitive structure of the wider industry

The Annual Report FY26 MD&A sketches the industry dynamics that shape all Indian component suppliers:

- The Indian auto component industry is estimated at USD 80+ billion in annualized revenue.
- Component imports grew 12.5% in the year, flipping India's trade balance in components from a USD 150 million surplus to a USD 180 million deficit (ACMA leadership, cited in the annual report).
- The import dependence is concentrated in sophisticated sub-systems: rare-earth magnets, power electronics and EV-specific components, largely from China.
- OEMs push 2-4% annual price reductions on suppliers, which forces constant cost-down programs.
- EV transition threatens ICE-only suppliers with structural decline in engine, fuel system and exhaust component demand.

Lumax's stated positioning through this transition is "powertrain-agnostic": it does not depend on which powertrain wins, because its product portfolio (interiors, gear shifters, telematics, fuel systems) spans ICE, EV and alternate fuels. Management frames this as insulation from the risk that pure-ICE suppliers face, and as an advantage when OEMs are choosing between EV-dedicated and cross-powertrain suppliers.

The differentiation that matters in practice

Across the segments, the durable competitive advantages are: the JV technology partnerships that bring world-class know-how into India (Mannoh for shifters, Alps Alpine for sensors, Yokowo for antennas, Ituran for telematics, FAE for oxygen sensors, Greenfuel/IO Industry for CNG systems), the design-in relationships with OEMs, and the JIT/sequential supply capability in interiors that is operationally hard to replicate. The China resource centre adds a sourcing and tooling cost advantage, and the SHIFT tech centre in Bengaluru builds in-house software capability for the mechatronics and telematics products (Annual Report FY26).

Industry

India's auto industry had its strongest fiscal year in seven years in FY 2025-26, with production of 34.71 million units, up 12.0% YoY (SIAM, cited in Annual Report FY26 MD&A). Q2 FY27 industry production grew 25% YoY to about 17 lakh units, with two-wheelers up 17% to 81 lakh, three-wheelers up 25% to 4.5 lakh and commercial vehicles up 34% to 3.5 lakh; management expects H2 FY27 growth to moderate (Q2 FY27 call, Oct 2026). The FY26 growth was broad-based:

SEGMENT	FY26 PRODUCTION	YOY GROWTH
Passenger vehicles	5.54 million	+9.4%
Two-wheelers	26.69 million	+11.8%
Three-wheelers	1.30 million	+23.9%
Commercial vehicles	1.17 million	+13.1%

Vehicle exports reached 6.65 million units, up 24%, India's strongest export year on record. Exports outpaced domestic sales across segments, with especially strong momentum in two- and three-wheelers (Annual Report FY26 MD&A).

The demand environment was supported by a sequence of policy measures: GST rate rationalization in September 2025 lowered effective taxes on autos, the RBI cut rates cumulatively by about 100 basis points since early 2025, and income tax relief in the Union Budget boosted disposable income. Rural demand improved on strong monsoon and

government spending, and the festive season delivered strong volumes. India's GDP grew 7.6% in FY26, with the RBI projecting 6.9% for FY27 (Annual Report FY26 MD&A).

Structural demand drivers

Three forces are reshaping the product mix in ways that matter for component suppliers:

1. **Premiumization**: Consumers are shifting toward premium vehicles and SUVs. The "premium-affordable" segment (price range INR 10-25 lakh) is the fastest-growing, and SUVs continue to take share from sedans and hatchbacks (Annual Report FY26 MD&A). Premium vehicles carry higher content per vehicle for interior suppliers, which is why the IAC business benefits disproportionately.

1. **Software-defined vehicles**: The vehicle bill of materials is shifting from predominantly mechanical to electronics- and software-led. Recurring software revenue, over-the-air updates and ADAS features are becoming the new value pools. This is the structural logic behind Lumax's SHIFT tech centre and its push into Body Control Modules and telematics (Annual Report FY26 MD&A).

1. **Clean mobility**: EV penetration reached mid-single digits in passenger vehicles and crossed 8-10% on a monthly basis in two-wheelers during FY26. The Scheme to Promote Manufacturing of Electric Passenger Cars (SPMEPCI), launched June 2025, is expected to bring global OEMs into India. In parallel, CNG continued to grow strongly because it retains a significant price advantage over petrol, and OEMs with large CNG portfolios are expanding them (Q4 FY26 concall; Annual Report FY26 MD&A).

India's place in the global supply chain

India's auto industry is positioning itself as a diversified sourcing hub under global "China + 1" strategies. The annual report notes that this realignment presents a structural opportunity for capable domestic suppliers. The interim US-India trade agreement, which reduced effective tariffs to 18% from proposed levels of 50%, and progress on an India-EU Free Trade Agreement are both expected to improve market access (Annual Report FY26 MD&A).

The counterweight is the import dependence problem. India's component imports grew 12.5% in FY26, concentrated in rare-earth magnets, power electronics and EV-specific components from China, and ACMA leadership has flagged securing critical materials as the top supply-chain priority for FY 2026-27 (Annual Report FY26 MD&A). This creates the localization opportunity that companies like Lumax are pursuing: ferrule-less CNG tubes are the clearest example, where an industry-wide import was replaced by domestic manufacturing.

The auto component industry structure

The Indian auto component industry is now a USD 80+ billion revenue industry at an annualized pace (Annual Report FY26 MD&A). It sits between the OEMs and a deep supply chain of Tier-2 and Tier-3 suppliers. The value chain is bifurcating between suppliers who are "EV-ready" and those who will be disrupted by the decline of ICE-only components such as engines, fuel systems and exhaust parts. Global Tier-1 suppliers are recalibrating portfolios, and the structural trend favors companies with diversified product spans that can follow the value as it migrates.

Cyclicality and risk

The industry is cyclical, though the current cycle is favourable. Q1 FY26 was mixed, with flat demand across most segments, before demand strengthened through the year on GST rationalization, rate cuts and festive momentum (Q1 FY26 concall; Q4 FY26 concall). The second half of FY26 saw the strongest production growth across segments. On the Q2 FY27 call, management said Q2 industry growth was helped by a lower base and expects H2 FY27 growth to moderate; input costs remain a monitorable (Q2 FY27 call, Oct 2026). The risks are global commodity inflation (particularly crude-linked polymers), energy price volatility, and geopolitical disruptions, including the Middle East conflict and supply chain issues around the Strait of Hormuz (Q4 FY26 concall; Annual Report FY26 MD&A).

The aftermarket provides a counter-cyclical buffer. With a growing vehicle parc, the replacement market is the most predictable growth pool in the industry, and it is benefiting from formalization: organized channels are taking share from the unorganized sector, which compounds the secular volume growth (Annual Report FY26 MD&A). This is why Lumax's 18-20% margin aftermarket business is strategically important beyond its 10% revenue share.

Growth triggers

Ramp-up of new order wins, including Maruti Suzuki ferrule-less CNG tubes, Mahindra XUV 7XO and XEV 9e interior components, and Bajaj Triumph frames.

These three wins are SOP-driven programs: once a vehicle model starts production, Lumax supplies a fixed piece of content per vehicle for the life of the platform. The order book is the visibility instrument, and its composition shows how the wins convert into revenue.

Maruti Celerio ferrule-less CNG tubes. Greenfuel (60% owned) localized ferrule-less tubes and fittings, a component previously imported by every OEM in India. The Celerio order was the first award, and management said the annual revenue on that single model is close to INR 20 crore (Q2 FY26 concall, Nov 2025). The per-vehicle economics matter more: content rises from INR 3,200 to INR 6,700 per vehicle on models where Lumax participates (Q3 FY26 concall, Feb 2026). Because the localized product carries a cost advantage for the OEM, management expects other customers to accept it once proven in production.

Mahindra XUV 7XO and XEV 9e interiors. IAC, now merged into the standalone entity, supplies cockpit modules and interior components for these platforms. The content increase on these models is around INR 1,500 per vehicle (Q3 FY26 concall, Feb 2026), and over 90% of IAC's order book sits with Mahindra (Q4 FY26 concall, Jun 2026), so the ramp tracks Mahindra's premium SUV production.

Bajaj Triumph frames. The metallics division supplies frames for Bajaj's Triumph platform, a new 2-wheeler structure program.

On timing: these SOPs began during FY 2025-26, and the current order book of INR 1,879 crore schedules 14% of its value into FY27, 59% into FY28 and 27% into FY29, with about 85% of the book classified as new business (Q2 FY27 call, Oct 2026).

> *"There were a lot of orders, which have actually gone into the revenue stream during the quarter, and there have been some new significant wins across the different business verticals... every quarter, this evolves where there are new wins and there are existing wins which go into the revenue stream."*
>
> **ANMOL JAIN, MD, Q4 FY26 CONCALL (JUN 2026)**

The FY 2026 results capture the early stage of this ramp: consolidated revenue hit INR 4,870 crore, up 34%, with the Advanced Plastics segment (which houses the IAC interiors and Greenfuel contribution) growing 25% to INR 2,566 crore (Q4 FY26 concall, Jun 2026).

New Manesar mechatronics plant approved with INR 150 crore capex, commissioning from Q3 FY28

The board approved on 24 October 2026 a new mechatronics manufacturing facility at Manesar with about INR 150 crore capex, funded by debt and internal accruals. It is to be commissioned in two phases starting Q3 FY28 and has a peak annual turnover of about INR 500 crore. The BCM programme, in SOP since July 2026, carries a INR 250 crore order book and is the demand anchor management cited for the new plant (Q2 FY27 call, Oct 2026).

The economic test is whether the new plant fills toward the stated INR 500 crore peak turnover after Q3 FY28. Management has not disclosed the split between the two phases, the utilisation needed to break even, or the exact revenue ramp. The BCM order book of INR 250 crore is the only quantified demand anchor disclosed alongside the approval (Q2 FY27 call, Oct 2026).

> *"The mega mechatronics plant is coming up at Manesar. It is currently under commissioning as we speak... Phase 1 movement will be Lumax Yokowo. Phase 2 movement will be Lumax Alps and Phase 3 movement will be Lumax Ituran and Lumax FAE together into this mega plant."*
>
> **CEO, Q2 FY26 CONCALL (NOV 2025)**

The Q2 FY27 call does not update the earlier four-JV consolidation timeline. It instead discloses a new Manesar mechatronics facility with about INR 150 crore capex and two-phase commissioning from Q3 FY28 (Q2 FY27 call, Oct 2026).

The financial logic is visible in the segment's numbers. Mechatronics revenue grew from INR 115 crore in FY25 to INR 281 crore in FY26, and H1 FY27 revenue was INR 177 crore with an order book of INR 512 crore. Management expects close to INR 1,000 crore revenue from Mechatronics by 2031 and plans to expand from six product categories to about ten by 2030-31, with 20-25% of the vertical's revenue from Lumax internal technology and about 75% from JV partners (Q2 FY27 call, Oct 2026).

Localization of ferrule-less tubes and fittings for CNG vehicles, first in India, increasing content per vehicle from INR 3,200 to INR 6,700

Greenfuel Energy Solutions, acquired in November FY25, has localized ferrule-less tubes and fittings for CNG vehicles, making Lumax the first domestic supplier of a technology that was previously imported by every OEM in India. The business runs through the Alternate Fuels vertical, which contributed INR 383 crore in FY26 with an order book of INR 180 crore (Q4 FY26 concall, Jun 2026). In H1 FY27, the vertical grew 30% to INR 220 crore with an order book of INR 379 crore (Q2 FY27 call, Oct 2026).

The mechanism is content-per-vehicle expansion. CNG cars typically carry about INR 11,500 of addressable content per vehicle, and Lumax previously supplied roughly INR 3,200 of that. Ferrule-less tubes and fittings add approximately INR 3,500 per vehicle, nearly doubling the addressable share. Management quantified the stage of the ramp-up:

> *"the content per vehicle will significantly ramp up from INR 3,200 to almost INR 6,700 per vehicle with the caveat on the models we are in."*
>
> **AKSHAY KASHYAP, MD GREENFUEL, Q3 FY26 CONCALL (FEB 2026)**

The first confirmed order came from Maruti Suzuki for the Celerio CNG model, with management noting the annual revenue from that single model is close to INR 20 crore. By Q3 FY27, Nashik had begun supplying ferrule-less tubes and receptacles to Mahindra & Mahindra, and Maruti Suzuki had firm orders; management expects significant utilisation across the two over about two years (Q2 FY27 call, Oct 2026). Because the product was fully imported until now, the cost advantage of domestic production gives OEMs a reason to switch, and management expects scale-up across other vehicles over the next 3-5 years (Q2 FY26 concall, Nov 2025).

This ties directly into the clean mobility share of Lumax's order book. On the Q2 FY27 call, EV and CNG together accounted for 29% of the INR 1,879 crore order book, with CNG at 20% and pure EV at about 9%; new future technologies were 22% (Q2 FY27 call, Oct 2026).

Greenfuel is also an asset-light business, so the revenue growth from higher content per vehicle does not require proportional capital expenditure. The tubes localization itself needed only INR 8-10 crore of capex (Q3 FY26 concall, Feb 2026).

SHIFT tech centre in Bengaluru for software and electronics, supporting Body Control Modules (BCM) and new EV-centric products

SHIFT (Smart Hub for Innovation and Future Trends) is Lumax's in-house software and electronics capability, set up in Bengaluru and inaugurated in October 2025 with a bench strength of 25 software engineers (Q3 FY26 concall, Feb 2026). The rationale is structural: as vehicles become software-defined, value migrates to electronics and code, and Lumax's strategy of moving from a Tier-1 component supplier toward a Tier-0.5 systems integrator requires owning that software layer (Annual Report FY26).

The mechanism has three parts. First, SHIFT embeds electronics and software into existing hardware lines - mechatronics, interior cockpit systems, plastics - which raises the content per vehicle. Second, it indigenizes software for the JVs that previously relied on overseas parent support. Third, it incubates entirely new products in areas where Lumax does not currently operate.

The first concrete product is the Body Control Module. It entered SOP in July 2026 and is reported in standalone Mechatronics revenue with a INR 250 crore order book (Q2 FY27 call, Oct 2026).

> *"It is already supporting our upcoming new product, Body Control Modules (BCM) that are getting into SOP in 45 to 60 days from now, it is driving the software integration for that."*
>
> **CEO, Q4 FY26 CONCALL (JUN 2026)**

The Q2 FY27 call confirmed BCM entered SOP in July 2026 as standalone Mechatronics revenue, with a INR 250 crore order book; SHIFT continues to drive software integration (Q2 FY27 call, Oct 2026). SHIFT has also initiated two Proof-of-Concepts with OEMs for new-age EV-centric products, and it is driving a substantial new business being incubated inside the standalone entity, with details to be disclosed when it reaches SOP in Q2 FY27 (Q3 FY26 concall, Feb 2026). At inauguration, 6-7 POCs had been completed and shown to key OEMs (Q2 FY26 concall, Nov 2025).

The cost side is small: roughly INR 5-7 crore per year, which management described as negligible for the return (Q4 FY26 concall, Jun 2026). The centre is a people-and-skills investment rather than a capex one for the next couple of years (Q2 FY26 concall, Nov 2025).

China resource centre for technology scouting and sourcing; won ambient lighting business for Maruti Suzuki

Lumax opened its first China representative office in January 2026 as a group resource centre for sourcing, tooling and technology scouting. Management's stated purpose is to access interior cabin trends ahead of India and bring them to Indian OEMs at a competitive price point, with the IAC interiors business as the delivery channel (Q1 FY26 concall, Aug 2025).

The first named commercial result is an ambient lighting order for Maruti Suzuki won through a China partner collaboration. Sunil Koparkar, Managing Director of IAC India, confirmed the win on the Q2 FY26 call.

> *"we have won ambient lighting business for Maruti Suzuki as well as some of the premium cupholders and mechanism parts, which we are developing with China assistance."*
>
> **IAC INDIA MD, Q2 FY26 CONCALL (NOV 2025)**

He further specified the order is for Maruti's upcoming Y2V program, won specifically because of the China collaboration (Q2 FY26 concall, Nov 2025). This contrasts with the Q1 stage, when management described Mahindra ambient lighting only as "ongoing discussions" without a confirmed order (Q1 FY26 concall, Aug 2025). Technology Arrangements signed with Chinese partners have already converted into business (Q2 FY26 concall, Nov 2025), corroborated by the annual report, which cites TAs with localized partners and marquee business wins as tangible results of the China initiative (Annual Report FY 2026).

Timeline: announced in August 2025 for current-year start, expected operational by January 2026 (Q2 FY26 concall, Nov 2025), confirmed operational in January 2026 (Annual Report FY 2026). By June 2026, the office had about 8 staff, planned to expand to 15 (Q4 FY26 concall, Jun 2026).

The mechanism is repeatable: scout a technology already standard in China, localize it through a TA, and sell it to an Indian OEM as a first-in-market product. Ambient lighting for Maruti is the first named win; cupholders and mechanism parts are in development on the same model.

Key risks

- **H2 FY27 growth moderation after a strong first half.** Management expects H2 FY27 revenue growth of 15-20% because of a higher base, after H1 growth of 34%. Q2 industry production grew 25% YoY partly on a lower base, and management expects the festive season to be an important monitorable. If H2 growth lands below the guided range, the about 20-odd percent FY27 revenue frame and the 20% FY25-FY31 CAGR come under pressure.

- **Commodity and energy inflation with a one-quarter pass-through lag.** Raw material costs (notably polypropylene), minimum wage hikes and energy prices all put short-term pressure on margins. The company has back-to-back cost-recovery arrangements with OEMs, but the realization lag means a spike in input costs hits quarterly margins before recovery lands. On the Q2 FY27 call, management said a INR 100 raw-material increase was recovered in full, but the higher revenue carried similar cost and diluted EBITDA by 30-40 bps in the quarter (Q2 FY27 call, Oct 2026). Management guided that margins would hold or rise ~30 bps on the year, but that depends on OEMs honouring the pass-through in full and on time.
- **Critical material dependence, specifically rare earth magnets.** The company already saw interim production hiccups on EV platforms, citing rare earth supply as the cause of the Bajaj EV vehicle disruption (Q1 FY26 call, Aug 2025). The annual report flags dependence on imports of advanced components including rare earth magnets and power electronics as a top supply-chain concern. LATL claims adequate coverage through its Japanese JV partners' sourcing arrangements, but FAE's oxygen sensor business also depends on a sensing element whose supply is constrained and is currently a bottleneck to scaling that entity.
- **Technological transition toward EVs and software-defined vehicles.** The annual report explicitly lists the risk that rapid shifts to EVs and connected systems could reduce demand for traditional mechanical components or render existing manufacturing capabilities obsolete. The company's mitigation is a powertrain-agnostic product strategy, the SHIFT Bengaluru tech centre, and the China resource centre, but these are recent investments (SHIFT operational since October 2025, China office since January 2026) and their commercial payoff is not yet proven at scale.
- **Customer price renegotiation risk on new programs.** The Q1 FY26 margin miss showed the mechanism: for newly launched Mahindra BEV models, price negotiations dragged on through the quarter, and the cumulative INR 7 crore price correction for the SOP period was only realized retrospectively in July, shifting Q1 profit into Q2 (Q1 FY26 call). Management called this a one-off, but every new platform launch carries the same negotiation risk until prices settle.
- **Regulatory changes with one-off and recurring cost impacts.** The new wage codes notified in November 2025 created a one-time INR 14.95 crore exceptional charge in Q3 FY26 (Q3 FY26 call, Feb 2026). Evolving emission norms, safety standards and labour compliance add administrative and operating costs. Cost audits and secretarial audits report no qualifications, but the compliance surface grows with each merger and acquisition.

- **Execution risk on large new initiatives.** The new Manesar mechatronics plant carries about INR 150 crore capex and two-phase commissioning from Q3 FY28; the call does not update the earlier four-JV consolidation timeline. Delays or cost overruns would defer the stated peak annual turnover of about INR 500 crore (Q2 FY27 call, Oct 2026). The BCM programme is already in SOP and scaling, so the near-term risk is ramp and yield rather than approval.
- **Debt and interest cost.** As of September 2026, free cash reserves were INR 442 crore and debt-to-equity was 0.26, within internal comfort thresholds. Finance costs and repayment timing were not updated in the Q2 FY27 update.
- **Order book replenishment and conversion dependency.** The order book rose to INR 1,879 crore at end-Q2 FY27 from INR 1,600 crore at end-Q1, with about 85% new business. Execution is scheduled 14% in FY27, 59% in FY28 and 27% in FY29. The low FY27 share means near-term revenue relies on H2 execution; if the FY28-weighted conversion slips, the growth engine stalls even with a larger order book.

Scenarios

Bull case

The INR 1,879 crore order book at end-Q2 FY27 executes 14% in FY27, 59% in FY28 and 27% in FY29, with 85% new business and 29% EV/CNG powertrain exposure (Q2 FY27 call, Oct 2026). Mechatronics grows from H1 FY27 revenue of INR 177 crore and a INR 512 crore order book toward management's ~INR 1,000 crore target by 2031, helped by BCM SOP in July 2026 and a new INR 150 crore Manesar plant commissioning from Q3 FY28 with ~INR 500 crore peak turnover. Greenfuel's Nashik plant starts ferrule-less CNG tube supply to Mahindra, with Maruti firm orders and content per vehicle rising from INR 3,200 toward INR 6,700 on served models. FY27 revenue guidance is about 20-odd percent growth to ~INR 6,000 crore, and management reaffirms ~INR 1,000 crore FY28 EBITDA. The 20% FY25-FY31 revenue CAGR and ~INR 11,000 crore FY31 aspiration remain the North Star.

Base case

Revenue grows about 20-odd percent in FY27 to ~INR 6,000 crore, with H2 growth of 15-20% as the base effect normalises. H1 FY27 EBITDA margin of 14.9% holds around 14.5-15% for FY27, with input-cost pass-through lagging by up to a quarter and diluting Q2 margin by 30-40 bps. Mechatronics scales from INR 177 crore H1 revenue and a INR 512 crore order book; Greenfuel grows from INR 220 crore H1 revenue and a INR 379 crore order book; aftermarket grows 9% in H1 with a 15-20% aspiration. The new Manesar plant commissions from Q3 FY28, and FY28 EBITDA reaches about INR 1,000 crore on management's reaffirmed target. Minority interest remains around 11% of H1 PAT.

Bear case

Commodity inflation and a one-quarter pass-through lag dilute margins; Q2 FY27 EBITDA margin was 14.7% and management flagged 30-40 bps dilution from cost recovery. Advanced Plastics is 44% of the order book, and a major customer slowdown would hit the largest division. The order book's FY27 conversion is only 14%, so revenue timing can slip. The new Manesar plant's two-phase commissioning from Q3 FY28 and BCM ramp carry execution risk. Aftermarket grew only 9% in H1 FY27, well below the 20% ambition. If H2 FY27 growth falls below the guided 15-20%, the 20% FY25-FY31 CAGR and FY28 INR 1,000 crore EBITDA target come under pressure.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	4,870	6,087	7,270	8,505
Revenue growth	-	+25.0%	+19.4%	+17.0%
EBITDA (₹ Cr)	705	907	1,127	1,395
EBITDA margin	14.5%	14.9%	15.5%	16.4%
Depreciation (₹ Cr)	179	210	265	312
Interest (₹ Cr)	105	98.00	96.00	94.00
Other income (₹ Cr)	46.40	66.00	70.00	75.00
PBT (₹ Cr)	406	599	766	989
Tax (₹ Cr)	68.80	150	192	247
Tax rate	16.9%	25.0%	25.0%	25.0%
PAT (₹ Cr)	279	400	511	660
PAT growth	-	+43.4%	+27.8%	+29.1%
EPS (₹)	40.90	58.70	75.00	96.80
P/E	56.9x	39.6x	31.0x	24.0x
PEG	2.0x	1.4x	1.1x	0.8x

CAGR FY27E-FY29E: Revenue +18.2% · EBITDA +24.0% · PAT +28.5%

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Q2 FY27 concall notes

TLDR

Lumax Auto Technologies reported Q2 FY27 revenue of ₹1,556 crores, up 35% YoY and 14% QoQ, the first quarter above ₹1,500 crores, with EBITDA of ₹228 crores including other income, up 34% YoY at a 14.7% margin, broadly stable YoY but down marginally QoQ on input costs and recovery timing. H1 FY27 revenue was ₹2,919 crores, up 34%, EBITDA ₹434 crores at 14.9% margin, up 90 bps, and PAT before minority ₹215 crores, up 64%. The order book rose to ₹1,879 crores from ₹1,600 crores, 85% new business, with Advanced Plastics at 44%, Mechatronics 27%, Alternate Fuels 20% and Structures 8%. The board approved a ₹150 crores Manesar mechatronics plant, commissioned in two phases from Q3 FY28 with peak turnover of about ₹500 crores. Management guides full-year growth of 20-odd percent, about ₹6,000 crores revenue, and remains confident of ₹1,000 crores absolute EBITDA in FY28. Watch input-cost pass-through lag, H2 base effects and aftermarket weakness.

WHAT CHANGED SINCE Q1 FY27

- Revenue growth guidance raised: Q1 FY27 framed 20% CAGR FY25-FY31 as the anchor with ~15% organic; Q2 now expects full-year FY27 growth of 20-odd percent versus FY26, with H2 at 15-20%, and management says a 20% organic CAGR is achievable, with inorganic moves taking it higher.
- FY27 revenue framed at close to ₹6,000 crores, where Q1 had said ~₹6,000 crores FY27 was not committed.
- FY31 revenue aspiration raised to around ₹11,000 crores from the earlier ₹10,000 crores-plus.
- Order book grew to ₹1,879 crores from ₹1,600 crores; execution mix shifted to 14% FY27, 59% FY28, 27% FY29 from 24%/56%/20%, and new disclosures were given: 85% new business, EV and CNG 29% (CNG 20%, EV 9%), future technologies 22%.
- Manesar mechatronics plant: Q1 said the mega plant consolidating four JVs commissions in Q3 FY27; Q2 instead approved a new greenfield at Manesar with ₹150 crores outlay, commissioned in two phases from Q3 FY28, peak turnover about ₹500 crores.
- Nashik Greenfuel facility, described in Q1 as being set up, commenced production in Q3 FY27, supplying ferrule-less tubes, fittings and receptacles to Mahindra.
- Mechatronics margin guidance shifted: Q1 guided 14-15% steady state over 12-24 months; Q2 states current 14.5-15%, in line with the company, and inching closer to overall profitability.
- Aftermarket guidance softened: Q1 targeted 15%+ for the full year versus 10-12% earlier; Q2 reports H1 growth of 9% (Q2 11%) and now hopes for 15-20%.
- Margin framing changed: Q1 guided ~15% for FY27 and 15.5-16% for FY28; Q2 says current margins should sustain for the full year and targets 100-200 bps expansion to a 17-18% framework over the next few years.
- New disclosure: one JV with YOPP of Germany was dissolved in the last quarter, described as an amicable separation over technology portfolio and scalability ambitions not aligning.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹1,556 crores	+35% YoY, +14% QoQ	Scale-up across four product lines and premiumization-led value enhancement

METRIC	REPORTED	CHANGE	WHAT DROVE IT
EBITDA (incl. other income)	₹228 crores	+34% YoY	Revenue growth; margin broadly stable YoY, marginally down QoQ
EBITDA margin	14.7%	Broadly stable YoY; down marginally QoQ	Rising input costs and recovery from OEMs diluting margin by a few bps
H1 FY27 revenue	₹2,919 crores	+34% YoY	Same drivers as Q2
H1 FY27 EBITDA / margin	₹434 crores / 14.9%	+42% YoY / +90 bps	Operating leverage and mix
H1 FY27 PBT	₹286 crores	+60% YoY; 9.8% margin	Growth in EBITDA
H1 FY27 PAT before minority	₹215 crores	+64% YoY	PBT growth; effective tax ~25%
Minority interest	11% of H1 FY27	n/a	Share of minority in profits
Order book	₹1,879 crores	Up from ₹1,600 crores at Q1 FY27	85% new business; Advanced Plastics 44%, Mechatronics 27%, Alternate Fuels 20%, Structures 8%
Advanced Plastics revenue (H1)	₹1,655 crores	Up from ₹1,138 crores	Strong growth in IAC business, ~60% of the division
Mechatronics revenue (H1)	₹177 crores	+45% YoY from ₹122 crores	Order book of ₹512 crores
Structures & Control Systems revenue (H1)	₹476 crores	+24% YoY from ₹380 crores	Order book of ~₹150 crores
Aftermarket revenue (H1)	₹234 crores	+9% YoY from ₹216 crores	Dip in non-lighting products from rising input costs; Q2 grew 11%
Alternate Fuel revenue (H1)	₹220 crores	+30% YoY from ₹170 crores	Order book of ₹379 crores
Capex capitalised in the quarter	₹60 crores	n/a	Greenfield expansion in Mechatronics, Advanced Plastics and Alternate Fuel
Free cash reserves	₹442 crores	n/a	Debt-to-equity of 0.26

SEGMENTS & GEOGRAPHIES

- Advanced Plastics: H1 revenue ₹1,655 crores from ₹1,138 crores, led by the IAC business at about 60% of the division; largest order book share at 44%. Chakan Plant 4 is in the SOP phase, with product launch expected around December-January; management deferred efficiency details until after launch.
- Mechatronics: H1 revenue ₹177 crores, up 45%, order book ₹512 crores; margins at 14.5-15%, in line with the company, and inching closer to overall profitability. Management expects the vertical to be the fastest growing, reaching about ₹1,000 crores by FY31, with 20-25% of that from Lumax's own technology initiatives and about 75% from JV partner design and IP, and product categories rising from 6 to about 10 by 2030-31.
- Structures & Control Systems: H1 revenue ₹476 crores, up 24%, order book about ₹150 crores.
- Aftermarket: H1 revenue ₹234 crores, up 9%, with Q2 at 11%; the non-lighting segment was hit by pass-through of input costs where Lumax is not the market leader. Management hopes for 15-20% growth for the full year on secondary demand generation and new product lines over 3-5 years.

- Alternate Fuel (Greenfuel): H1 revenue ₹220 crores, up 30%, order book ₹379 crores; Nashik has begun supplying ferrule-less tubes, fittings and receptacles to Mahindra, and there are firm order wins with Maruti Suzuki for ferrule-less tubes and fittings. Management expects significant capacity utilisation between Mahindra and Maruti over about two years and remains engaged with Hyundai on ferrule-less tubes and other CNG parts.
- Lumax Industries (LIL) wiring business: H1 revenue flat YoY because Lumax Industries began procuring one product line in-house at the start of the year; on a like-for-like basis management says growth is around 25-30%, in line with Lumax Industries.

STRATEGY & COMPANY-SPECIFIC

- Board approved on 24 October 2026 a new mechatronics manufacturing facility at Manesar with about ₹150 crores outlay, funded through debt and internal accruals, commissioned in two phases starting Q3 FY28, peak annual turnover of about ₹500 crores post-commissioning.
- BCM went into SOP in July 2026, is built to print and scaling up, runs on technology from a large electronics component manufacturer under a technology tie-up rather than a JV, and is reported under standalone within the Mechatronics division; it is backed by a ₹250 crores order book, which underpins the new Manesar plant.
- Content per vehicle is ₹70,000-75,000 per passenger vehicle and ₹20,000-22,000 per two-wheeler; about 50% of the passenger-vehicle content sits in IAC, Greenfuel at ₹5,000-8,000, and Mechatronics contributes about 20%. Management expects total content per vehicle to rise about 10% over 2-3 years and 10-15% with the new electronics and mechatronics basket.
- EV component strategy is narrowed to a basket of 3-5 products, with technology sourcing and some inorganic options under exploration, targeting active SOPs in 2028-2030.
- One JV with YOPP of Germany was dissolved in the last quarter, described as amicable, over technology portfolio and scalability ambitions not aligning.
- Focus remains on automotive only; management said it will not tap adjacent non-automotive applications of partner technologies such as smartphones or industrial air conditioning for now.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	20-odd percent vs FY26; H2 at 15-20%	Raised	H1 growth of 34% and industry performance; higher FY26 base in H2
FY27 revenue	Close to ₹6,000 crores	New	The 20-odd percent growth number
FY27 EBITDA margin	Current margins sustained for the full year	Maintained	Confidence despite input-cost volatility
FY28 absolute EBITDA	About ₹1,000 crores	Maintained	Confidence stated on the call
Medium-term margin	100-200 bps expansion to a 17-18% framework over the next few years	New	Mix and operating leverage
Revenue CAGR FY25-FY31	20% organic achievable; inorganic would take it higher; base FY25	Raised	Industry momentum and order book
FY31 revenue	Around ₹11,000 crores	Raised	Organic plus strategic inorganic

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Mechatronics revenue	About ₹1,000 crores by FY31	Maintained	Order book of ₹512 crores and new products
Mechatronics margin	14.5-15% currently, inching toward company level	Maintained	Critical mass and scale-up
Aftermarket growth	15-20% for the full year	Cut	Secondary demand generation and new product lines
Capex FY27	Around ₹300 crores	Maintained	Greenfield expansion in Mechatronics, Advanced Plastics and Alternate Fuel; SOP in H2
Effective tax rate	Around 25%	Maintained	Expected to hold at similar levels
Manesar plant	Commissioned in two phases from Q3 FY28; peak turnover about ₹500 crores	New	₹150 crores outlay; BCM order book
Chakan Plant 4	Product launch around December-January	n/a	SOP phase

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Input-cost pass-through lag	Raw material increases are largely recovered from OEMs, but with up to a single quarter lag; the revenue and cost both rise with zero addition to profitability, diluting EBITDA margin by 30-40 bps in the quarter. Margin pressure from supply-chain inflation continues.
H2 base effect	Growth is expected to moderate to 15-20% in H2 FY27 because of a higher FY26 base; the festive season is a monitorable for whether demand momentum sustains.
Aftermarket weakness	H1 growth of 9% against a 15%+ target, with non-lighting products hit by price pass-through where Lumax is not the market leader.
BCM competition	Management acknowledged intense global competition in BCM; the product is in scale-up, built to print, with technology from a partner.
EV commodity exposure	Much of the four-wheeler EV opportunity is commodity-based purchasing where OEMs keep a stranglehold, leaving little for auto component suppliers outside battery-related solutions.
JV partner dependence	About 75% of Mechatronics growth over 3-4 years is expected to rest on JV partner design and IP; one JV (YOPP) was dissolved last quarter.
Geopolitical and energy volatility	The war has raised energy and commodity prices, disrupted shipping and supply chains and increased transport costs; the duration of the conflict and its impact on energy supplies and global trade are key factors to watch.

Q&A HIGHLIGHTS

Full-year growth and the ₹6,000 crore frame Asked whether 34% H1 growth prompts a guidance raise, management said FY26 and FY27 combined stay in line with the 20-odd percent guidance, full-year FY27 growth should be 20-odd percent versus FY26, and H2 growth should be 15-20%, pointing to close to ₹6,000 crores revenue.

Margin pressure and FY28 EBITDA Asked about immediate Q3 margin pressure and the FY28 absolute EBITDA target, management said supply-chain inflation continues with about a one-quarter lag that dilutes margins by a few bps through a higher revenue denominator, and expressed confidence in delivering about ₹1,000 crores EBITDA in FY28.

Cost pass-through mechanics Asked whether Q2 costs reflect delayed pass-through or absorption, management said a ₹100 raw material increase is recovered as ₹100 from OEMs, but the matching revenue increase adds no profit, costing 30-40 bps of EBITDA margin in the quarter, with recovery expected in subsequent quarters.

Content per vehicle and Mechatronics share Asked about content per vehicle across the mechatronics JVs, management put it at ₹70,000-75,000 per passenger vehicle and ₹20,000-22,000 per two-wheeler, with about 50% in IAC and Greenfuel at ₹5,000-8,000; Mechatronics contributes about 20% today and is the fastest content driver, with total content expected to rise about 10% in 2-3 years.

Tier 0.5 ambition in Mechatronics Asked about moving from individual components to aggregated solutions, management said the vertical rests on five global partnerships (Alps Alpine, Yokowo, Ituran, Nidec, FAE), that aggregation with IAC cockpit solutions would need vehicle-level endorsement, and that selling categories individually currently earns higher value addition while OEMs would expect cost benefits on aggregated parts.

BCM orders and reporting Asked whether BCM has confirmed orders and where it is reported, management said BCM went into SOP in July 2026 under a technology tie-up with a large electronics component manufacturer, is standalone revenue reported within the Mechatronics division, and is backed by a ₹250 crores order book that supports the new Manesar plant.

Lumax Industries wiring business flatness Asked why growth with Lumax Industries is flat, management said Lumax Industries began procuring one product line in-house at the start of the year; like-for-like growth is around 25-30%, in line with Lumax Industries.

Ferrule-less tube adoption Asked about adoption beyond Maruti, management said Lumax is the first to localize ferrule-less tubes and fittings, has started supplying Mahindra as part of a full CNG system, has firm order wins with Maruti Suzuki, expects significant capacity utilisation across the two over about two years, and remains engaged with Hyundai on ferrule-less tubes and other CNG parts.

Steel Strips Wheels Limited

GROWTH TRIGGERS

SSWL is in an operating-leverage inflection: record Q2 FY27 revenue and margins show alloy mix, steel-wheel price revisions and export recovery are converting into per-wheel profit, while Bhuj and Sambhajinagar extend the alloy and lightweighting runway.

1. Q2 FY27 record revenue and PAT with EBITDA per wheel at ₹404

Q2 FY27 revenue rose 61% to ₹1,930 crores, EBITDA including other income rose 107% to ₹237 crores, and PAT rose 209% to ₹119 crores. EBITDA per wheel reached ₹404 from ₹242, driven by richer alloy mix, cost optimisation and exports.

2. Original FY27 guidance exceeded in H1

Management had guided FY27 revenue growth over 20% and EBITDA per wheel above ₹310. H1 revenue grew 44% and EBITDA per wheel reached ₹362; Q2 was ₹404. Management says ₹404 is sustainable and may be exceeded, while cautioning that lower CV and tractor volumes would affect it.

3. Alloy mix reached 45% as no-cost debottleneck lifted capacity

Alloy wheels were about 45% of Q2 FY27 revenue and 42% of H1, with volumes of 12 lakh units in Q2 and 23 lakh in H1. Existing capacity is near full; a 10% debottleneck added about 0.6 million wheels at negligible cost, taking annualised capacity to roughly 5.4 million.

4. Bhuj adds 1.2 million alloy wheels from early April 2027

Bhuj adds 1.2 million aluminium wheels, taking capacity to 6.6 million after the Mehsana debottleneck. Commercial production is guided for early April 2027, with 80% utilisation expected in FY28 and 100% within three to four months of start.

5. Exports on track to exceed ₹600 crores, with ₹1,500 crores targeted in three years

Q2 FY27 exports grew 69% YoY to ₹187 crores and H1 rose 16% to ₹314 crores. Management is on track to exceed the ₹600 crore FY27 target and sees ₹700-750 crores if a US trade deal lands. It targets at least ₹1,500 crores in three years, with the MD saying ₹2,000 crores is possible.

6. OEM certifications for MAN, Scania and Daimler start contributing from Q4 FY27

Management says it won difficult lightweight truck wheel certifications after 12 years, enabling supplies to MAN, Scania and Daimler. These OEM exports start in Q4 FY27 and should lead to a big increase in exports next year across car steel wheels, car aluminium wheels and truck wheels from Europe.

7. Steel wheel pricing broke after 20 years of competition

Management secured OEM price revisions for non-raw-material costs after two decades of competitive pricing, supported by a market capacity shortage. CV was the highest-growth

segment and tractor share rose to 45% from 43%, supporting the steel-wheel realisation base.

8. Sambhajinagar adds alloy, steel and hot-stamping capacity with targeted ROCE above 24%

The board approved a ₹1,400 crore greenfield over 60 months for alloy and steel wheels plus hot stamping. Management's capacity answer includes 2.5 million alloy wheels, taking total alloy capacity to 9.1 million, and 183,000 stamps of hot stamping. Management targets ROCE above H1's 24% and says the new lines will be at least 25% more productive.

9. Bhuj knuckles start commercial production in Q4 FY27

The Bhuj knuckle facility is described as 1.1 million units annual capacity, with commercial production on track for Q4 FY27. Management is focused on more customer approvals and scaling supplies, and expects knuckles to become an important medium-term growth engine. The call does not reconcile whether 1.1 million is total or Bhuj-only capacity.

INVESTMENT THESIS

Steel Strips Wheels Limited is an operating-leverage story moving from a steel-wheel volume base to a higher-value alloy wheel and aluminium knuckle mix. Q2 FY27 showed the earnings power of that mix: revenue rose 61% to ₹1,930 crores, EBITDA including other income rose 107% to ₹237 crores, PAT rose 209% to ₹119 crores, and EBITDA per wheel reached ₹404 from ₹242. H1 revenue was ₹3,440 crores and EBITDA ₹403 crores. Management said the original FY27 guidance of over 20% revenue growth and EBITDA per wheel above ₹310 was exceeded in H1, and that the ₹404 per-wheel level is sustainable while cautioning that lower CV and tractor volumes would affect it. The investment case is whether that per-wheel earnings base holds as alloy mix rises, steel-wheel price revisions stick, exports recover and new capacity ramps. It is not a commodity-price call: raw material is largely pass-through, with steel reset quarterly and aluminium monthly, so the profit driver is conversion cost, mix and utilisation. Alloy wheels were about 45% of Q2 FY27 revenue and 42% of H1, with volumes of 12 lakh units in Q2 and 23 lakh in H1. Management says the aluminium segment, including wheels and knuckles, earns about 40% more EBITDA per wheel than steel. That mix advantage is the core operating mechanism. Existing alloy capacity is near full, and a no-cost debottleneck added about 10% capacity, taking annualised alloy capacity to roughly 5.4 million wheels. Bhuj adds 1.2 million aluminium wheels, taking capacity to 6.6 million; commercial production is guided for early April 2027, with 80% utilisation expected in FY28. The company also describes a 1.1 million-unit Bhuj knuckle facility, with commercial production in Q4 FY27, though the call leaves total versus Bhuj-only knuckle capacity ambiguous. The second leg is steel wheels. This was historically the weakest part of the portfolio, but management says it secured OEM price revisions for non-raw-material costs after 20 years of competitive pricing, supported by a capacity shortage. CV was the highest-growth segment in Q2, October was guided to record CV sales, tractor share rose to 45% from 43%, and demand for high-end steel wheels that resemble alloy wheels is increasing. If those price revisions hold, the steel base contributes more profit on the same volume. Exports are the third leg. Q2 FY27 exports rose 69% YoY to ₹187 crores and H1 rose 16% to ₹314 crores. Management is on track to exceed the ₹600 crore FY27 target and sees ₹700-750 crores if a US trade deal lands. It targets at least ₹1,500 crores in three years, with the MD saying ₹2,000 crores is possible, helped by OEM certifications for MAN, Scania and Daimler starting from Q4 FY27. The export recovery matters because lost US steel-wheel volume was high-margin and had compressed per-wheel profitability in FY26. Capital allocation is the main counterweight. FY27 capex is guided above ₹600 crores: ₹420 crores Bhuj, ₹120 crores for almost 0.5 million tractor sets at Dappar, and about ₹70 crores automation. The board also approved a ₹1,400 crore Sambhajinagar greenfield over 60 months for alloy and steel wheels plus hot stamping, funded by debt, internal accruals and possible strategic investments. Management's initial capacity answer includes 2.5 million

alloy wheels, taking total alloy capacity to 9.1 million, steel wheels for passenger cars and OTR, and 183,000 stamps of hot stamping. Steel capacity is described as 2.8 million and also as 2 million passenger car plus 1.8 million OTR, so the total is ambiguous. Management separately quantifies hot stamping at about ₹170 crores for close to ₹400 crores turnover, with an anchor customer and production targeted for Q4 of next calendar year. It said H1 ROC was 24% and that Sambhajinagar should earn above 24%. The Q2 call did not update debt or the prior ₹200 crore incremental net-debt guide. The earnings path is therefore front-loaded in per-wheel margin and back-loaded in capacity. H1 already delivered ₹403 crores EBITDA and ₹190 crores PAT. The next milestones are H2 sustaining ₹404 per wheel, FY27 exports above ₹600 crores, Bhuj knuckles in Q4 FY27, Bhuj alloy wheels in early April 2027, and 80% Bhuj utilisation in FY28. Sambhajinagar and hot stamping extend the runway beyond FY28 but add funding and execution risk before revenue. Management delivery is improving on the current call, with the original FY27 guide exceeded, but the new large capex programme requires fresh proof. The falsifiers are specific. If CV and tractor volumes taper, management itself says EBITDA per wheel will be affected. If the US trade deal stalls and European OEM certifications ramp slowly, exports miss. If Bhuj customer approvals slip beyond early April 2027, ₹420 crores of FY27 capex sits idle into FY28. If the ₹1,400 crore Sambhajinagar programme adds debt before returns, the operating-leverage case weakens. The thesis rests on the current per-wheel margin being a new base, not a quarterly peak, and on the new capacity converting demand into revenue without a funding strain.

RESEARCH REPORT

What Steel Strips Wheels Limited does

Steel Strips Wheels Limited (SSWL) designs and manufactures automotive wheels - steel and aluminium alloy - and aluminium steering knuckles. Founded in 1985, it began commercial production at Dappar in Punjab in 1991 and operates wheel plants at Dappar, Chennai, Jamshedpur, Mehsana and Bhuj plus a backward-integrated hot rolling mill in Saraikela. At the start of FY28, management affirmed capacity of about 21 million steel wheels and 6.2 million aluminium wheels; a later clarification on the same call said Mehsana debottlenecking takes aluminium capacity to about 5.4 million and Bhuj adds 1.2 million, for 6.6 million.

The company supplies wheels to nearly every category of the Indian automotive market: passenger vehicles, commercial vehicles, tractors, off-road vehicles and two/three-wheelers. It exports to Europe, the Americas, Asia and Africa. Q2 FY27 revenue mix shifted toward alloy wheels, which contributed about 45% of quarterly revenue and 42% of H1; alloy volumes were about 12 lakh units in Q2 and 23 lakh in H1. The last full segment split disclosed was Q1 FY27: steel wheels 63%, alloy wheels 35%, and aluminium knuckles 2%.

Q2 FY27 update

Q2 FY27 was the company's strongest quarter: revenue ₹1,930 crores, up 61% YoY; standalone EBITDA including other income ₹237 crores, up 107%; EBITDA margin 12.3% versus 9.6%; EBITDA per wheel ₹404 versus ₹242; PAT ₹119 crores, up 209%. H1 revenue was ₹3,440 crores, EBITDA ₹403 crores and PAT ₹190 crores. The board approved an interim dividend of ₹1.50 per share. Management said the original FY27 guidance of over 20% revenue growth and EBITDA per wheel above ₹310 was exceeded in H1 and that ₹404 per wheel is sustainable, while not issuing a new numeric FY27 target.

Steel wheels (63% of Q1 FY27 revenue)

Steel wheels are the historical core of the business. They are strong, cost-effective and suited for heavy-duty applications - trucks, tractors, off-road vehicles and mass-market passenger cars. A steel wheel is a stamped and welded assembly: a rim formed from rolled steel strip and a disc pressed from sheet steel, welded together and painted. SSWL's steel wheel capacity spans 20 million units across Dappar (10.8 million, serving PV, MUV, tractor and OTR), Chennai (7.5 million, PV and CV) and Jamshedpur (2.4 million, HCV/LCV). Management affirmed about 21 million steel wheel capacity at the start of FY28 and is spending ₹120 crores to add almost 0.5 million tractor sets at Dappar.

The steel wheel business has historically been the lowest-margin part of the portfolio. MD Dheeraj Garg described it on the Q4 FY26 call as "the business that was the worst in our portfolio" and "a sunset industry where alloy penetration is increasing in the PV segment."

The company deliberately walked away from low-margin passenger car steel wheel contracts, including parts of its Maruti Suzuki business, to focus on higher-paying tractor and commercial vehicle wheels. On the Q2 FY27 call, however, management said that after 20 years of competition it broke free and got OEMs to cover non-raw-material costs, with price revisions supporting margins. CV was the highest-growth segment, tractor share rose to 45% from 43%, and demand for high-end steel “whole wheels” that look like alloy wheels is increasing. Management also expects OEM export certifications for lightweight truck wheels to start contributing from Q4 FY27.

Steel wheels split into four end-markets by revenue: passenger cars and MUVs at 54% of total company revenue (including alloy), commercial vehicles at 28%, tractors at 13%, and two/three-wheelers at 2%.

Alloy wheels (35% of Q1 FY27 revenue)

Alloy wheels are the growth engine. They are cast or flow-formed aluminium wheels for passenger vehicles, prized for aesthetics, strength-to-weight ratio and heat dissipation. SSWL's alloy wheel capacity reached 5 million units at the Mehsana plant in Gujarat by FY26, up from 1.5 million when the plant started in 2017. The alloy business grew about 30% in value in FY26 and now contributes 36% of total revenue.

The segment includes flow-formed wheels, a technology that uses a German process to spin and compress a cast wheel blank, producing a lighter, stronger wheel. Management told analysts this capability exists because customers demanded it - OEMs exporting cars from India need the same wheel technology as their European competitors. The company also established a Government of India approved R&D centre to develop new wheel rims for agriculture and OTR applications.

Alloy wheels sell at roughly INR 5,000 per wheel versus about INR 1,200 for a passenger car steel wheel, a difference of INR 3,000-4,000 per wheel. That price gap is why alloy wheels punch above their volume weight: in Q1 FY27 they contributed 35% of revenue but only 20-21% of volume.

Aluminium knuckles (2% of Q1 FY27 revenue)

Aluminium steering knuckles are SSWL's newest product, launched commercially in November 2024 at the Mehsana plant. A steering knuckle is the component that connects the wheel hub to the suspension; aluminium knuckles replace heavier cast iron or forged steel versions, reducing unsprung weight and improving fuel efficiency and ride quality. SSWL produces them using counter-pressure die casting, a higher-precision process than the low-pressure die casting used for wheels.

The knuckle business is small but strategically important. It sold about 0.80 lakh units in Q1 FY27, generating INR 23 crores, and works with two leading OEMs. Capacity stood at 0.5

million units as of Q1 FY27, with plans to expand to 1.1 million by FY27 end. Management describes knuckles as "the same story the way that aluminium has played out for us" - a lightweighting play with mid-teens EBITDA margins and a runway into both EV and ICE vehicles.

Manufacturing footprint and backward integration

SSWL's plant network is deliberately spread across India to sit close to customers and raw materials. The Dappar plant in Punjab serves Maruti Suzuki's northern cluster and the tractor OEMs of Punjab and Haryana. Chennai serves the southern PV and CV makers. Jamshedpur is close to Tata Motors' commercial vehicle plants and to the steel mills of Jharkhand. Mehsana in Gujarat serves the western OEM cluster and handles all alloy wheel production plus knuckles.

The Saraikela plant in Jharkhand is a backward-integrated hot rolling mill that produces steel strip for wheel rims, reducing dependence on external steel suppliers. The Bhuj facility in Gujarat came via the 2024 acquisition of AMW Autocomponent Limited through the NCLT insolvency process. SSWL paid INR 140 crores for the asset and is repurposing it - scrapping the old equipment and building new aluminium wheel and knuckle lines in the existing sheds. Management estimates the acquisition saved them INR 100 crores in capex versus a greenfield build.

Ownership and strategic partnerships

Two strategic shareholders hold minority stakes: Tata Steel Limited holds 6.9% and Nippon Steel Corporation (via Sumitomo Metal Industries) holds 5.4% as of 31st June 2026. Tata Steel signed a strategic alliance agreement in 2008 that gives SSWL priority supply and support for new steel grade development. Nippon Steel's 2010 agreement brings international expertise in steel quality and technology. Tata Steel also has a nominee director on SSWL's board. The company's raw material exposure is partly de-risked by the fact that its key steel supplier is also a stakeholder.

The Garg family promoted the company and controls it. Rajinder Kumar Garg is Chairman, his son Dheeraj Garg is Managing Director and holds 29.57% of the company. The promoter group holds 61.24% of shares.

> *"we are the number one supplier of wheels for EV scooters, EV three wheelers. We have a technology that nobody in India has. So, all the OEMs depend on us."*
>
> **DHEERAJ GARG, Q4 FY26 CONCALL (JUNE 2026)**

Business segments

Steel Wheels

Steel Strips Wheels Limited started in 1991 making steel wheels for passenger vehicles, commercial vehicles, tractors, and off-road applications. The steel wheel is the foundational product line of the company, and Q1 FY27 revenue mix shows it at 63% of total revenue, or INR 953.8 crores, including exports and scrap. The core capability that took decades to build is the ability to serve every major automotive segment from a single manufacturing network, with plants at Dappar (Punjab), Chennai, Jamshedpur, and Saraikela (Jharkhand) catering to different vehicle classes.

The product range breaks down by end market. Passenger vehicle and MUV wheels are the largest slice, with Maruti Suzuki, Hyundai, Mahindra, Honda, MG Motors, and Kia as principal customers. The company holds a 39% share of Maruti's steel wheel business, 25% of Hyundai's, 56% of Mahindra's, and 100% of MG Motors' steel wheel requirement. Commercial vehicle wheels for Ashok Leyland and Tata Motors contribute 28% of the company's total revenue, with the MHCV segment representing a 52% domestic share of business. Tractor wheels for Mahindra, Sonalika, Escorts, and New Holland make up 13% of revenue, and the OTR segment supplies JCB. Two- and three-wheeler wheels, particularly for EV scooters and EV three-wheelers, form a small but fast-growing slice. On the Q2 FY27 call management said alloy market share ex-Maruti is above 64% and tractor market share rose to 45% from 43%.

The company's scale gives it a structural cost advantage. Management described the steel wheel business as one that runs at 95% utilization in FY27, up from 76-78% in FY26, and that operating efficiency directly drives per-wheel profitability. The EBITDA per wheel metric, which management prefers over percentage margins because raw material prices skew percentages, stood at ₹262 for FY26 and ₹282 in Q4 FY26. In Q2 FY27 it rose to ₹404, with H1 at ₹362; management said ₹404 is sustainable and could be exceeded if October's strong trend continues, but cautioned that lower CV and tractor volumes would affect it. The original FY27 guidance was above ₹310 per wheel, which H1 exceeded.

The closest competitor is Wheels India Limited, as management acknowledged directly: "Wheels India and our company have a very similar business, almost the same business. We operate in the same segments, but they are not as big as us in the aluminum segment." In tractors, Wheels India is bigger, but SSWL is catching up. In cars, the companies are at similar numbers. The steel wheel export business, which historically carried 13-15% EBITDA margins versus 8-9% for domestic steel, was hit hard by US tariffs. The 53% tariff on Indian steel wheels made the US market uneconomical, and exports fell by ₹300-400 crores from the American market. Management redirected focus to Europe, which was 58% of export revenue in prior periods. In Q2 FY27 exports grew 69% YoY to ₹187 crores; H1 exports were

₹314 crores, up 16%, and management said it is on track to exceed the FY27 export target of ₹600 crores. It sees at least ₹1,500 crores of exports in three years.

> *"we are the number one supplier of wheels for EV scooters, EV three wheelers. We have a technology that nobody in India has. So, all the OEMs depend on us."*
>
> **MD, Q4 FY26 CONCALL (JUN 2026)**

The EV two- and three-wheeler wheel business is a near-monopoly, with management claiming roughly 80% market share in EV scooters. This is a value-added, profitable segment that required two years of R&D to develop. The ICE two-wheeler segment, by contrast, has weak pricing and only a 30% share. The EV segment is growing at 25-40% annually and management says demand exceeds supply.

The steel wheel segment fits the group as the volume anchor that funds diversification into higher-margin alloy wheels and aluminium knuckles. Management has been explicit about pricing discipline: "the business that was the worst in our portfolio, the steel wheel business, will take a turnaround. Because we have been able to, after two decades of very, very poor pricing, put our foot down to the OEM and said, look, this pricing is not available anywhere in the world, and we will not service you on those numbers." On the Q2 FY27 call management said the company broke free after 20 years of competition and got OEMs to cover costs, with price revisions for non-raw-material input costs supporting margins. It also said capacity shortage meant OEMs needed SSWL to invest and had to raise prices on existing business.

Raw material is a pass-through, with steel prices reset quarterly and aluminium monthly, so the company does not absorb commodity volatility. The strategic alliance with Tata Steel, which holds a 6.9% stake, provides supply chain priority and support for new grade development. Nippon Steel holds 5.4% and brings international steel quality expertise. On the Q2 FY27 call management clarified that ₹183 crores of H1 supplementary invoicing for raw-material price changes was pass-through and had no bearing on EBITDA; analysts also referred to ₹140 crores in Q2.

The FY27 outlook is now set by the original guidance of over 20% revenue growth and EBITDA per wheel above ₹310, both exceeded in H1. Management did not issue a new numeric FY27 target but said Q2's ₹404 per wheel is sustainable and could be exceeded. FY27 capex is guided above ₹600 crores: ₹420 crores Bhuj, ₹120 crores Dappar tractor capacity and about ₹70 crores automation. Exports are guided above ₹600 crores, with ₹1,500 crores visible in three years. Bhuj knuckles are guided for commercial production in Q4 FY27 and alloy wheels from early April 2027, with 80% utilization expected in FY28.

Alloy Wheels (45% of Q2 FY27 revenue)

Steel Strips Wheels makes aluminium alloy wheels for passenger vehicles and MUVs at its Mehsana, Gujarat plant. The plant started commercial production in 2017 with 1.5 million wheels capacity and now runs at 5.0 million, the largest alloy wheel capacity in India. On the Q2 FY27 call management said debottlenecking added about 0.6 million, taking annualised capacity to roughly 5.4 million; Bhuj adds 1.2 million to 6.6 million. The capability that took years to build is the process know-how: the plant uses low-pressure die casting and flow forming, and the company invested in flow forming technology starting in FY24, expanding it in FY25. Flow forming produces a lighter, stronger wheel by compressing the rim material under pressure, which saves roughly 500 metric tonnes of aluminium annually per the FY25 annual report. The company also holds a Government of India approved R&D centre, which supported the design and development of new dies and tools.

The product range spans standard alloy wheels for mass-market cars and premium flow-formed wheels for higher-value models. The segment also includes wheels for EV scooters and EV three-wheelers, a product line where management claims a near-monopoly position. The customers are the major Indian OEMs and export customers in Europe. The investor presentation lists the key accounts and their share of business: Mahindra at 74% for models including the 3XO, Bolero Neo, Scorpio Classic, Thar, XUV 700 and Be6; Hyundai-Kia at 20% for the Creta, Alcazar, Venue and Verna, plus the Carens and Seltos for Kia; Skoda at 47% for the Slavia and Kylaq; MG Motors at 51% for the Hector and Astor; and Renault-Nissan at 60% for the Duster and Kiger. The customer base is the same group Steel Strips serves in steel wheels, which shortens the sales cycle for alloy conversions.

The segment has grown faster than the steel wheel business and now carries the company's margin profile. On the Q2 FY26 call, management said alloy wheels contribute 36% of total revenue, and by the Q1 FY27 presentation that share stood at 35%, with revenue of ₹532.9 crores out of ₹1,509.8 crores total. In Q2 FY27 alloy contributed about 45% of revenue and 42% of H1, with volumes of 12 lakh units in Q2 and 23 lakh in H1. The value per unit is roughly three to four times a steel passenger car wheel, which is why the mix shift matters. Management guides that the alloy wheel segment delivers 11-13% EBITDA margins versus 8-9% for domestic steel and 13-15% for export steel, per the November 2025 call; on the Q2 FY27 call management said the aluminium segment's EBITDA per wheel is about 40% above steel. The entire alloy wheel order book was sold out for the next two years as of January 2026.

The competitive position rests on scale and an expansion that undercuts rivals on cost. Management told analysts on the January 2026 call that a greenfield 1.2 million wheel plant would cost ₹500-600 crores, with the latest industry investment close to ₹800 crores for the same volume. The Bhuj expansion, which adds 1.2 million alloy wheels and a 1.1 million-unit

knuckle facility, carries FY27 capex of about ₹420 crores because it reuses the building, land and infrastructure of the acquired AMW Autocomponent facility. On the June 2026 call, the MD said the Bhuj plant is "a unique investment... because it will cover every category of aluminum wheels sold in the world." On the Q2 FY27 call management said the industry has realised SSWL is the lowest-cost producer ex-China and that new Sambhajinagar lines will be at least 25% more productive. The board approved a ₹1,400 crore greenfield at Sambhajinagar over 60 months for alloy and steel wheels plus hot stamping. The main competitor is Wheels India Limited, which the MD described as having a similar business but a much smaller aluminium presence.

The segment shares manufacturing and customer infrastructure with the Aluminium Knuckles business, which began commercial production in November 2024 at the same Mehsana plant. The knuckle business uses counter-pressure die casting, a different process from the low-pressure casting used for wheels, but it sells to the same OEMs and benefits from the same customer approvals. The Bhuj expansion houses both products, and management expects the combined expansion to add INR 700-800 crores of revenue at full utilization, per the June 2026 call.

Exports are a growing part of the alloy story. Europe has replaced the US as the primary export market, rising from 32% of export revenue in FY25 to 52% in H1 FY26 and 58% by Q3 FY26. This shift matters because the US market was hit by tariffs, which management said reached 53% on the November 2025 call. The European business is OEM-nominated and therefore more stable month to month. On the Q2 FY27 call exports grew 69% YoY to ₹187 crores and H1 rose 16% to ₹314 crores, with diversification across Europe, Latin America and Asia alongside the US. Management is on track to exceed the ₹600 crore FY27 target and targets at least ₹1,500 crores in three years.

> *"the company reported a revenue of INR 1,475 crores as compared to a revenue of INR 1,234 crores in the corresponding period last year, reflecting a growth of about 20% YoY."*
>
> **MD, Q4 FY26 CONCALL (JUNE 2026)**

Management's own framing is that alloy wheels are the growth engine and the primary margin driver. The January 2026 call described the segment as "a standout performer" that grew 30% in value in FY26, and the Q4 FY26 call noted that value growth runs ahead of volume growth because the mix is shifting toward premium wheels. The segment also carries less raw-material risk than the percentages suggest, because aluminium costs pass through to customers on a monthly basis. The main constraint is capacity, which is why the Bhuj expansion is key. On the Q2 FY27 call management said existing alloy capacity is near full, more orders than capacity led to a 10% debottleneck, and the ₹404 EBITDA per wheel is sustainable.

Aluminium Knuckles (Q4 FY27 commercial production guided at Bhuj)

Steel Strips Wheels Limited started commercial production of aluminium steering knuckles in November 2024 at its Mehsana, Gujarat plant. The knuckle is the component that connects the suspension, steering and wheel hub, and it carries the full braking load of a vehicle. Replacing a cast iron or forged steel knuckle with aluminium cuts the unsprung weight of the vehicle, which improves ride quality, handling and fuel efficiency. The annual report for FY 2025 states the company expects material savings of up to 1,500 MT of cast iron from the program.

The capability that took years to build is counter-pressure die casting. The company's alloy wheel business uses low-pressure die casting; knuckles need a different process because the part has thick and thin sections that must fill evenly without porosity under high structural loads. Management said on the January 2026 call that the company started with low-pressure die casting for wheels, then "got into counter-pressure die casting with knuckles," and that the same technology opens the door to other aluminium products. The first year of production was deliberately slow: FY 2025 ended with only 46,952 units sold, per the annual report. The ramp came in FY 2026.

The product is sold to two leading OEMs, both unnamed in the filings. These are the same OEMs who buy wheels from the company, which is how the business got its first orders. The knuckles are used in electric vehicles, and the January 2026 call noted adoption is "expanding beyond EVs into ICE automotives." This matters because EV volumes are still small relative to the passenger car market; the ICE conversion pipeline is what gives the segment a total addressable market beyond the current EV base. On the Q2 FY27 call management said the knuckle business is progressing with expectations, is focused on securing more customer approvals and scaling commercial supplies, and should become an important growth engine over the medium term as lightweighting spreads across ICE and EV.

The revenue and capacity trajectory shows how fast this is scaling. In H1 FY 2026, the company sold around 1.24 lakh units generating ₹33 crores. By Q3 FY 2026, nine-month revenue was approximately ₹54 crores. In Q1 FY 2027, the segment sold roughly 0.80 lakh units and generated ₹23.0 crores, which the investor presentation puts at about 2% of total revenue. Capacity went from 2.5 lakh units at the start of FY 2026 to 3 lakh units by November 2025, then to 5 lakh units by the end of FY 2026. The company is building a second facility at Bhuj that management on the Q2 FY27 call described as 1.1 million units annual capacity, with commercial production on track for Q4 FY27. The same call's capacity summary also affirmed 1.1 million total knuckle capacity at FY28 start, leaving unresolved whether 1.1 million is total or Bhuj-only; the earlier 0.6 million incremental figure was not repeated.

The segment is already profitable at the unit level. On the November 2025 call, Deputy Managing Director Mohan Joshi said the knuckle business "is already broken even" and that margins stand "in the mid-teens," which is higher than the company's guidance for aluminium wheels (11-13% EBITDA margin) and far above domestic steel wheels (8-9%). The segment is operating at near-full capacity utilization, which is why the company is expanding capacity before signing new customers. Management said on the June 2026 call that the knuckles business "so far has tracked in from only two OEMs," and that the company is "the sole supplier for knuckles right now in the market." On the Q2 FY27 call management said the aluminium segment, comprising wheels and knuckles, earns about 40% more EBITDA per wheel than steel; it did not disclose separate knuckle margins.

> *"We are the sole supplier for knuckles right now in the market. That helps us win more businesses because the OEMs are confident with us. We are hoping to win two major businesses, and that would mean that our capacity is almost sold out."*
>
> **DHEERAJ GARG, MD, Q4 FY26 CONCALL (JUNE 2026)**

The competitive position reflects the broader aluminium market. The main domestic competitor is Wheels India Limited, which management described on the June 2026 call as having a similar business but "not as big as us in the aluminum segment. They have just started out." The company's stated goal is to convert knuckles from steel forging to aluminium casting, which is a substitution play: the incumbent technology is cast iron and forged steel, and the company is attacking that base with a lighter part. The export opportunity is also on the table. Management said on the January 2026 call that it is "very close to making strategic deals with European customers regarding aluminum knuckles and other related aluminum products," and on the June 2026 call that there is "traction from our existing OEM customers who buy wheels from us" for knuckle exports.

The segment fits the group as a higher-margin extension of the aluminium foundry business. It shares the same customer base, the same raw material (aluminium, which is a pass-through cost), and the same die-casting skill set as the alloy wheel business. The revenue mix is small today - 2% in Q1 FY 2027 versus 35% for alloy wheels and 63% for steel wheels - but the growth math is clear. Management said on the June 2026 call that the knuckles expansion and the Bhuj aluminium factory together "would add another ₹700-800 crores" of revenue at full utilization. On the Q2 FY27 call it guided Bhuj knuckle commercial production in Q4 FY27 and said knuckles should become an important medium-term growth engine.

Customers

SSWL is a Tier-1 direct supplier to automotive OEMs. It does not sell through distributors or aftermarket channels in any meaningful way; its revenue is almost entirely OEM-nominated

business won through quotation processes. The customer base spans every segment of the Indian vehicle market plus export OEMs in Europe and elsewhere.

SSWL is a Tier-1 direct supplier to automotive OEMs. It does not sell through distributors or aftermarket channels in any meaningful way; its revenue is almost entirely OEM-nominated business won through quotation processes. The customer base spans every segment of the Indian vehicle market plus export OEMs in Europe and elsewhere. On the Q2 FY27 call management said alloy market share ex-Maruti is above 64%; tractor share rose to 45% from 43%.

The passenger vehicle steel wheel business is dominated by Maruti Suzuki, which takes 36% of SSWL's PV steel wheel business, followed by Hyundai at 25%. Mahindra accounts for 56% of SSWL's PV steel wheel business, MG Motors 100%, and Kia 30%. Honda takes 96% of SSWL's two-wheeler steel wheel business. The company has deliberately walked away from some low-margin Maruti car wheel contracts, describing the PV steel business as "a low-margin business for us."

In alloy wheels, the customer list is broader and more premium: Hyundai (models including Creta, Creta EV, Alcazar, Venue, Verna, Grand i10, Aura, Exter), Kia (Carens EV, Seltos, Sonnet, Syros), Mahindra (3XO, Bolero, Scorpio Classic, Thar, XUV 700, Scorpio N, XeV 9s, Be6), MG Motors (Hector, Astor) and Skoda (Slavia, Kylaq). Share of business ranges from 20% to 74% depending on the model.

Commercial vehicle customers

The heavy commercial vehicle steel wheel business is a duopoly market: Tata Motors takes 64% of SSWL's MHCV steel wheel business and Ashok Leyland 58%. Management stated on the Q3 FY26 call that SSWL holds about 52% of the domestic CV steel wheel market. This is described as "our bread and butter" and "a really good business and we own those markets." The CV wheel business is margin-accretive relative to PV steel wheels. On the Q2 FY27 call CV was the highest-growth segment across domestic and export markets, supported by OEM offtake, replacement demand and infrastructure; management said October would have the highest-ever CV sales by a wide margin.

Tractor and OTR customers

Tractor wheels are a sweet spot for SSWL - consistent volumes year-round, high value-add, and produced on the same lines as car wheels. Key customers include Mahindra, Sonalika, Escorts and New Holland. On the Q2 FY27 call tractor market share rose to 45% from 43%, with demand supported by farm mechanization, rural activity and higher horsepower tractors; tractor volumes grew about 15% in H1.

Competitive landscape

Alloy wheel competition is mainly Turkish suppliers; management says SSWL is more cost-competitive than Turkey in manufacturing and logistics, with quality a global requirement. China is out of the European market because of anti-dumping duties but competes in America, where SSWL does not supply alloy wheels. In hot stamping, competitors include Gestamp, JBM and Autogen; management says there is enough market for capable suppliers. In steel wheels, Wheels India remains the closest domestic peer.

Industry

Domestic demand is strong across CV and tractors, with CV described as on an absolute tear and October guided to the highest CV sales in company history. Alloy wheel demand is supported by premiumisation and rising EV penetration; management says existing alloy capacity is near full and there is a shortage of wheel capacity in the market. US trade policy remains the main export uncertainty.

Growth triggers

Bhuj aluminium wheel and knuckle facility — INR 420 crore FY27 spend, alloy wheels from early April 2027

The Bhuj facility converts the AMW Autocomponent plant acquired through NCLT into an aluminium wheels and knuckles plant. FY27 capex allocated to Bhuj is ₹420 crores. The aluminium wheel line adds 1.2 million units, taking capacity from about 5.4 million after Mehsana debottlenecking to 6.6 million; commercial production is guided for early April 2027. The knuckle facility is described as 1.1 million units annual capacity, with commercial production on track for Q4 FY27; the transcript does not reconcile whether this is total or Bhuj-only.

The mechanism is capacity addition: 1.2 million alloy wheels and a 1.1 million-unit knuckle facility at Bhuj. Management says existing alloy capacity is near full and it had more orders than capacity, which justified a 10% debottleneck at Mehsana. The new capacity serves domestic premiumisation and exports; management expects 80% utilization of the new Bhuj capacity in FY28.

> *"our entire order book for aluminum is sold out for the next two years."*
>
> **MD, Q3 FY26 CONCALL (JAN 2026)**

Management stated in January 2026 that the aluminium order book was sold out for two years; that claim was not repeated on the Q2 FY27 call, which instead said existing capacity is near full and orders exceed capacity. The Bhuj facility was previously expected to add ₹700-800 crores of peak revenue; the Q2 FY27 call did not update that figure.

The capex was initially guided at ₹420 crores in January 2026, later described as about ₹500 crores in June 2026. On the Q2 FY27 call management allocated ₹420 crores to Bhuj within FY27 capex of over ₹600 crores; the June ₹500 crore figure was not reconciled to the FY27 allocation. Management previously estimated a seven-year payback and ₹200 crores incremental net debt; neither was updated on the Q2 call.

The timeline has shifted. Earlier plans had trial runs from October 2026 and OEM approvals by January 2027. On the Q2 FY27 call management guided knuckle commercial production in Q4 FY27 and aluminium wheel production in early April 2027. It expects 80% utilization of the new Bhuj capacity in FY28, with 100% within three to four months of commercial start.

> *"We are all set to have these two projects commissioned by the end of the year, not commissioned, but at least trial productions, trial runs will happen starting from October and culminating in maybe, let's say, January."*
>
> **MD, Q4 FY26 CONCALL (JUN 2026)**

The facility is designed to cover every category of aluminium wheels sold globally, positioning it for domestic and export markets. On the Q2 FY27 call management said both Bhuj projects are progressing as planned and that knuckles are focused on customer approvals and commercial supplies. The company remains the sole Indian aluminium knuckle supplier in the disclosed research; the Q2 call did not repeat that claim.

Export recovery to exceed INR 600 crores in FY27; INR 1,500 crores visible in three years

The US market was SSWL's highest-margin export destination until US tariffs disrupted it. In the Nov 2025 concall, management stated the tariffs were "very, very stringent right now at 53% to us," and quantified the annual damage at INR 300-400 crores of lost steel wheel export revenue from the American market. That loss directly compressed company-wide EBITDA per wheel.

The trigger is not yet fully realized. On the Q2 FY27 call management said exports are recovering and should exceed the FY27 target, but a new US trade deal is still awaited; if it happens, exports could reach ₹700-750 crores this year. The company has diversified across Europe, Latin America and Asia alongside the US. OEM certifications for lightweight truck wheels with MAN, Scania and Daimler start contributing from Q4 FY27 and should accelerate next year.

SSWL's positioning is now different from the pre-tariff era. The Jan 2026 concall noted Europe had grown to over 58% of export revenue, diversifying the base. On the Q2 FY27 call management said diversification across Europe, Latin America and Asia alongside the US is paying off, with Q2 exports up 69% YoY. It targets at least ₹1,500 crores of exports in three years.

The recovery is visible. Q2 FY27 export revenue was ₹187 crores, up 69% YoY; H1 was ₹314 crores, up 16%. Management said it is on track to exceed the FY27 export target of ₹600 crores and that a US trade deal could take it to ₹700-750 crores. It separately targets at least ₹1,500 crores in three years, with the MD saying it could reach ₹2,000 crores.

> *"Given these two key aspects, we believe that the exports should be in the range of INR 600 crores in this financial year."*
>
> **ADITYA DIXIT, EXECUTIVE DIRECTOR INTERNATIONAL MARKETING, Q4 FY26 CONCALL (JUN 2026)**

The ₹600 crore target would be the second-highest export figure in company history after the post-COVID peak and marks recovery from ₹454 crores in FY26. Q2 run-rate and H1 performance put the company on track to exceed it; management's three-year aspiration is at least ₹1,500 crores.

Capacity expansion to 6.6 million alloy wheels at Bhuj and 9.1 million after Sambhajinagar

The company is building a new aluminum production block at Bhuj, adding 1.2 million units of alloy wheel capacity and a 1.1 million-unit knuckle facility. After Mehsana debottlenecking, alloy capacity is about 5.4 million; Bhuj takes it to 6.6 million. Management previously described 0.6 million incremental knuckles to 1.1 million total; the Q2 call's 1.1 million facility figure is ambiguous. FY27 Bhuj capex is ₹420 crores within total capex above ₹600 crores.

The mechanism is reuse and debottlenecking. The Bhuj site reuses land, buildings and infrastructure of the acquired plant, saving capex versus greenfield. Existing Mehsana alloy capacity is near full; a no-cost debottleneck added about 10% capacity, or 0.6 million wheels, in October. The new capacity converts demand commitments into deliverable volume, though the Q2 call did not repeat the two-year sold-out order-book claim.

The timeline runs through FY27 and FY28. Bhuj knuckle commercial production is guided for Q4 FY27; aluminium wheels start in early April 2027. Management expects 80% utilization of the new Bhuj capacity in FY28 and says it should reach 100% within three to four months of commercial start. The earlier ₹700-800 crore peak revenue estimate was not updated on the Q2 call.

Sambhajinagar greenfield adds alloy, steel and hot-stamping capacity

The board approved, subject to regulatory clearances, a greenfield facility at Sambhajinagar, Aurangabad, with a total outlay of about ₹1,400 crores over 60 months, funded by debt, internal accruals and possible strategic investments. The initial scope covers alloy wheels and steel wheels for passenger cars and OTR applications plus a hot stamping line for body structural parts. Management's capacity disclosure puts the alloy addition at 2.5 million wheels, taking total alloy capacity from 6.6 million to 9.1 million. Steel capacity is described

as 2.8 million wheels in one answer and as 2 million passenger car plus 1.8 million OTR wheels in the same answer, so the total is ambiguous. Hot stamping capacity is cited as 183,000 stamps. The hot stamping line is quantified at about ₹170 crores including land and building, targeting close to ₹400 crores of turnover, with an anchor customer in Maharashtra and production targeted for Q4 of next calendar year; management expects the line to start sold out and to add a second line as programmes convert. Management says Sambhajinagar will be at least 25% more productive than current operations and targets ROCE above the 24% earned in H1 FY27. This is approved capacity subject to clearances, not commissioned output.

> *"So the capacity will be 1 million in the aluminum wheels business and 1 million in the knuckles business. Sorry, 1.2 million in the aluminum wheels and 0.6 million in the knuckles."*
>
> **MANAGEMENT, Q3 FY26 CONCALL (JAN 2026)**

> *"We will be at about 6.2 million in aluminum wheels."*
>
> **MANAGEMENT, Q4 FY26 CONCALL (JUN 2026)**

Evidence of demand backing the capex is concrete. Management says existing alloy capacity is near full and it had more orders than capacity, prompting a 10% debottleneck. CV demand is so strong that October will have the highest ever CV sales by a wide margin. The knuckle line is focused on more customer approvals and commercial supplies; the Q2 call did not disclose utilization.

Growth in EV scooter wheel segment (company claims ~80% market share)

Steel Strips Wheels has built a near-monopoly position supplying wheels for electric scooters and electric three-wheelers in India. Management attributes this to proprietary technology that no domestic competitor has, which has made the company the default supplier for every EV OEM in the country. The mechanism is direct: as EV scooter volumes grow, SSWL captures roughly 80% of the wheel demand that comes with them, converting industry growth almost one-for-one into its own revenue.

The segment is small today but is the fastest-growing part of the two- and three-wheeler business. Management said the two-to-three-wheeler monthly update showed 50% value growth and close to 30% volume growth, and that May 2026 was the highest sales month ever in the EV segment. The company has been supply-constrained, not demand-constrained. A labor shortage that cost about INR 80 crores of sales in Q4 FY26 was resolved by 20 May 2026, and management says it could have sold 30% more in May if labor had been available.

> *"we are the number one supplier of wheels for EV scooters, EV three wheelers. We have a technology that nobody in India has. So, all the OEMs depend on us."*
>
> **MANAGING DIRECTOR, Q4 FY26 CONCALL (JUNE 2026)**

> *"in the EV scooter space, I'm almost 80%. I'm almost a monopoly in this."*
>
> **MANAGING DIRECTOR, Q4 FY26 CONCALL (JUNE 2026)**

Management expects 25-40% growth in the EV segment for FY27, and the segment is profitable and value-added relative to the ICE two-wheeler business, where SSWL holds only about 30% market share and pricing is a problem. The company is not present in the ICE motorcycle segment, so the EV scooter business is the entire growth story for two-wheelers.

GST cuts driving domestic demand across tractors, trucks, and passenger vehicles

The October 2025 GST cuts lowered vehicle taxes, making tractors, trucks, and passenger cars more affordable. For SSWL the mechanism is direct: every vehicle an OEM assembles needs wheels, and SSWL supplies steel wheels for tractors and trucks plus alloy wheels for passenger cars. Higher vehicle sales translate into higher wheel orders across the three segments that dominate its domestic revenue.

The numbers confirm the cuts took effect. Q4 FY26 revenue reached INR 1,475 crores, up 20% year-on-year, with the tractor segment growing 19% and commercial vehicles 10%. The MD tied this directly to the tax change.

> *"And everyone knows why the domestic demand went up because of the GST cuts in October."*
>
> **MD, Q4 FY26 CONCALL (JUN 2026)**

The demand held after the festive season. In January 2026, the MD said, "with the GST reform, things have just changed, suddenly, every segment is doing well." By Q1 FY27, revenue grew 27% year-on-year, driven largely by strong domestic demand.

The profit mechanics run through capacity utilization. The steel wheel plant ran at 76-78% utilization in FY26; management targeted 95% across commissioned assets. In Q2 FY27 EBITDA per wheel reached ₹404 and management said that level is sustainable, with upside if October's strong trend continues. The original FY27 guidance was above ₹310 per wheel, which H1 exceeded.

The trigger is live. Management says CV demand shows customers desperate to secure product and October will have record CV sales; tractor volumes grew about 15% in H1 and share rose to 45%. It cautions that if CV and tractor volumes taper, EBITDA per wheel will be affected.

Key risks

- **US tariffs still leave the export recovery dependent on a trade deal.** Q2 FY27 exports rose 69% YoY to ₹187 crores and H1 rose 16% to ₹314 crores, and management expects to exceed the ₹600 crore FY27 target. But it also said a US trade deal is still awaited and could take exports to ₹700-750 crores; without it, the high-margin US steel wheel volume lost to 53% tariffs may not fully return. The three-year ₹1,500 crore export target depends on European OEM certifications ramping from Q4 FY27.
- **Bhuj execution now has dated milestones, but the alloy wheel ramp is still an FY28 event.** Knuckle commercial production is guided for Q4 FY27 and aluminium wheels for early April 2027. Management expects 80% utilization of the new Bhuj capacity in FY28, with 100% within three to four months of start. Any customer approval delay pushes the 1.2 million alloy wheel capacity further into FY28 while ₹420 crores of FY27 capex is already committed.
- **Capex is rising faster than the old debt plan assumed.** FY27 capex is guided above ₹600 crores, including ₹420 crores Bhuj, ₹120 crores Dappar and about ₹70 crores automation. The board also approved a ₹1,400 crore Sambhajinagar greenfield over 60 months, funded by debt, internal accruals and possible strategic investments. The Q2 call did not update total debt or the earlier ₹200 crore incremental net-debt guide, so funding and working-capital pressure remain open.
- **Manpower shortages have already cost real revenue and can recur.** In Q1 FY27, labor scarcity cost the company roughly INR 80 crores of sales, and the MD said he could sell "maybe 30% more" in the EV segment if he had labor. Management says the shortage was resolved by May 2026, but it emerged during the Gulf war period and reflects structural tightness in industrial labor around the plants. If it recurs during the Bhuj ramp-up, the company loses both revenue and the fixed-cost absorption it needs to hit the INR 300 per-wheel EBITDA.
- **Customer concentration is extreme, and the company has already walked away from its biggest account.** Maruti Suzuki takes 36% of SSWL's steel wheel business, Mahindra 56% of PV steel wheels, Tata Motors 64% of MHCV, Ashok Leyland 58% of MHCV, and MG Motors 100%. The MD acknowledged the company deliberately cut Maruti car wheel business because pricing was too low, which concentrates the remaining book in fewer relationships. A single OEM program cancellation or a shift to a second supplier removes a meaningful chunk of volume with little notice.
- **The alloy mix is now the main margin support, so a demand or pricing reversal would hit profitability.** Alloy wheels were about 45% of Q2 FY27 revenue and management says aluminium segment EBITDA per wheel is about 40% above steel. Higher aluminium prices

supported revenue and pass through monthly, but a shift in OEM demand toward steel or a pause in premiumisation would reduce the mix benefit that underpins the ₹404 per-wheel level.

- **Export diversification reduces US concentration but adds European OEM dependence.** Management says exports are now spread across Europe, Latin America and Asia alongside the US. The next leg depends on OEM certifications for MAN, Scania and Daimler starting Q4 FY27 and on European programmes ramping. A European auto downturn or a lost nomination would hit the same high-margin export volume needed to exceed ₹600 crores.
- **The near-monopoly in EV scooter wheels invites competition.** Management claims roughly 80% market share in EV scooter wheels and calls it "almost a monopoly," with 25-40% growth expected in FY27. A supplier with that share and those margins is a target for OEMs seeking dual sourcing and for competitors building capability. If a second supplier qualifies or EV scooter demand cools, that high-margin volume is the first to be contested.

Scenarios

Bull case

Bull case

The US-India trade deal lands in the second half of FY27, taking exports toward ₹700-750 crores this year and putting the three-year ₹1,500-2,000 crore target in sight. OEM certifications for MAN, Scania and Daimler ramp from Q4 FY27. Bhuj knuckles start commercial production in Q4 FY27 and alloy wheels in early April 2027, reaching 80% utilization in FY28. The original FY27 guidance of over 20% revenue growth and EBITDA per wheel above ₹310 is exceeded, with Q2's ₹404 per wheel sustained as alloy mix reaches 45% and CV/tractor demand holds. Sambhajinagar approvals come through; the initial plan adds 2.5 million alloy wheels and a 183,000-stamp hot stamping line, with management targeting ROCE above H1's 24%. H1 revenue of ₹3,440 crores and EBITDA of ₹403 crores provide the base.

Base case

Base case

Exports exceed ₹600 crores but stop short of ₹700-750 crores as the US trade deal lags. Bhuj knuckles start in Q4 FY27 and alloy wheels in early April 2027; FY28 utilization reaches 70-80% rather than 100%. EBITDA per wheel moderates from Q2's ₹404 but stays above the original ₹310 guidance as alloy mix holds near 45% and CV/tractor volumes grow, though at a slower pace. FY27 capex is above ₹600 crores and the Sambhajinagar ₹1,400 crore programme is approved but back-ended. The company does not issue a new numeric FY27

target, leaving H2 delivery to be judged against the original over-20% revenue and above-₹310 per-wheel guidance.

Bear case

Bear case

CV and tractor demand taper from the Q2 peak, and management's own caveat that lower volumes would affect EBITDA per wheel plays out. The post-20-year steel wheel price revisions do not stick or are offset by higher costs. Exports stall below ₹600 crores because the US trade deal does not land and European OEM certifications ramp slowly. Bhuj customer approvals slip beyond early April 2027, leaving ₹420 crores of FY27 capex and the 1.2 million alloy wheel capacity idle into FY28. The ₹1,400 crore Sambhajinagar programme adds funding needs while returns are deferred, and the company does not disclose updated debt. The alloy mix benefit fades if aluminium prices or OEM demand shift back to steel.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	5,183	7,363	8,652	9,651
Revenue growth	+17.0%	+42.1%	+17.5%	+11.5%
EBITDA (₹ Cr)	510	882	1,047	1,170
EBITDA margin	9.8%	12.0%	12.1%	12.1%
Depreciation (₹ Cr)	136	180	250	300
Interest (₹ Cr)	123	145	172	195
Other income (₹ Cr)	3.20	3.20	3.50	4.00
PBT (₹ Cr)	254	561	628	679
Tax (₹ Cr)	63.90	140	157	170
Tax rate	25.2%	25.0%	25.0%	25.0%
PAT (₹ Cr)	190	420	471	509
PAT growth	−3.7%	+121.0%	+12.0%	+8.1%
EPS (₹)	12.07	26.68	29.89	32.31
P/E	40.6x	18.4x	16.4x	15.2x
PEG	4.0x	1.8x	1.6x	1.5x

CAGR FY27E-FY29E: Revenue +14.5% · EBITDA +15.2% · PAT +10.1%

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Q2 FY27 concall notes

TLDR

Steel Strips Wheels reported its highest-ever quarterly revenue, EBITDA and PAT in Q2 FY27: revenue ₹1,930 crores (+61% YoY), EBITDA including other income ₹237 crores (+107% YoY) at a 12.3% margin, and PAT ₹119 crores (+209% YoY) at 6.2%. EBITDA per wheel rose to ₹404 from ₹242, which management attributes to a richer mix with alloy wheels at about 45% of revenue, cost optimisation, higher exports (₹187 crores, +69% YoY) and price revisions for input costs other than raw material. Alloy wheel capacity was debottlenecked by 10% to about 5.4 million annualised without spend. The board approved a ₹1,400 crores greenfield plant at Sambhaji Nagar over 60 months (alloy and steel wheels, OTR, hot stamping) and an interim dividend of ₹1.50 per share. Management calls ₹404 per wheel sustainable and expects to exceed it if October demand holds; it targets at least ₹1,500 crores of exports in three years. Watch points are a US trade deal, freight costs and volume dependence of per-wheel EBITDA.

WHAT CHANGED SINCE Q1 FY27

- **EBITDA per wheel guidance effectively raised again.** Q1 FY27 target was >₹310 per wheel with ₹314 reported and an "upside bias". Q2 came in at ₹404, and management now calls ₹404 sustainable and says it may exceed it, with 450-500 per wheel mentioned as reachable eventually from product mix.
- **FY27 revenue guidance left open rather than restated.** Q1 FY27 guided 20%+ growth, implied ~₹6,500 crores. This quarter management said H1 exceeded both the 20% growth and >₹310 per wheel guidance and that it is "extremely confident" of a strong remaining two quarters, but gave no new number, telling analysts to construe FY27 from the Q2 run rate.
- **Export target raised in range.** Q1 FY27 target was ~₹600 crores. Now management says it remains on track to exceed ₹600 crores and that it "might go to ₹700-750 crores" depending on a US trade deal, with a new three-year target of at least ₹1,500 crores, possibly ₹2,000 crores.
- **New greenfield project announced.** The board approved a ₹1,400 crores, 60-month plant at Sambhaji Nagar, Aurangabad for alloy wheels, steel wheels (passenger car and OTR) and a hot stamping line, funded by debt, internal accruals and likely strategic investment. Q1 FY27 had only mentioned hot stamping "under discussion" with no site or outlay.
- **Capex mix changed within the ~₹600 crores FY27 plan.** Q1 FY27 split was ₹420 crores Bhuj, ₹80 crores replacement, ₹150 crores steel wheel brownfield. Now it is ₹420 crores Bhuj, ₹120 crores for about half a million tractor sets at Dappar, and about ₹70 crores for machinery replacement and automation. The ₹150 crores steel wheel brownfield line was not mentioned this quarter.
- **Bhuj commissioning dates firmed.** Q1 FY27 said trial production in Q4 FY27 for both. Now knuckle commercial production is on track for Q4 FY27 and aluminium wheels for early April next year, with FY28 utilisation guided at 80%+ for the new facilities.
- **Capacity numbers revised up.** Q1 FY27 said alloy capacity would reach ~6.2 million post-Bhuj. Now Mehsana debottlenecking adds about 0.6 million, taking alloy to 5.4 million plus 1.2 million at Bhuj (6.6 million), and a further 2.5 million at Sambhaji Nagar would take it to 9.1 million.
- **Tone shift on steel wheels and pricing.** Q1 FY27 described steel wheels as an unexpected resurgence. This quarter management said it broke free of 20 years of price competition and told OEMs price increases were needed to fund new capacity, and that OEM export approvals (MAN, Scania, Daimler) will make steel wheels a growth driver from Q4 FY27.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹1,930 crores	+61% YoY	Richer product mix with higher alloy share, higher exports, higher aluminium prices supporting alloy revenue
EBITDA incl. other income	₹237 crores	+107% YoY	Mix, cost optimisation across factories, higher export contribution, price revisions for non-raw-material input costs
EBITDA margin	12.3%	vs 9.6% YoY	Same drivers as EBITDA
PAT	₹119 crores	+209% YoY	Operating performance; PAT margin 6.2% vs 3.2%
EBITDA per wheel	₹404	vs ₹242 YoY	Mix, volumes, exports, knuckles and alloy growth; management calls it sustainable
Alloy wheel revenue share	~45% of Q2 revenue (42% H1)	vs 35% in Q1 FY27	Premiumisation in passenger vehicles and rising EV share
Alloy wheel volumes	~12 lakh units Q2; 23 lakh H1	n/a	OEM demand and alloy penetration; capacity debottlenecked 10% to ~5.4 million annualised
Export revenue	₹187 crores (H1 ₹314 crores)	+69% YoY (H1 +16%)	Diversification across Europe, Latin America and Asia alongside the US
Tractor market share	45%	vs 43%	Farm mechanisation, rural activity, preference for higher horsepower tractors
CV wheels	Highest growth segment	n/a	OEM offtake, replacement demand, infrastructure activity; October expected to be highest-ever CV sales
Supplementary invoicing	₹183 crores H1 (₹140 crores Q2)	n/a	Raw material pass-through only; management says it has no bearing on EBITDA

SEGMENTS & GEOGRAPHIES

- **Alloy wheels:** About 45% of Q2 revenue and the main growth driver, with volumes of ~12 lakh units in Q2 and 23 lakh in H1. Management cites more than 64% market share excluding Maruti and expects alloy volume growth to continue on penetration and EV share.
- **Aluminium knuckles:** Progressing in line with expectations, with focus on more customer approvals and scaling commercial supplies. Management expects it to become an important growth engine over the medium term as lightweighting spreads across ICE and EVs.
- **Commercial vehicle wheels:** Highest growth among all segments across domestic and export markets, helped by OEM offtake, replacement demand and infrastructure activity, and a recovery from Q2 FY26 weakness. October is expected to be the highest-ever CV sales month by a wide margin.
- **Tractor wheels:** Steady quarter with market share up from 43% to 45%. Volume grew about 15% in H1 and management expects it to cross 15% for the year.
- **Steel wheels:** Demand rising for "high-end" steel wheels styled like alloy wheels at lower cost, and the company is gaining share there. Management expects a turnaround from OEM export approvals, starting in Q4 FY27 and accelerating next year.
- **Exports:** ₹187 crores in Q2 after a soft Q1, with H1 at ₹314 crores (+16% YoY). Management expects to exceed ₹600 crores for FY27 and reach at least ₹1,500 crores in three years, with next year's growth led by OEM exports of car steel wheels, car alloy wheels and truck wheels to Europe.

STRATEGY & COMPANY-SPECIFIC

- **Sambhaji Nagar greenfield:** Board approved, subject to regulatory clearances, a ₹1,400 crores plant over 60 months at Aurangabad for alloy wheels, steel wheels (2 million passenger car and 1.8 million OTR) and hot stamping, with scope to add knuckle capacity later. Management says the site is close to customers in Maharashtra and will be at least 25% more productive operationally than current plants.
- **Hot stamping:** About ₹170 crores including land and building, targeting turnover of close to ₹400 crores, with capacity of 183,000 stamps. Production targeted for Q4 of next calendar year, for an anchor customer in Maharashtra, with talks on with two other customers. Management names Gestamp, JBM and Autogen as competitors.
- **Bhuj:** ₹420 crores of the FY27 capex. The alloy plant adds 1.2 million wheels, taking total alloy capacity beyond 6.2 million, and the knuckle facility has 1.1 million units annual capacity. Knuckle commercial production is on track for Q4 FY27 and alloy wheels for early April.
- **Dappar tractor expansion:** ₹120 crores to add almost half a million tractor sets.
- **Automation and AI:** About ₹70 crores for machinery replacement and automation in FY27, part of a multi-year focus on productivity.
- **Capacity debottlenecking:** Mehsana alloy capacity raised about 10% (roughly 0.6 million wheels) in October without capital spend, taking annualised capacity to about 5.4 million.
- **Dividend:** Board approved an interim dividend of ₹1.50 per equity share.
- **Funding:** The Sambhaji Nagar project will be funded by debt, internal accruals and likely strategic investment from commodity players who have partnered with the company since its first factory. Management did not name them.
- **Returns:** Management cited ROC of 24% in H1 FY27 and expects the new investments to earn more than that.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	20%+ (no new number; H1 exceeded it)	Maintained, not restated	H1 performance and confidence in the remaining two quarters
EBITDA per wheel	₹404 sustainable, possibly higher; 450-500 eventually	Raised	Mix, debottlenecked capacity, CV and export demand, October run rate
FY27 exports	Exceed ₹600 crores; possibly ₹700-750 crores	Raised	H1 ₹314 crores, US trade deal timing, capacity additions
Exports in 3 years	At least ₹1,500 crores, possibly ₹2,000 crores	New	OEM export approvals and capacity coming on stream
FY27 capex	Over ₹600 crores: ₹420 crores Bhuj, ₹120 crores Dappar, ~₹70 crores replacement/automation	Maintained in total, mix changed	Announced projects
Bhuj knuckles	Commercial production Q4 FY27	Maintained	Project on track
Bhuj alloy wheels	Commercial production early April	Maintained	Project on track
New facility utilisation FY28	80%+ for the full year; 100% within 3-4 months of start	Maintained	Sold-out order book
Sambhaji Nagar	₹1,400 crores over 60 months	New	Board approval, subject to regulatory clearances

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Hot stamping	Production Q4 of next calendar year; ~₹400 crores turnover on ~₹170 crores investment	New	Anchor customer order
Tractor volume growth	Cross 15% for the year	New	H1 growth of about 15%

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
US trade deal timing	Export upside to ₹700-750 crores depends on a trade deal with America; management expects more clarity by the January call.
Freight costs	Freight is elevated but affects competitors equally; lower freight would improve competitiveness.
Volume dependence of per-wheel EBITDA	Management conceded that if CV and tractor volumes fall, EBITDA per wheel will be affected, though it does not expect that now.
Raw material pass-through lag	Supplementary invoicing of ₹183 crores in H1 reflects raw material pass-through settled with a lag; management says it does not affect EBITDA.
Competition in hot stamping	Gestamp, JBM and Autogen are named competitors; management says there is enough market for capable players.
Project execution	Sambhaji Nagar is subject to regulatory clearances and spread over 60 months; Bhuj ramp-up must reach 80%+ in FY28 to serve sold-out commitments.
China in export markets	Chinese wheel exports face anti-dumping duty in some markets; management said it does not supply to America because of Chinese competition there.

Q&A HIGHLIGHTS

Sustainability of ₹404 per wheel

- Question: Is ₹404 per wheel sustainable, and did the ₹183 crores of pass-on benefit in H1 inflate it?
- Answer: Management said the supplementary invoicing is raw material pass-through with no bearing on EBITDA, and that ₹404 is sustainable on operational efficiencies and volume growth, with October strong enough that a better number is possible if November and December follow.

Sambhaji Nagar returns and funding

- Question: What is the IRR on the ₹1,400 crores project and how will it be funded given existing debt?
- Answer: Management cited ROC of 24% in H1 FY27 and said the new plant should earn more, helped by proximity to customers and higher automation, and will be funded by debt, internal accruals and likely strategic investment.

Alloy wheel competition in exports

- Question: Who does the company compete with globally in alloy wheels, and on what basis?
- Answer: Most competition is based in Turkey, and management said SSWL is more competitive on manufacturing cost and logistics; quality is a requirement rather than a differentiator, and the qualification cycle for a new programme is about nine months.

Hot stamping anchor customer

- Question: Is there an anchor customer for hot stamping and what is the competition?

- Answer: The factory is being built for a specific customer in Maharashtra close to the site, with talks on with two more; production is targeted for Q4 of next calendar year and the plant is expected to start with sold-out capacity.

Segment margin gap

- Question: What is the margin gap between steel, alloy and knuckle products?
- Answer: Management said the aluminium segment (wheels and knuckles) earns about 40% more per wheel than steel, without giving exact segment numbers.

Capacity and FY28 utilisation

- Question: What will total capacity be at the start of FY28 and what utilisation is expected?
- Answer: Management confirmed 21 million steel, 6.2 million alloy and 1.1 million knuckles, with 80%+ utilisation for the new facilities in FY28 and 100% within 3-4 months of commissioning; debottlenecking takes alloy to 5.4 million plus 1.2 million at Bhuj, and Sambhaji Nagar would add 2.5 million alloy and 2.8 million steel wheels.

Why per-wheel EBITDA confidence rose

- Question: Last call management was cautious near ₹310 per wheel; what explains the jump in confidence?
- Answer: Management said it secured input cost increases of 2-10% after 20 years of price competition, telling OEMs that new capacity had to be paid for through higher prices on existing business, and that capacity shortage in the market supported this.

Volume risk to per-wheel EBITDA

- Question: If CV and tractor volumes taper from a high base, can ₹400 per wheel hold?
- Answer: Management said lower volumes would affect EBITDA per wheel, but it sees customers desperate to secure CV product and expects October to be the highest-ever CV sales month by a wide margin, with tractor volume growth crossing 15%.

Menon Bearings Limited

GROWTH TRIGGERS

Menon can compound revenue above 30% if the ₹131 crore FY28 and ₹157 crore FY29 additional-business pipeline converts while automation and raw-material pass-through hold margins near 22-23%.

1. FY27 growth above 30% with H1 already at ₹191.56 crore

Management guided more than 30% revenue growth for FY27. H1 FY27 total income was ₹191.56 crore, up 43%, with EBITDA +63%, PBT +79% and PAT +74%. The second half is seasonally stronger, so the stated FY27 growth target starts from a delivered first half rather than a blank slate.

2. FY28 growth above 30% and ₹131 crore additional business

Management expects more than 30% growth again in FY28 and estimates ₹131 crore of additional consolidated business that year. The estimate is based on RFQs, commercial discussions and approved samples across existing customers. It is a management target, not a signed order book, but it is large relative to the FY26 base.

3. FY29 ₹157 crore additional business before Europe

Management estimates ₹157 crore of additional business in FY29, excluding a separate Europe opportunity of more than ₹35 crore. Europe has not started contributing, so the figure is a pipeline estimate. If conversions follow the stated FY28-29 timing, the revenue base can step up without a large greenfield capex programme.

4. Margins held in Q2 and 23% targeted next year

Q2 FY27 EBITDA grew 91-92% year-on-year even with tin up 72% and copper up 50%. Management retained a 20-22% EBITDA band and targets about 23% next year, citing pass-through, productivity and automation. The margin mechanism is operating, though Q2 margin was below Q1 and remains exposed to a sharp metal spike.

5. Alkop 54 parts at SOP add high-value mix

Menon Alkop developed around 54 parts over two years and management says all have begun SOP. These are critical aluminium components with high value addition, and Alkop's Q2 FY27 EBITDA margin was 18-19%. The ramp supports mix and revenue without relying only on new customer wins.

6. Automation capex with 2.5-3.5 year payback

Management plans about ₹5 crore of automation in Menon Alkop and ₹4-4.5 crore in Menon Bearings over 12-15 months. It cites a 2.5-3.5 year payback and says infrastructure is already in place, so the spend adds machines rather than new buildings. That supports operating leverage as volumes rise.

7. Working capital normalized and no term loan

US customer inventory of around three months has been built and has now settled, and management expects it to grow only with volumes. No term loan was availed and capex is funded from internal accruals. Cash and bank including mutual funds was ₹25.69 crore at H1 FY27.

8. ₹500 crore revenue target pulled into FY28-FY29

Management said it can reach ₹500 crore next year, most likely next year or the year after. That is earlier than the original 2030 plan. The target depends on the additional-business pipeline converting, but it is now framed as a near-term milestone rather than a long-range aspiration.

INVESTMENT THESIS

Menon Bearings is an operating-leverage thesis built on a small, high-value auto-component franchise. The company makes bi-metal engine bearings, bushes and thrust washers through the parent, aluminium die-cast parts through Menon Alkop, and asbestos-free friction material through Menon Brakes. It deliberately avoids commodity passenger-car bearings and high-volume aftermarket brake linings, focusing instead on critical heavy-duty, industrial and export parts where qualification cycles are long and failure is costly for the customer.

The economics are visible in the Q2 FY27 results. Consolidated total income grew 57% year-on-year, EBITDA 91-92%, PBT 122% and PAT 117%. H1 total income was ₹191.56 crore, up 43%, with EBITDA +63%, PBT +79% and PAT +74%. Cash and bank including mutual funds was ₹25.69 crore. This is not a low-base recovery alone: management said the quarter had the highest sales, EBITDA and PAT in company history. The segment margins show why: bearings at 23%, Alkop at 18-19%, and brakes at 30-35% on mix. The group is earning returns above the 6-8% margins management cites for larger die-casters and bearing competitors.

The next leg is management guidance, not yet delivered fact. Management guides more than 30% revenue growth in FY27 and again in FY28. It estimates additional consolidated business of around ₹30 crore in FY27, ₹131 crore in FY28 and ₹157 crore in FY29, excluding a separate Europe opportunity of more than ₹35 crore. These are pipeline estimates based on RFQs, commercial discussions and approved samples. They are not a signed order book. My inference is that the FY28-FY29 figures are large enough relative to the current base to support another step-up, but the conversion timing is the main swing factor.

Operating leverage comes from three places. First, Menon Alkop developed around 54 parts over two years and management says all have begun SOP. These are critical aluminium components with high value addition, and the segment margin is already 18-19%. Second, automation is being added inside existing infrastructure: about ₹5 crore in Alkop and ₹4-4.5 crore in Bearings over 12-15 months, with a 2.5-3.5 year payback. Management estimates roughly 50 roles can be reduced in bearings through single-piece flow on 16 lines. Third, management says it only needs to add machines, not buildings, to support higher volumes. That is a lower-risk capex model than a greenfield expansion.

Margins are the second engine. Management retained a 20-22% EBITDA band and targets about 23% next year. Q2 FY27 EBITDA grew 91-92% even with tin up 72% and copper up 50%. The pass-through formula works with a lag, and aluminium had fallen from its May-June peak, helping Alkop. The risk is that a sharper metal spike again forces Menon to absorb input costs for a quarter, as it did in Q2 FY26. The 20-22% band has held through the cycle, but it is not a guarantee.

Capital allocation is conservative. Management said no term loan was availed and capex is funded from internal accruals. US customer inventory of around three months has been built and has now settled, and borrowing stayed broadly flat despite 55% turnover growth. Packing credit is available at 4.65-4.75% with a 2.75% government subvention. The balance sheet is not the constraint to growth. The constraint is customer conversion and project execution.

Management delivery is mixed. FY26 revenue of around ₹300 crore was delivered after a mid-year cut, and the Q2 FY27 print supports the FY27 growth guidance. The weak spot is project timing. The dynamometer, which gates railway brake revenue, was expected by end-August 2026 in the prior record; the Q2 FY27 call did not update it. Several older segment targets, including Alkop's ₹100 crore FY27 and ₹125 crore FY28, were not restated. I do not treat silence as failure, but railway revenue remains unverified.

The 18-24 month path is therefore: convert the ₹131 crore FY28 additional-business estimate, hold margins near 22-23%, ramp Alkop's 54 parts at SOP, and keep working capital tied to volumes rather than inventory builds. The ₹500 crore revenue milestone has been pulled forward to next year or the year after, from 2030 originally. That is a management target, not an analyst projection.

Falsifiers are clear. A raw-material spike that outruns pass-through and pushes EBITDA below 20% would break the margin leg. Delays in the FY28-FY29 additional-business conversion would push the >30% growth targets out. A US tariff or demand shock would hit the largest export block, with 80% of exports going to the USA. A fresh inventory build would absorb cash. And a continued lack of dynamometer progress would leave the railway option unquantified. The thesis is an operating-leverage setup with visible guidance and a good current quarter, but the next 12 months must show pipeline conversion, not just RFQ activity.

RESEARCH REPORT

What Menon Bearings Limited does

Menon Bearings Limited makes precision engine bearings, bushes, thrust washers, aluminium die-cast components, and asbestos-free brake linings for automotive and industrial customers. The group operates through three divisions: the parent company Menon Bearings for bi-metal engine bearings, and two wholly owned subsidiaries, Menon Alkop for aluminium die-casting and machining, and Menon Brakes for friction material. The business model is built around supplying critical, high-precision parts to global OEMs at zero-PPM quality, not high-volume commodity components.

The group has 5 plants in Kolhapur, Maharashtra, 3 in Gokul Shirgaon MIDC and 2 in Five Star MIDC, Kagal. It employs 219 permanent staff. FY26 consolidated revenue from operations was Rs 293.81 crore, up 22.79% year-on-year, with EBITDA of Rs 65.20 crore at a 25.31% margin and PAT of Rs 38.25 crore, up 53.41%. Exports were about 34-35% of revenue in Q2 FY27; management said the share has stayed there as domestic business also grew and now expects it to remain broadly constant, rather than the earlier 37% target.

Q2 FY27 update (30 Oct 2026): consolidated total income grew 57% year-on-year, EBITDA 91-92%, PBT 122% and PAT 117%. H1 FY27 total income was ₹191.56 crore, up 43%, with EBITDA +63%, PBT +79% and PAT +74%; cash and bank including mutual funds was ₹25.69 crore. Management guided more than 30% growth for FY27 and again for FY28, with additional business of ₹30 crore, ₹131 crore and ₹157 crore expected in FY27, FY28 and FY29 respectively, before a separate ₹35 crore Europe opportunity.

Bi-Metal Bearings (parent, ~74% of group revenue)

The core business is bi-metal engine bearings, bushes (including PTFE-coated bushes for newer-age engines and EVs), thrust washers, and strips. Annual capacity is 580 lakh units, expanded from 486 lakh units in FY26, a 19% increase. The business serves tractors (34% of engine-bearing revenue, down from 54% a decade ago), HCV-LCV, braking system usage, transmission, and other engineering, electrical, and industrial applications including generators, compressors, air-conditioning, and refrigerators. The auto-linked share of the engine-bearing business has fallen to 58% from 70-75%.

The strategic choice is to avoid passenger car bearings entirely. Management described this in the Q1 FY27 call: other players focus on passenger vehicles, while Menon focuses on heavy-duty tractors and industrial parts where value addition is better. This matters because the EV transition is happening in passenger cars, not in heavy tractors, off-road vehicles, or commercial vehicles, so the core business carries less electrification risk.

Menon Alkop (wholly owned subsidiary, ~22% of group revenue)

Menon Alkop does high-pressure aluminium die-casting and machining of critical components. Current capacity is 1,440 tonnes, which can be doubled to 2,880 tonnes. FY26 turnover was Rs 72.89 crore. The parts are high-value, with average realisation above Rs 900 per unit against an industry norm of Rs 450-500 per unit for large players. Management said in Q2 FY27 that around 54 parts developed over the last two years have begun SOP and that Alkop's EBITDA margin is 18-19%.

Alkop serves automotive OEMs, EV components (TACO Prestolite for Tata Punch and Tata Curvv EVs, Eaton for Porsche e-mobility, Tesla via Concentric as a tier-2 supplier), oil and gas, house automation, compressors, and export markets in the US, Europe, and South America. EV is currently 4-5% of Alkop revenue. Management said in Q2 FY27 that EV volumes will be even higher than the 8-10% FY27 target, but the EV share may stay broadly constant because other Alkop business is growing too. The Q1 FY27 guidance of Rs 100 crore revenue in FY27 and Rs 125 crore in FY28 remains the last stated segment target.

Menon Brakes (wholly owned subsidiary, ~3-4% of group revenue)

Menon Brakes makes asbestos-free brake linings and brake pads for two-wheelers, three-wheelers, HCV/LCV, and is pursuing railway approvals. Capacity was expanded from 18 lakh to 30 lakh pieces annually. FY26 turnover was Rs 9.09 crore. The subsidiary is early-stage, but management reported 25% EBITDA margin for Q1 FY27, up from 12% earlier, and said on the Q2 FY27 call that brakes margins are 30-35% depending on product mix. Bajaj is the anchor customer, taking brake pads for Pulsar bikes with a requirement of 5-6 lakh pieces per month, of which Menon currently supplies about 1 lakh.

The railway opportunity depends on a dynamometer, a testing rig costing Rs 3-3.5 crore. The dynamometer has been delayed multiple times: the first supplier left the country, the second failed to meet specifications, and management found a third partner in Pune. As of the Q1 FY27 call, it was expected to be commissioned by end-August 2026, with railway approvals following within a year; the Q2 FY27 call did not update the timeline. Management targets Rs 5-6 crore of railway business initially, scaling to Rs 25-30 crore within two years.

The buying relationship

Customers buy from Menon because it delivers zero-PPM quality, on-time supply, and long-term reliability. John Deere has been a single-source customer for more than 20 years. The switching cost for a customer is high because new parts take 6 to 12 months of testing, validation, and PPAP approval before production starts. Once a supplier is qualified, the customer has little incentive to requalify another. Aditya Menon explained the dynamic in the Q1 FY27 call: during tariff pressure, Menon kept supplying Allison even when it hit margins, because a missing small part would stop Allison's assembly lines entirely.

Raw material is managed through quarterly price revision clauses in contracts, with management pushing for monthly revisions given how volatile copper, tin, and aluminium prices have become. Copper moved from Rs 745-775/kg to Rs 875-940/kg between Q1 and Q3 FY26, and tin from Rs 2,250 to Rs 3,250/kg. Aluminium alloys moved from Rs 200 to Rs 245/kg. The pass-through has protected margins, and management estimates process improvements save about Rs 8 crore per year.

No single customer exceeds 15% of company revenue, a management statement from the Q4 FY26 call. This is a deliberate policy to avoid dependence on any one customer or cycle.

Business segments

Bi-Metal Bearings (Menon Bearings Ltd, Parent)

Menon Bearings Limited, the parent company, manufactures bi-metal engine bearings, bushes, thrust washers, and strips for automotive and industrial applications. The core capability is making large-diameter, high-precision components for heavy-duty engines, not passenger cars. The company has built this over decades: the promoter group is third-generation, and the MD cites "30-40 years of technology in this field" as a structural advantage. The annual report for FY26 confirms the scale of the investment: bi-metal capacity was expanded from 486 lakh units to 580 lakh units per year, a 19% increase.

The products split into four categories. Engine bearings and bushes absorb the majority of output, going into tractors, HCV-LCVs, and transmission systems. Thrust washers, a newer and faster-growing line, feed the same powertrains plus defence vehicles through customers like Allison Transmission. Strips are the semi-finished form sold to other manufacturers. The end-market mix is disclosed: tractors are 35% of revenue, HCV-LCV 20-25%, brakes usage 25%, transmission 15%, and other engineering, electrical, and industrial applications (generators, compressors, air-conditioning, refrigeration) 10%. The company deliberately avoids the passenger car segment, which the MD says is where global competitors concentrate and where value addition is thinner.

Customers are long-tenured OEMs. John Deere has been a single-source customer for over 20 years. Allison Transmission is a major recent addition, with business worth more than INR2.5 crores per month that started in late 2025. Eaton, Magna, and Federal-Mogul DRiV are also in the fold. Why do they buy from Menon? The MD's answer on the Q1 FY27 call is the clearest statement of the moat:

> *"We are having an integrated facility, our productivity comparatively is very good. We are accepting only critical components and critical parts where value addition is better. Like other competitors and global competitors, they are into the manufacturing of bi-metal in bearings of cars and passenger vehicles, etc. We are not into that. We are into heavy-duty tractors and other engineering parts and industrial parts where value addition is better... we have got a certificate from many of the OEMs for zero PPM, that is zero percentage of rejection for parts per million."*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

The zero-PPM record is the commercial argument. It is also why the company could support Allison during the US tariff disruption, absorbing margin pressure to keep a customer's assembly line running, which the promoter group cited as the reason new RFQs came back from that US trip.

The competitive set in bi-metal bearings is well established: Federal-Mogul (now part of DRiV), KSPG, and domestic players like Rane. The MD's comparison is direct. On the Q3 FY26 call, when asked about margins versus competitors, he noted that Federal-Mogul and KSPG operate at 6-7% EBITDA margins while Menon holds 18-20%, attributing the gap to manufacturing capability and product selection. The company's stated peak revenue potential from the current bi-metal footprint, without land expansion, is above INR400 crores, per the Q1 FY27 call.

The segment is the group's profit engine. It contributes roughly 74% of group revenue, per the Jan 2026 analysis. It also anchors the group's customer relationships that the subsidiaries use. The promoter group confirmed this dynamic on the Q1 FY27 call: the US and Canada trip that bagged new orders for the parent also opened vendor qualification for Menon Alkop with Magna and Linamar, because those customers already knew Menon Bearings' quality record. The parent's brand is the entry ticket for the group's aluminium and friction material businesses.

Capacity utilisation is the operating constraint. The Q1 FY27 call put bi-metal utilisation at 85-87%, with a third shift available for surge demand. Management is investing INR9-10 crores this financial year to raise capacity 25-30%, which they estimate can yield over INR25 crores of additional revenue. The capex is being funded from internal accruals, with the MD stating no fresh loans will be taken for the bi-metal and Alkop expansions.

Exports are the growth lever, but the mix has stopped rising. Direct exports were about 34-35% of revenue in Q2 FY27; management said it had earlier expected 38-40% but domestic business grew as well, so the export share should stay broadly constant rather than reach the old 37% target. More than 50% of the new business pipeline is exports. Europe is the new export push: the September 2026 visit generated more than ₹35 crore of potential business for FY28-29, though management said that business has not started yet. The

company is also converting export terms from DDP to ex-works India, which the MD said will cut the receivable cycle from 180 days to roughly 30 days. The Q1 FY27 call disclosed a total potential of INR65-75 crores of additional business for the current and next financial year, subject to monsoon and geopolitical conditions.

The segment's margin profile is the group's floor. On the Q2 FY27 call, management guided a 20-22% EBITDA band and said margins should exceed 22% with mix and productivity; it targets about 23% for next year. FY26 consolidated EBITDA margin was 25.31%, with the bi-metal division running above the group average. The product mix shift toward exports, which carry better pricing, is the stated mechanism for sustaining that.

Menon Alkop Ltd (Wholly-Owned Subsidiary, Aluminium Die Casting)

Menon Alkop Ltd is the group's high-pressure aluminium die-casting and machining arm. It casts and machines critical, high-value aluminium components, with FY26 turnover of Rs 72.89 crore (AOC-1, Annual Report FY26). Current capacity is 1,440 tonnes per annum, with plans to double to 2,880 tonnes over the next two years (Q3 FY26 concall, Jan 2026). The division operates a 65,000 sq ft machine shop in Five Star MIDC Kagal, with roughly half the space still available, plus 7 acres of empty land at the plant for future expansion (Q1 FY27 concall, Jul 2026). Menon Alkop crossed the 10% of consolidated turnover threshold during FY26, making it the group's sole material subsidiary (Corporate Governance Report, FY26).

The core capability is the pairing of casting with precision machining of parts that carry engineering risk. The company climbed from 400-ton and 500-ton machines to a 1,600-ton machine for an 8-kg HPVC part for TACO Prestolite, a step change in part complexity (Q1 FY27). On the Q2 FY27 call, management said around 54 parts developed over the last two years had begun SOP and that these are critical components with high value addition. Qualification cycles for new parts run 12 to 14 months from RFQ to production start (Q4 FY26 concall, May 2026).

Products span automotive, EV, oil and gas, house automation, and compressors. EV components include motor covers for Tata's Punch and Curvv supplied through TACO Prestolite, parts for Eaton transmission systems used in Porsche e-mobility, and components for Tesla as a tier-2 supplier through Concentric (Q1 FY27; Q4 FY26; Q2 FY26 concall, Nov 2025). The division also supplies parts to Honeywell for aerospace and is diversifying into oil and gas and house automation applications (Q4 FY26).

Customers buy because the parent's bearing relationships open the door, and the casting quality keeps them there. Management cited China Plus One sourcing shifts and the Menon brand built over 30 years of bearing supply as the entry point (Q3 FY26; Q1 FY27). The June 2026 US and Canada trip generated RFQs and NDAs from Magna and Linamar, both existing bearing customers, and the company has hired a US-based salesperson to follow up (Q1

FY27). The division holds zero PPM certificates from multiple OEMs, and during tariff disruptions it kept supplying Allison even when it hurt margins, which management credits for the new RFQs (Q1 FY27). John Deere is the anchor customer, with separate vendor codes for its India, Germany, US, and South America plants, each representing a distinct revenue stream (Q3 FY26).

Competitive positioning is built on value, not volume. Average realisation is INR 700 to 900 per kg versus INR 450 to 500 for large die-casters, and the Alkop EBITDA margin was 18-19% in Q2 FY27 versus 6% to 8% for competitors (Q4 FY26; Q2 FY27). Management is explicit that tonnage-based benchmarks miss the point because the company deliberately selects critical, high-value parts.

The division contributes roughly 22% of group revenue (Jan 2026 analysis). EV currently accounts for 4% to 5% of Alkop revenue, with a target of 8% to 10% by FY27 end (Q1 FY27; Q2 FY26). On the Q2 FY27 call, management said EV volumes will be even higher than that target, but the EV share may stay broadly constant because other Alkop business is growing too.

Synergies run through shared customers. Allison, Magna, John Deere, and Eaton buy from both the bi-metal and aluminium divisions, and the group operates five plants across two MIDCs in Kolhapur, enabling shared engineering and resources (Q1 FY27; Q2 FY26).

Management guidance for the division:

> *"For this year, we are targeting Alkop for INR100 crores, next year around INR125 crores"*
>
> **ADITYA MENON, Q1 FY27 CONCALL (JUL 2026)**

Arun Aradhye added on the same trajectory: "Alkop for next 2 years will grow at a rate of 29%." (Q4 FY26 concall, May 2026).

Menon Brakes Ltd (Wholly-Owned Subsidiary, Friction Material)

Menon Brakes Ltd makes asbestos-free brake pads and linings for two-wheelers, three-wheelers and HCV/LCV. FY26 turnover was Rs 9.09 crore, roughly 3% of group revenue. The subsidiary was incorporated in December 2022 and is the youngest of the three group businesses.

The product capability is the friction material formulation itself. The annual report calls it "eco-friendly, asbestos-free brake linings" that "continue to gain acceptance due to their superior performance and environmental benefits." What took years is the validation infrastructure. The dynamometer, a testing rig that certifies friction material for railway and OEM use, was ordered, delayed, re-ordered. The Nov 2025 concall explained why: "dynamometer is very complex equipment. Not many manufacturers are there in India." It

costs INR3 to INR3.5 crore. The May 2026 call said the first manufacturer could not complete it, so they found a new partner in Pune. As of the Jul 2026 call, it is "under construction now and is expected by the end of August."

The two-wheeler business is the current revenue anchor. Menon Brakes supplies brake pads for the Bajaj Pulsar. In Nov 2025 management said Bajaj's requirement is 5 to 6 lakh pieces per month, of which Menon Brakes was supplying about 1 lakh, ramping to 3 to 4 lakh by March. The annual report confirms braking capacity expanded from 18 lakh to 30 lakh pieces annually. Three-wheeler pads are in development. HCV/LCV linings and railway linings are the larger but still-gated opportunities. On the Jul 2026 call, management said they have already made dies for railway applications including "the bogies, the transport bogies, Vande Bharat, metros."

Customers split into three groups. Two-wheeler OEM via Bajaj. Domestic and export aftermarket through a Dubai distributor covering Africa and the Middle East, worth INR7 to INR8 crore per year across the group's products. And direct merchant exports to Africa, where brake linings alone are expected to bring INR6 to INR7 crore. The railway business is pending RDSO approval, which requires the dynamometer.

Why do customers buy? For Bajaj, it was quality and price. The Nov 2025 call said Bajaj was "replacing us with the existing customer of theirs, because of our quality and better pricing." The parent's existing OEM relationships also open doors. The Jul 2026 call: "having relations with all the OEMs, Menon Bearing is already having relations with them for last so many years. We are 100% sure that we will get additional business from them."

Competitive position starts with the margin. The Jan 2026 call named Rane Brake and Sundaram Brake Linings as competitors. Management's counter was that those players focus on aftermarket with heavy distribution costs, while Menon Brakes targets OEM directly. The Jul 2026 call gave the number:

> *"right from 12% EBITDA earlier, now we have reached to 25% EBITDA in brakes also. And that is above all other segments."*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

Management cautioned that the 25% reflects product mix and that exports to Africa and Dubai carry thinner margins due to Chinese competition. The Jan 2026 call: "there is a steep competition from China, particularly in Dubai and African countries for brake linings."

The railway opportunity is the largest single lever. The Jul 2026 call estimated:

> *"we expect that to start with, we will have a business of around INR5 crores to INR6 crores to start with and eventually it will go up to INR25 crores to INR30 crores within next two years."*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

Capex is modest. The May 2026 call guided INR3 crore for brakes over two years, on top of about INR9 crore already spent. The subsidiary sits within the group's five plants in Kolhapur, sharing the parent's infrastructure and customer relationships. The May 2026 call noted brakes asset turn is almost 1, targeting about 2 next year.

At roughly 3% of group revenue, Menon Brakes is small. The margin profile, the railway pipeline and the capacity expansion from 18 to 30 lakh pieces are the reasons it matters. Management guided in Jan 2026 that the group mix would shift to 65% to 68% Bimetal, 25% to 28% Alkop and the remainder in brakes next year, keeping brakes a minority of revenue even as the railway business ramps.

Customers

The customer list reads like a who's who of global powertrain and tractor manufacturers. John Deere is the anchor customer, single-sourced for more than 20 years, supplied across India, the US, Europe, and South America. Allison Transmission in the US is the fastest-growing new relationship, with additional business worth over Rs 2.5 crore per month and a thrust washer business worth about Rs 30 crore per year. Eaton supplies transmission components for Porsche e-mobility through Menon. TACO Prestolite, a Tata Motors subsidiary, takes EV components for the Tata Punch and Tata Curvv. Tesla comes in as a tier-2 supplier through Concentric pumps.

The export book is heavily US-weighted. On the Q2 FY27 call, management said exports were about 34-35% of total revenue and that 80% of exports went to the USA. The June 2026 US-Canada trip yielded RFQs, NDAs, and vendor profiling with Allison, Magna, and Linamar; the Q1 FY27 call had estimated Rs 65-75 crore of additional business potential for the current and next financial year. A Europe visit has since added more than Rs 35 crore of potential business for FY28-29.

> *"The total potential of additional business for the current and next financial year is expected to be around INR65 crores to INR75 crores, subject to good monsoon and geopolitical situation doesn't worsen further."*
>
> **ARUN ARADHYE, Q1 FY27 CONCALL (JUL 2026)**

African customers are being added through direct merchant exporters who pay 100% in advance. Management estimates Rs 9 crore of potential revenue from Africa for bearings, bushes, and washers, and Rs 6-7 crore for brake linings. The route through Dubai was halted

for three months in Q1 FY26 because of the Strait of Hormuz war, costing about Rs 2 crore, which pushed management to find direct merchant exporters who accept advance payment terms.

Industrial customers diversify the mix. Mayekawa, the Japanese compressor maker, is a customer. Cummins and Mahindra take generator components. Honeywell takes aerospace parts for airport and aerospace solutions. The company also supplies air-conditioning and industrial fridge manufacturers, with PICL mentioned as a growing customer. Escorts/Kubota and International Tractors (TMTL) are tractor customers, and the 51 new parts in the development pipeline span John Deere, Eaton, TACO Prestolite, and Mayekawa, worth about Rs 30 crore.

The concentration risk is real but managed. 80% of exports go to the US, and exports are about 34-35% of revenue, so a large slice of group revenue depends on US trade policy and the health of Allison, John Deere, and Eaton. Management is diversifying into Europe, Africa, and South America. The September 2026 Europe visit has generated more than Rs 35 crore of potential business for FY28-29, though management said the business has not started yet. The company also hired a US-based representative to follow up on the new RFQs. An 800-part US aftermarket opportunity, worth about Rs 80 crore in total volume, is under evaluation, with management targeting an initial Rs 8-10 crore on the most attractive parts.

Competitive landscape

The bi-metal bearing market in India is essentially a three-player game: Menon, Bimetal Bearings, and Federal-Mogul KSPG. Management stated in the Q3 FY26 call that the competitors work at 6-7% EBITDA margins, while Menon operates at 20% plus. The difference is product selection and manufacturing efficiency. Menon deliberately avoids passenger car bearings and focuses on heavy-duty tractors, HCV-LCV, and industrial applications where value addition is higher and competition is less intense.

> *"You check all our competitors. Bimetal Bearings, Federal-Mogul KSPG, you check their margin 6%, 7%. Then you'll ask how can I do 18%, 20%. That is our manufacturing capabilities, and that's why we're doing well for the last 20 years."*
>
> **ADITYA MENON, Q3 FY26 CONCALL (JAN 2026)**

Menon's structural advantage is an integrated facility and overall equipment effectiveness that management says is at global standards. The company holds zero-PPM certifications from multiple OEMs, which is the entry ticket to long-term sole-sourcing relationships. The result is a 20-year single-source relationship with John Deere and similarly long relationships with Allison and others. Competitors cannot easily dislodge a supplier with that track record,

and Menon's US visit generated more RFQs precisely because existing customers vouched for the company's reliability through tariff turbulence.

In friction material, the competitors are Rane Brake and Sundaram Brake Linings. These are larger companies, but they concentrate on the aftermarket, where distribution costs are high. Menon's brake business is going after OEM supply, where the cost of selling is close to zero once qualified. The 25% EBITDA margin in brakes for Q1 FY27 compares to double-digit margins for the larger players, though management cautioned the number was product-mix driven and could fluctuate.

In aluminium die-casting, Menon Alkop competes against large domestic players who work at 6-8% margins. Alkop's average realisation is Rs 900-plus per unit versus Rs 450-500 for the industry, because it takes critical, high-value parts. The 1,600-ton machines producing 8-kg HPVC parts for Tata EVs are an example of the complexity the business targets. Management's stated goal is to keep Alkop contributing as much to the group pie chart as Menon Bearing within two years.

The honest read on competition is that Menon wins because it stays in niches where quality and reliability matter more than price. The company is not in the passenger car bearing market, not in the high-volume aftermarket for brake linings, and not in commodity aluminium castings. Each of those markets is more competitive and lower margin. The trade-off is that the niches are smaller, which is why the company is investing to expand into railways, defence components, and new geographies. Management's stated differentiation in the Q1 FY27 call: accepting only critical components where value addition is better, keeping overheads minimal, and quoting reasonable prices that attract customers.

Industry

The Indian auto component industry is estimated to cross US$95-100 billion in turnover during FY 2026-27, per the annual report. India's GDP is projected to cross US$4 trillion in FY 2026-27, growing 6.5-7.2%. Government support comes through PLI schemes, FAME initiatives, the vehicle scrappage policy, and Make in India. These are the demand tailwinds for the sector, and the annual report notes the industry benefited from infrastructure development, premiumization, and higher localization by global OEMs.

The China Plus One strategy is the most important structural driver for exports. Global OEMs are actively looking to diversify sourcing away from China, and India is the favoured alternative. Management noted in the Q3 FY26 call that John Deere visited the Bi-Metal factory for global sourcing across all its plants, specifically for Europe and Germany. The same call noted that the China Plus One policy is getting further momentum, and the Q1 FY27 call confirmed that European customers are tapping Menon's doors for new sourcing.

US tariffs on auto components have been a moving target. The tariff was 50%, reduced to 25% for some products, and a new law waives tariffs on HCV/LCV trucks. Menon's mitigation is that 80% of exports are ex-works or FOB Mumbai, shifting the tariff burden to customers. For the remaining 20%, customers like Allison reimburse 10-12% of the 25-50% tariff. Management stated in the Q3 FY26 call that tariffs have not impacted business, and exports actually grew. The move to ex-works terms also shortens the debtor cycle from 180 days toward 30 days, which reduces working capital costs.

Raw material volatility is the recurring operational risk. On the Q2 FY27 call, management said tin was up 72%, copper 50% and steel 12%; aluminium prices had fallen from their May-June peak, and vendor price cuts added to the Alkop benefit. The company manages this through quarterly price pass-through clauses, monthly price negotiations with customers, and process improvements that save about Rs 8 crore per year. Management said it had passed on roughly 50% average price increases and expects revisions from all customers in the quarter. The impact is quarter-to-quarter margin lumpiness, but the long-term margin band of 20-22% has held, with a 23% target for next year.

Demand is cyclical. Q1-Q2 are weaker quarters, Q3-Q4 are stronger. Tractor demand is affected by monsoon, and the company noted drought-like conditions in some parts in Q1 FY27. On the Q2 FY27 call, management said tractor schedules were at all-time highs despite drought-like conditions in Maharashtra and that it did not see an adverse cyclical effect. Government spending on public infrastructure and the scrappage policy support demand. The diversity of the customer base, with 50% of revenue outside tractor and HCV-LCV, cushions the cycle.

EU carbon footprint requirements are becoming a supplier selection parameter. The company invested in 3,870 kWp of rooftop solar across all plants, which management says will cut electricity expenses by about Rs 2.25 crore per year and is part of meeting ESG criteria for European customers. The EU is also actively courting Indian suppliers as part of the China Plus One shift, and Menon has a September 2026 visit planned to CNH and New Holland. The new labour code was implemented in April 2025, and the annual report confirms the company has provisioned for it, with no further liability expected for past years.

Growth triggers

Railway business via dynamometer commissioning, registration with Indian Railways RDSO, targeting INR 5-6 crore initially, up to INR 25-30 crore within two years

Menon Brakes makes asbestos-free brake linings. Supplying those to Indian Railways requires vendor approval from RDSO, the railways' standards body, and RDSO insists on an in-house dynamometer - a test rig that simulates braking to validate lining performance. The dynamometer is the gate that unlocks the railway channel.

The company ordered the rig twice; two manufacturers failed to meet the specifications, which had to handle high-end applications like Vande Bharat. A third manufacturer in Pune was finalised, at a cost management put at roughly INR 3 crores to INR 3.5 crores (Q2 FY26 concall, Nov 2025). As of the Q1 FY27 call in July 2026, the machine is under construction, expected at the plant by end of August and running by end of September.

The vendor code is already registered with RDSO, and dies for all railway applications - cargo bogies, passenger bogies, Vande Bharat, metros - are developed and ready. The sequence after commissioning: railway officials audit the shop, approve Menon Brakes for registration, then samples are tested for around three months and validated on the rig. Management puts the full testing and validation cycle at about one year.

> *"we expect that to start with, we will have a business of around INR5 crores to INR6 crores to start with and eventually it will go up to INR25 crores to INR30 crores within next two years."*
>
> **ARUN ARADHYE, Q1 FY27 CONCALL (JULY 2026)**

The revenue is brake lining orders across railway rolling stock types, ramping as the railways gradually increase business after gaining confidence in quality. Management also expects the dynamometer to pull in OEM business from Indian automotive manufacturers, who require the same testing capability for brake validation. In the May 2026 call, management said railway officials had already inspected the facility and were waiting only for the dynamometer to arrive.

US-Canada trip new business: INR 65-75 crore additional potential from RFQs, NDAs, vendor profiling with Allison, Magna, Linamar; US-based representative hired

In June 2026, the Managing Director and marketing head spent 15 days visiting customers in Detroit, Cleveland, and Atlanta, with a stop in Canada. The trip produced immediate traction: RFQs, NDA signings, and vendor profiling requests for the Menon Alkop die-casting division from Allison Transmission, Magna, and Linamar. The management quantified the result on the Q1 FY27 call:

> *"The total potential of additional business for the current and next financial year is expected to be around INR65 crores to INR75 crores, subject to good monsoon and geopolitical situation doesn't worsen further."*
>
> **ARUN ARADHYE, MANAGING DIRECTOR, Q1 FY27 CONCALL (JUL 2026)**

The mechanism runs through two of the company's three divisions. The bi-metal division (engine bearings, bushes, washers) has already started receiving RFQs and orders from the trip, with engine bearing supplies slated to begin in Q3-Q4 FY27. The Alkop aluminium die-casting division is earlier in the funnel: RFQs and NDAs are signed, but aluminium parts

require 9-12 months of development and validation before production. Management expects Alkop samples to be submitted by 2027 and orders to surface by FY28.

The customers named are not new to the company. Menon has supplied engine bearings to Allison for 15 years and already started additional Allison business worth over INR2.5 crore a month in the bi-metal division (Q3 FY26 concall, Jan 2026). Magna, which has nine plants in Canada alone and buys INR1,800 crore per year, is a bearing customer weighing Alkop for the first time. The China Plus One sourcing shift is the opening.

Management has hired a US-based representative on payroll to compress the standard 9-12 month conversion cycle for new part development down to 6-7 months. The representative was in Kolhapur for induction in July 2026.

Europe expansion: September 2026 visit has generated more than Rs 35 crore of potential business for FY28-29

Management completed a Europe visit in September 2026, meeting CNH/New Holland and other European customers. The invitation came directly from CNH/New Holland after a meeting in Delhi, and Menon Bearings does not currently supply to them in India. Management said the visit yielded a significant increase in business potential, with more than Rs 35 crore expected to convert into actual sales in FY28 and FY29. The business has not started yet.

The mechanism is qualification-based. CNH/New Holland has invited Menon to tour its European factories and supplier base, the first step before vendor registration and RFQs. European OEMs are shifting volumes out of China under the China Plus One policy, and European inquiries have been flowing in.

> *"Since European countries are looking to divert their volumes and businesses from China to India and they are tapping our doors and we'll be very happy to see that they come into our fold from the next year."*
>
> **ARUN ARADHYE, Q4 & FY26 CONCALL (MAY 2026)**

On the September visit:

> *"So in September, we have a visit to Europe also, we are there for 15 days. CNH, New Holland, actually we don't supply to them in India. But we were there in Delhi with them last month. So we got invited from them to visit their European suppliers."*
>
> **ADITYA MENON, Q1 FY27 CONCALL (JUL 2026)**

Management has grouped the Europe opportunity separately from the US-Canada pipeline. On the Q2 FY27 call it said Europe could add more than Rs 35 crore of business in FY28-29, while the consolidated additional-business estimates were Rs 30 crore for FY27, Rs 131

crore for FY28 and Rs 157 crore for FY29, excluding the Europe potential. Exports were about 34-35% of consolidated revenue, and management now expects the share to remain broadly constant rather than rise to 37%.

The trip is a relationship-building and qualification exercise, not a signed order. Revenue conversion follows vendor registration, samples, and the 9-12 month testing cycle management has described for new export customers.

Africa market entry via direct merchant exporters (100% advance payment terms): INR 9 crore for bearings/bushes/washers, INR 6-7 crore for brake linings

Menon Bearings is building a direct route into Africa to replace a disrupted Dubai-based distribution channel. The company previously sold to Africa through a Dubai distributor, a business worth around INR 7-8 crore per year. That route stalled when merchant export orders were stuck for three months due to Strait of Hormuz congestion and the war, costing roughly INR 2 crore of business. Management then shifted strategy to identify direct merchant exporters in Africa who accept their payment terms.

The mechanism is straightforward: instead of shipping through a third-party distributor in Dubai, Menon Bearings sells directly to African merchant exporters who pick up material at origin. The critical commercial condition is payment in full before dispatch. Management has been explicit about this requirement, citing past bad-debt experience in Africa in the 1990s.

> *"we have our terms and conditions where we need 100% advance... we require 100% advance at least in the initial six months. After there's a relation and a cycle, like a payment cycle, then we can go for something else."*
>
> **ADITYA MENON, PROMOTER GROUP, Q1 FY27 CONCALL (JUL 2026)**

The revenue potential is split across two product families. The Managing Director detailed the expected annual figures on the July 2026 call:

> *"The possible revenue from Africa so far as bearing, bushes and washers are concerned is around INR9 crores. And at the same time, we are working on supplies to Africa so far as brake linings are concerned, and that is expected to be around INR6 crores to INR7 crores for the year."*
>
> **ARUN ARADHYE, MANAGING DIRECTOR, Q1 FY27 CONCALL (JUL 2026)**

This builds on an earlier estimate from the November 2025 concall, where management said the business would start at INR 50 lakh per month from December, with an annual impact of around INR 6 crore in Bi-Metal alone. The brake lining piece was also flagged then as a finalized deal worth about INR 50 lakh per month for the aftermarket via merchant export.

The trigger is already in motion. Small orders were given in the current month, as management confirmed on the July 2026 call. The product scope covers bearings, bushes,

washers, and brake friction material, explicitly excluding the aluminium segment. Management is deliberately starting small and scaling only after payment cycles are established, rather than chasing volume.

Alkop EV volumes continue to grow, but EV share may stay near 4-5% as other Alkop business grows

The trigger is the growth in EV volumes at Menon Alkop, the aluminium die-casting subsidiary. Management said on the Q2 FY27 call that EV business will be even higher than the 8-10% target, but the EV share of Alkop revenue may remain broadly constant because domestic and export non-EV business is also growing. The commercial focus is therefore absolute volume and value, not a mix shift.

The mechanism is new part development and RFQ conversion with existing EV customers. Management describes the current base as just 3-4 main EV customers, and the growth coming from expanding part counts and moving to higher-value components. TACO Prestolite, the Tata Motors EV arm, is the clearest example: Alkop started supplying two years ago with two products and now does four, with five additional RFQs in hand covering the Tata Curvv and Tata Punch. The progression is from small parts made on 400-500 ton machines to an 8-kg HPVC part on a 1,600-ton machine, which signals customer confidence and higher per-part value.

On the Q2 FY27 call, management said around 54 parts developed over the last two years had begun SOP. Other RFQs remain at sampling or commercial discussion. The EV share is a target, not a committed order book, and parts only count once they clear sample production and technical and price matching.

> *"Currently, we are at around 4% to 5% EV. We are only doing around 3-4 main customers. But these customers, like I told you, TACO Prestolite, we started two years ago, we are doing just four parts for them. Now I have gotten five RFQs for Menon Alkop."*
>
> **PROMOTER GROUP, Q1 FY27 CONCALL (JUL 2026)**

The FY27 end timeline aligns with the 9-12 month cycle from RFQ to productionized parts that management cites for the aluminium division. The company also names Eaton Concentric, its channel to Tesla and Porsche e-mobility, as a preferred-supplier relationship where it expects more critical parts.

51 new parts pipeline across John Deere, Eaton, Taco Prestolite, Mayekawa worth INR 30 crore; Bi-Metal pipeline >INR 50 crore; brakes pipeline INR 10 crore

Production over FY26-27

At the FY26 results call, management quantified a product development pipeline that spans all three divisions. The 51 new parts across John Deere, Eaton, Taco Prestolite and

Mayekawa represent roughly INR 30 crore of business for the aluminium die-casting subsidiary Menon Alkop, to be productionized across FY26-27.

> *"Our new development parts pipeline is robust with 51 new parts across major customers like John Deere for India domestic and exports as well. Eaton, Taco Prestolite and Mayekawa representing a business value of almost INR 30 crores within this year and next year. Most of the items are under development. Some of them have been already approved by the customer. Some are in the commercial discussions."*
>
> **ARUN ARADHYE, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is straightforward: these are parts already developed and tested, sitting at different stages of customer approval. The revenue converts when customers issue purchase orders and production ramps. Management distinguishes this confirmed pipeline from the larger INR 75 crore RFQ list under consideration, where it expects a 75-80% strike rate.

The same call disclosed parallel pipelines in the other two divisions. The Bi-Metal division has a pipeline exceeding INR 50 crore across 28-30 customers, with samples approved and orders coming in one by one. Menon Brakes has an INR 10 crore pipeline over two years. More than 50% of this new business is exports, which carries better margins than OEM or aftermarket work.

The sequential logic across the concalls matters. In November 2025, management said the 51 parts would be productionized by Q4 FY26. By May 2026, that had slipped to "this year and next year", with the Alkop contribution expected to reach INR 120 crore within two years. The Q1 FY27 call in July 2026 confirmed the INR 30 crore Alkop pipeline remains intact and is being added to by the US and Canada visit, which generated fresh RFQs and NDAs from Allison, Magna and Linamar.

PTFE bushes for European EV customer: 7 parts, 1 lakh bushes/month initially, up to 6 lakh pieces/month; sample approved

This trigger is a new product line within the Bi-Metal division: PTFE-coated bushes for a European electric vehicle customer. Management detailed the entire inquiry in the Q4 FY26 concall (May 2026). The mechanism is a staged qualification process: one of seven parts had its sample approved, which unlocks the customer releasing the remaining six parts for sample development, and once those are approved, it converts into monthly production orders.

The timeline management gave is short. The initial order for 1 lakh bushes per month is expected within one to two months, with the full ramp-up to 6 lakh pieces per month targeted for this year. The customer's Vice President was scheduled to visit the customer's Pune facility on the 26th, where Menon's marketing manager would meet them to take the process forward.

Arun Aradhye described the stage and the immediate next steps:

> *"orally they have received the communication that the sample is approved. Now, that Vice President will put up another inquiry for remaining six parts so far as PTFE is concerned... maybe for so far as one lakh of bushes per month is concerned, we will be getting that order within a month or two. And for rest of the items, those samples will be sent to them. And we are likely to get that order to be productionized by this year. And that quantum will be about six lakhs of pieces per month."*
>
> **ARUN ARADHYE, Q4 FY26 CONCALL (MAY 2026)**

Aditya Menon framed this as the payoff of a multi-year R&D effort, noting the company "perfected" PTFE technology over the last three to four years and that newer-age engines are moving toward PTFE and new coatings. This is the first European customer order to emerge from that capability, and management expects the PTFE segment to grow over the next two years as more European companies submit inquiries.

Bajaj Pulsar brake pads: requirement of 5-6 lakh pieces/month, currently supplying ~1 lakh, targeting 3-4 lakh by March

This trigger is a capacity ramp-up within the wholly owned subsidiary Menon Brakes Limited, not a new customer win. Management disclosed on the Q2 FY26 call that Bajaj's requirement for Pulsar brake pads is 5-6 lakh pieces per month, and Menon Brakes was supplying roughly 1 lakh at that point, having started the business only two months prior.

The mechanism is straightforward: Bajaj is replacing its existing brake pad supplier, and Menon Brakes wins a larger share of the monthly requirement as it proves quality and delivery. Management was explicit about the deliberate ramp pace, choosing sustainable growth over flooding the line.

> *"we expect that by the end of this year, we'll be able to reach 5 to 6 lakh pieces per month in brakes, so far as Bajaj is concerned."*
>
> **ARUN ARADHYE, MD, Q2 & H1 FY26 CONCALL (OCT 2025)**

The revenue math follows directly from volume. Management stated that at 3-4 lakh pieces per month, the additional business runs INR 80-85 lakh per month, and at the optimum level of 5-6 lakh, it reaches INR 1.30-1.50 crore per month, which would require additional capacity. The FY26 annual report confirms the Braking Systems capacity expanded from 18 lakh to 30 lakh pieces annually, which is the physical headroom this ramp consumes.

The quality angle is the gate. Aditya Menon noted the previous supplier had rejection issues, and Menon Brakes is deliberately staging the ramp to protect its zero-PPM record. The FY26 annual report also confirms Menon Brakes was a "preferred supplier to all current OEMs" and

details the capacity expansion, which supports the timeline of reaching the 3-4 lakh target by March as originally stated on the Q2 call.

800 parts US aftermarket opportunity: total volume INR 80 crore, starting with INR 8-10 crore

A competitor in the US bearings market has approached Menon Bearings with a proposal to hand over its entire aftermarket catalogue of roughly 800 parts. The total annual volume of this business is around INR 80 crore, and Menon Bearings plans to start with a slice of INR 8-10 crore per year. Management first disclosed this on the Q3 FY26 call, framing it as a decision on whether to take over the competitor's aftermarket business entirely.

The mechanism is selective part-by-part absorption. Menon Bearings cannot develop 800 parts simultaneously, so it is screening the list for parts with the highest volumes and best pricing, leaving the low-margin or low-volume parts with the competitor. The company is working at a pace of four to five new parts per month.

> *"We cannot go ahead with 800 parts at the same time. But at the same time, we are verifying which are having the more volumes with better pricing and which will add better number to our total numbers. We are selecting those items only."*
>
> **ARUN ARADHYE, Q3 & 9M FY26 CONCALL (JAN 2026)**

Aditya Menon added that the customer wants Menon to take some less attractive parts as part of the package, and the two sides are still negotiating. The trigger has already moved past the discussion stage. On the same call, Arun Aradhye stated that some parts from the 800 have been developed, samples approved, and business of around INR 1 crore per month is expected from April or May 2026. That monthly run-rate maps to the INR 8-10 crore starting figure, with the full INR 80 crore available as the part list gets productionised over time.

INR 500 crore revenue target moved up from 2030 to FY28 (trying to achieve in next 2-3 years)

INR 500 crore revenue target pulled from 2030 to FY28-FY29

> *"We were supposed to reach INR500 crore in 2030, but we are trying to do it as soon as possible."*
>
> **ADITYA MENON, Q1 FY27 CONCALL (JUL 2026)**

The mechanism is a compounding of disclosed business pipelines across all three divisions. On the Q2 FY27 call, management estimated additional consolidated business of around Rs 30 crore in FY27, Rs 131 crore in FY28 and Rs 157 crore in FY29, excluding a separate Rs 35 crore Europe opportunity. It said many samples had been approved and commercial discussions were under way. Exports are the lead engine, and management expects the export share to stay around 34-35% rather than rise.

The FY28 pull-forward is built on capacity that already exists. Management said on the Q2 FY27 call that infrastructure is already in place and the company only needs to add machines as demand rises. The current automation programme is about Rs 5 crore in Menon Alkop and Rs 4-4.5 crore in Menon Bearings over 12-15 months, with a 2.5-3.5 year payback. That is smaller and more modular than a greenfield expansion.

The building blocks are already visible in the order book. The Q2 & H1 FY26 concall (Nov 2025) disclosed an order book of INR 290 crore for the current year and INR 350 crore for the next year. By the Q3 & 9M FY26 concall (Jan 2026), that progression had been extended: INR 295 crore, then INR 350 crore, then INR 425 crore. The INR 500 crore target for FY28 is the next step in that stated sequence, backed by the same pipeline disclosures. The FY26 annual report confirms the base: consolidated revenue from operations of Rs. 293.81 crore, up 22.79% year-on-year.

Key risks

- **US tariff exposure and customer-specific shipping terms.** Commercial terms vary by customer and product: Menon uses DDP, ex-works and FOB, and management said there is no single shipping policy. About 80% of exports go to the USA, so tariff changes and customer demands still matter. Where Menon bears duty under DDP, a tariff increase compresses export margins; for other customers the burden sits with the buyer. Management is trying to keep the mix favourable but does not control US trade policy.

- **Raw material price volatility with a lagged pass-through.** On the Q2 FY27 call, tin was up 72%, copper 50% and steel 12%, even as aluminium had fallen from its May-June peak. The company passes increases through on a quarterly formula, with some customers shifting to monthly revisions. The gap between buying metal and collecting the revised price is the exposure: a sharp spike forces the company to absorb the delta for a quarter or more. Management said it had passed on roughly 50% average price increases and expects revisions from all customers in the quarter.

- **Geopolitical disruption to the Africa and Middle East export route.** The Strait of Hormuz war halted merchant exports to Africa and Dubai for three months and cost about INR 2 crore of business in Q1 FY26. Transit times stretched from 35 days to two months. Mitigation is converting exports to ex-works so shipping risk sits with the customer, and signing direct merchant exporters in Africa who pay 100% advance. But the route stays congested, and a deeper West Asia conflict would stall the same business again.

- **Customer concentration in the United States.** About 80% of exports go to the USA, and exports are about 34-35% of revenue, so around 27-28% of group revenue depends on US economic conditions, trade policy, and the health of Allison, John Deere, and Eaton. Management is diversifying into Europe, Africa, and South America, but those markets are

at the RFQ and sample stage. A US downturn or a tariff escalation on the DDP portion hits the largest export market directly. No single customer exceeds 15% of company revenue, a management statement from the Q4 FY26 call, which limits but does not remove the country-level exposure.

- **Railway revenue depends on a long-delayed dynamometer.** The dynamometer, costing INR 3-3.5 crore, was ordered from two suppliers that both failed. The first left the country, the second could not meet specifications, and a third Pune-based supplier is expected to deliver by August 2026. After commissioning, RDSO audits, testing, and validation could take another year. Railway revenue is planned at INR 5-6 crore in year one and INR 25-30 crore within two years, but every delay pushes that revenue out and leaves the brakes division dependent on two-wheeler and three-wheeler volumes.
- **Bi-metal capacity is near its ceiling.** Utilization sits at 85-90%, and peak revenue from current bi-metal capacity is estimated above INR 400 crore. The company is spending INR 9-10 crore in FY27 to raise capacity 25-30% and can run a third shift for surges, but a demand spike before the new capacity is installed means turning away orders. The constraint is near-term: the capacity is being added, but the revenue it supports is delayed by the nine-to-twelve-month testing cycle for new parts.
- **Brakes EBITDA margin is mix-dependent, not structural.** Brakes hit 25% EBITDA in Q1 FY27, up from 12-14% earlier, and management said on the Q2 FY27 call that brakes margins are 30-35% depending on product mix. When price-sensitive exports to Africa and Dubai, where Chinese competition is intense, resume in volume, the margin can fall. The higher print is a mix outcome, not a guaranteed run rate.
- **Export working capital is tied up in customer inventory.** Menon built up around three months of stock at US customer warehouses as new business started. Management said on the Q2 FY27 call that this inventory build has now settled and should grow only with volumes. It funds receivables through packing credit at 4.65-4.75%, with a 2.75% government subvention. Borrowing stayed broadly flat despite 55% turnover growth, but a new customer ramp or shipping disruption can still absorb cash.
- **Tractor demand is monsoon-dependent, though current schedules are strong.** Tractors are 34% of engine-bearing revenue, down from 54% a decade ago, and Q1-Q2 are already the weak quarters. Management said on the Q2 FY27 call that tractor schedules were at all-time highs despite drought-like conditions in Maharashtra, helped by exports. A genuinely poor monsoon still compresses the largest end-market, and the company's own US-trip guidance was explicitly “subject to good monsoon.”

Scenarios

Bull case

The Q2 FY27 call gives the bull case a stronger starting point: H1 total income was Rs 191.56 crore, up 43%, and management guided more than 30% growth for FY27 and again for FY28. It estimated additional consolidated business of Rs 30 crore in FY27, Rs 131 crore in FY28 and Rs 157 crore in FY29, excluding a separate Rs 35 crore Europe opportunity; many samples were already approved. Alkop has 54 parts at SOP, and the automation programme adds capacity without a greenfield build. The INR 500 crore revenue target is pulled into FY28 or FY29. Margins hold at 20-22% and move toward the 23% target next year because raw-material pass-through and productivity are holding, even with tin and copper up sharply. The railway option remains an unquantified upside because the Q2 call did not update the dynamometer timeline.

Base case

FY27 revenue grows more than 30% from FY26, with H1 total income already at Rs 191.56 crore, up 43%. EBITDA margin holds in the 20-22% band, with a 23% target for next year. Additional business of around Rs 30 crore lands in FY27, Rs 131 crore is expected in FY28 and Rs 157 crore in FY29, excluding a separate Rs 35 crore Europe opportunity that management expects to convert in FY28-29. Exports stay around 34-35% of revenue as domestic and export both grow. Alkop's 54 parts at SOP support higher-value mix, while the automation spend is Rs 5 crore in Alkop and Rs 4-4.5 crore in Bearings over 12-15 months. Railway remains gated by the dynamometer, and the Q2 call did not update that timeline. The INR 500 crore target slips to FY29 if new customer development takes longer than management's “next year or year after” framing.

Bear case

The geopolitical situation worsens again. US tariffs rise on the DDP slice of exports, and with 80% of exports going to the USA, Allison and other customers face pressure. Copper, tin and steel stay elevated; tin was up 72%, copper 50% and steel 12% in Q2 FY27, and the quarterly pass-through formula leaves a lag. Q2 EBITDA margin was already below Q1, so a further metal spike would test the 20-22% band and the 23% next-year target. Europe has not started contributing; the more than Rs 35 crore potential is still a pipeline, and the FY28 Rs 131 crore and FY29 Rs 157 crore additional-business estimates depend on RFQs converting. The railway dynamometer timeline was not updated on the Q2 call, so brakes remain dependent on two-wheeler volumes. Tractor demand weakens on a poor monsoon, and the 34% engine-bearing exposure contracts. The combination leaves FY27 revenue growth below 30%, margins below 20%, and the INR 500 crore target pushed to FY30 or beyond. Cash flow gets tied up in US customer inventory, and the working capital cycle

absorbs the interest savings from the PCFC facility. The company's own language on growth is conditional on “if all the things are in place” and geopolitics remaining stable.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	300	400	529	645
Revenue growth	-	+33.5%	+32.4%	+21.9%
EBITDA (₹ Cr)	64.40	90.70	125	156
EBITDA margin	21.5%	22.7%	23.6%	24.1%
Depreciation (₹ Cr)	10.00	11.50	13.00	14.50
Interest (₹ Cr)	5.10	5.50	5.30	5.00
Other income (₹ Cr)	0.80	2.40	2.80	3.20
PBT (₹ Cr)	50.10	76.10	109	139
Tax (₹ Cr)	11.90	18.30	26.30	33.40
Tax rate	23.7%	24.0%	24.0%	24.0%
PAT (₹ Cr)	38.30	57.90	83.20	106
PAT growth	-	+51.3%	+43.7%	+27.2%
EPS (₹)	6.83	10.33	14.84	18.88
P/E	43.0x	28.4x	19.8x	15.5x
PEG	1.2x	0.8x	0.6x	0.4x

CAGR FY27E-FY29E: Revenue +27.1% · EBITDA +30.9% · PAT +35.2%

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Q2 FY27 concall notes

Menon Bearings Limited

TLDR

Menon Bearings reported Q2 FY27 consolidated total income up 57% YoY, EBITDA up 91-92%, PBT up 122%, PAT up 117% and EPS up 117%, with cash and bank balance including mutual funds at ₹25.69 crores; H1 FY27 revenue was ₹191.56 crores, up 43% YoY, with H1 EBITDA up 63%, PBT up 79% and PAT up 74%. Management guides FY27 growth above 30% and FY28 above 30%, with additional business of ₹30 crores in FY27, ₹131 crores in FY28 and ₹157 crores in FY29, excluding a Europe pipeline of ₹35-40 crores that management expects to convert in FY28-FY29. Segment margins are 30-35% in brakes, 23% in bearings and 18-19% in Alkop, with a FY28 consolidated EBITDA margin target of 23%. Watch items are raw material inflation (tin up 72%, copper up 50%, steel up 12%), freight and shipment times, drought-like conditions in Maharashtra affecting tractors, and the pace of Europe conversion.

WHAT CHANGED SINCE Q1 FY27

- FY27 revenue guidance raised in substance: Q1 FY27 was ~₹360 crores (conservative, not revised upward); now management says growth will be "more than 30%" for FY27, which on the ₹300 crores FY26 base implies above ₹390 crores (computed from management's own figures). FY28 growth guided at more than 30% again, a new number.
- Additional business guidance restated on a different basis: Q1 FY27 gave ₹65-75 crores for FY27-FY28 combined; now ₹30 crores for FY27, ₹131 crores for FY28 and ₹157 crores for FY29, excluding ₹35-40 crores of Europe RFQs.
- Europe moved from a September 2026 visit plan to a quantified pipeline: the visit has happened, management cites potential of more than ₹35 crores converting in FY28-FY29, and describes Europe as a more stable option than the US.
- Export share guidance quietly dropped: Q1 FY27 expected exports to rise to ~37% of revenue by next year from 24-30%; now management says exports have stayed at 34-35% against a predicted 38-40%, and expects the percentage to remain roughly constant as domestic grows at a similar rate.
- EV share guidance effectively walked back: Q1 FY27 targeted 8-10% of Alkop by FY27 end from 4-5%; now management says the share will be "even more than that" in volume but the percentage will stay more or less constant because other business is growing too.
- Segment margins restated: Q1 FY27 gave bi-metal ~21%+, Alkop ~21%, brakes 25%; now brakes is 30-35%, bearings 23% and Alkop 18-19%. Consolidated margin guidance moves from "sustain ~20-21%" to a range of 20-22% with a FY28 target of 23%.
- ₹500 crores timeline pulled forward: Q1 FY27 aimed at ₹500 crores within 2-3 years (original 2030 target); now management says ₹500 crores should be possible next year, or the year after.
- Railway brake update promised for end-August 2026 dynamometer commissioning did not appear in the Q2 call; management refers only to railways as a future contributor alongside replacement market and OEM brakes.
- New disclosure on automation: robotic cells and AI visual inspection, with ₹5 crores planned in Alkop and ₹4-4.5 crores in bearings over the next 12-15 months, ROI of 2.5-3.5 years, and about 50 fewer employees across 16 bearing lines.

- Working capital explained: the Q1-built three-month US customer inventory is now settled, and management calls the improved operating cash flow sustainable.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated total income	Not stated in rupees	Up 57% YoY	Domestic OEM, export, aftermarket and merchant export all growing
Consolidated EBITDA	Not stated in rupees	Up 91-92% YoY	Process improvement, 25% productivity gain, overhead absorption
Consolidated PBT	Not stated in rupees	Up 122% YoY	Operating leverage and lower input consumption
Consolidated PAT	Not stated in rupees; all-time high	Up 117% YoY	Same drivers; management called it the highest profit in company history
EPS	Not stated in rupees	Up 117% YoY	Follows PAT
H1 FY27 revenue	₹191.56 crores	Up 43% YoY	H1 EBITDA up 63%, PBT up 79%, PAT up 74%
Cash and bank balance incl. mutual funds	₹25.69 crores	n/a	Internal accruals; no term loan availed for over 6 months
OEM business growth	n/a	Up ~50% YoY	Higher domestic OEM production
Export growth	n/a	Up more than 75% YoY	US-led exports plus new customers
Export share of revenue	34-35%	Roughly flat	Domestic grew at a similar rate; 80% of exports go to the USA
Auto share of revenue	60-65%	n/a	Engineering and appliance applications make up the rest; mix expected to stay similar
Tractor share of engine bearing business	34%	Down from 54% about 10 years ago	Diversification into generator, earthmoving, braking, steering and transmission applications

SEGMENTS & GEOGRAPHIES

- **Bearings (bi-metal):** Segment margin 23%. About 16 semi-automatic lines with roughly 90 machines are being converted to single-piece flow, saving about 3 people per line per shift, around 50 employees in bearings. Tractor schedules from customers are at all-time highs this quarter despite drought-like conditions in Maharashtra.
- **Menon Alkop (aluminium die-casting):** Segment margin 18-19%. Lower aluminium and alloy prices in the quarter benefit the segment, and vendor prices were also reduced, adding to profit. About 54 parts developed in the last two years have begun SOP. Auto is only 18-20% of Alkop, with the rest in industrial, home automation, oil and gas and EV applications.
- **Menon Brakes:** Segment margin 30-35%, dependent on product mix. Replacement market demand rose substantially. Management expects brakes to take a substantial lead in the replacement market, with major OEM and railways to follow.
- **Exports and geographies:** 80% of the 34-35% export share goes to the USA. Europe visits produced RFQs and management sees European customers moving away from China and Eastern Europe suppliers on energy and war-related cost pain. US tariff and policy volatility is cited as a reason to build Europe as a long-term market.

STRATEGY & COMPANY-SPECIFIC

- **Automation and capex:** Robotic machining cells and AI-based automated visual inspection are being installed, with 100% visual checking of about 1 million engine bearing parts a month targeted. Planned spend is ₹5 crores in Alkop and ₹4-4.5 crores in bearings over 12-15 months, with ROI of 2.5-3.5 years. A machining cell needing 4 people per shift, 12 across three shifts, is the unit being automated.
- **Manpower:** Headcount rose about 5% against 30% growth. Management expects automation to hold headcount growth below revenue growth rather than commit to an absolute reduction.
- **Europe market entry:** Management and the marketing head visited Europe in the last few months; RFQs worth more than ₹35-40 crores are cited, with conversion expected in FY28-FY29. New business typically takes 9-12 months from RFQ to start of supply.
- **US market:** Management visited Detroit and Iowa in the two weeks before the call to meet new customers.
- **Diversification:** Non-auto applications under development include home automation, airport applications, oil and gas automation, generators with Cummins, refrigerant compressors, air conditioning and refrigeration bushings, and braking, steering and transmission parts.
- **Working capital:** Three-month inventory buffers at US customer warehouses are now built, and packing credit is available at 4.65-4.75% with a 2.75% government subvention. Borrowing cost stayed flat YoY despite turnover growth.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	More than 30%	Raised	Current order book, domestic and export pipeline; management says the ₹360-370 crores figure will be bypassed
FY28 revenue growth	More than 30%	New	Additional business of ₹131 crores plus existing base
Additional business FY27	~₹30 crores consolidated	Restated	RFQs, finalized commercials, approved samples
Additional business FY28	~₹131 crores	Restated	Customer-wise list with RFQs and commercial discussions
Additional business FY29	~₹157 crores	New	Same pipeline, excluding Europe
Europe potential	More than ₹35 crores, converting FY28-FY29	New	RFQs from recent Europe visits; management says 100% conversion expected
Consolidated EBITDA margin	20-22% range; FY28 target 23%	Raised	Automation, solar power, process improvement, raw material pass-through
Segment margins	Brakes 30-35%, bearings 23%, Alkop 18-19%	Restated	Product mix and segment cost structure
Export share	Roughly constant at 34-35%	Cut	Domestic growing at a similar rate to exports
EV share of Alkop	Percentage to stay roughly constant, volumes higher	Cut	Other Alkop business growing at the same pace
₹500 crores revenue	Next year or the year after	Advanced	30% plus growth sustained for four years

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Volume vs price in 30% growth	About 20% plus from volume	New	Balance from rate revisions
Capex, automation	₹5 crores Alkop, ₹4-4.5 crores bearings over 12-15 months	New	Productivity and quality projects; funded from internal accruals

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Raw material inflation	Tin up 72%, copper up 50%, steel up 12%; average input price increase of almost 50% YoY. Pass-through is a routine process and prices will be revised with all customers this quarter, with a one-quarter lag to absorb.
Freight and shipment times	Export freight to the US and Europe rose substantially, lifting sales and distribution expenses. Shipment times are at all-time highs; air freight is sometimes needed and is borne by the company if the delay is its fault.
Tractor demand and monsoon	Drought-like conditions in Maharashtra are expected to hurt the tractor industry, but customer schedules from tractor companies are increasing and non-tractor schedules have risen substantially.
Auto cyclicality	Management says it sees no downturn now; HCV, LCV and passenger vehicle volumes have risen for six months, with EV growth at 20%. Q2 is historically the weakest quarter and the company posted its highest numbers in it.
US policy volatility	Tariffs and policy statements are cited as a reason the US is less stable; Europe is being developed as a long-term alternative.
Europe conversion timing	Europe business will reflect in the next financial year or the year after, with a 9-12 month RFQ-to-supply cycle.
Working capital	US customers prefer three months of stock at their warehouses; inventory carrying cost is built into pricing, and management calls the current level sustainable with only volume-linked increases.
Geopolitics	Closing comments condition achieving projections on no adverse geopolitical situation.

Q&A HIGHLIGHTS

Aluminium price benefit in Alkop Asked whether the roughly 15% fall in aluminium prices since May-June helped Q2, management said the benefit accrues to Alkop and vendor prices were also reduced in the quarter, adding to profit.

Margin expansion despite gross margin decline Asked how EBITDA margins expanded with gross margins down more than 7 percentage points YoY, management cited reduced raw material consumption per unit, a 25% productivity gain and better overhead absorption, and said margins will be sustained as price increases are passed to customers.

Automation and headcount Asked whether 30% growth would come without matching headcount growth, management said headcount rose about 5% and that 16 bearing lines converted to single-piece flow would save about 50 employees, with ₹5 crores and ₹4-4.5 crores of automation capex in Alkop and bearings.

EV share guidance Asked whether Alkop is on track for 8-10% EV share in FY27, management said volumes will be even higher but the percentage will stay roughly constant because domestic and export business is growing at the same rate.

Europe as a new market Asked about the growth drivers behind 30% plus, management said Europe has not contributed yet, that RFQs are coming from European customers facing cost pain with existing suppliers, and that Europe business will show in the next financial year or the year after.

Margin level and FY28 target Asked when EBITDA margin returns to 22%, management said it is already there, that the range is 20-22%, and that the target for next year is about 23%.

Segment margins Asked for the margin split, management gave brakes at 30-35%, bearings at 23% and Alkop at 18-19%.

Cyclicality and de-risking Asked where the business stands in the auto cycle, management said tractor's share of engine bearings has fallen from 54% to 34% while volumes grew, that non-auto applications now cover 16-17% of the mix, and that it sees no downturn now.

Quality Power Electrical Equipments Ltd

GROWTH TRIGGERS

The order book above INR 2,000 crores and newly commissioned Sangli and Nigde capacity create a path to operating leverage if customer audits and PCS billing convert. Winwin and CTC add mix and supply security, while the proposed QIP funds capacity and working capital. Management's FY28 50% revenue growth target is a target, not an achieved result.

1. Sangli is commissioned; customer audits are the gating item

Sangli commenced manufacturing on 20 October with winding on three machines and ISO audits complete. Customer audits start end-November, and management expects revenue to shift from the old plant over four to five months. Peak revenue potential is north of INR 1,500 crores. The mechanism is facility qualification converting an above-INR 2,000 crores order book into coil-product revenue.

2. Nigde PCS moves from construction to billing

The Nigde PCS factory commenced manufacturing in Q2 FY27 and is in full manufacturing mode. Billing may start this quarter subject to contractual milestones and customer acceptance. Capacity is 4 GW, about 1 GW is ordered, and management puts PCS/BESS revenue potential at INR 1,500-2,000 crores. PCS was booked at 10-12% with battery pass-through, so factory throughput must prove the margin path.

3. Order book above INR 2,000 crores gives 15-18 months visibility

The consolidated order book crossed INR 2,000 crores, excluding Winwin. Management says 95%+ is executable in 15-18 months and contracts are fixed-price. Quality Power standalone is about INR 600 crores, Mehru above INR 600 crores, and insulators added about INR 75 crores in two months. The near-term pipeline includes INR 500-600 crores of reactor orders, INR 400 crores of instrument transformers and INR 400 crores of insulator orders.

4. Winwin transmission orders add capacity and mix

Winwin completed 400 kV porcelain type tests and won 800 kV HVDC plus 765/400 kV AC insulator orders from large Indian utilities including Power Grid. Current capacity is about INR 300 crores; a INR 50-70 crores expansion takes it slightly above INR 500 crores. Management guides about INR 200 crores revenue next year. Orders are booked at 20-25% EBIT, and US direct-brand sales could earn higher margins after integration.

5. FY28 revenue growth guidance is around 50%

Management reaffirmed public FY28 revenue growth guidance of at least around 50% and described stable margins as about 20%. FY27 guidance is unchanged and normally revised at end-Q3. The target depends on Sangli audits, Nigde PCS billing and Winwin integration, so it is a management target rather than an achieved outcome.

6. QIP of about INR 700 crores funds Winwin, working capital and US plans

Management is preparing a QIP of about INR 700 crores, targeted for 15-30 November subject to approvals. Discussed allocations include about INR 175 crores for WS debt/promoters, INR 50-70 crores for Winwin capacity, about INR 300 crores for working capital, and funds for a US office and medium-term Class B manufacturing. Group debt is near zero, so the raise is pre-emptive growth funding.

7. GE-Trench may push Hitachi and Siemens sourcing toward Quality Power

Management said GE acquired Trench, its largest competitor, for about US$9 billion plus liabilities. It believes Hitachi and Siemens, which control 70-75% of HVDC/FACTS, may source more from Quality Power over the next two to three years because they would prefer not to buy from a GE-owned competitor. This is a management expectation, not a booked order.

8. CTC magnet wire qualification targets Q4

The CTC magnet wire line has started trials. Customer qualification is expected to take four to five months, with Q4 FY27 as the target for fuller production. The line is meant to secure HVDC conductor supply and save about 8% import duty on domestic business. Until qualification, the company runs on vendor capacity.

INVESTMENT THESIS

Quality Power Electrical Equipments is a high-voltage electrical equipment group making coil products and reactors for HVDC and FACTS transmission, instrument transformers through Mehru, and power electronics including STATCOMs and grid-scale battery storage converters through Endoks. It is also acquiring Winwin Speciality Insulators and building a CTC magnet wire line. The business sits in a thin competitive field: management says GE acquired Trench, its largest coil-products competitor, for about US$9 billion plus liabilities, while Hitachi and Siemens control most of the HVDC/FACTS market and are customers rather than direct competitors. The economic proposition is qualification-led manufacturing. High-voltage products must pass utility-specific type tests and facility audits before they can ship, and the group says it is approved across many countries. That creates switching friction, but it also means new capacity earns nothing until customers qualify it.

The current operating picture changed in Q2 FY27. Consolidated revenue was INR 285.45 crores and PAT was INR 63.33 crores, up 80.10% year on year. The consolidated order book crossed INR 2,000 crores for the first time, excluding Winwin. Management says 95%+ of that book is executable in 15-18 months and contracts are fixed-price. Quality Power standalone has about INR 600 crores of orders, Mehru above INR 600 crores, and insulators added about INR 75 crores in two months. The near-term pipeline includes INR 500-600 crores of reactor orders, INR 400 crores of instrument transformers and INR 400 crores of insulator orders. This is demand visibility, not automatic profit: fixed-price contracts leave commodity movements with the company, and late delivery carries penalty risk.

The first major milestone is Sangli. The global coil factory commenced manufacturing on 20 October with winding on three machines and ISO audits complete. Customer audits start end-November, and management expects revenue to shift from the old plant over four to five months. Peak revenue potential is north of INR 1,500 crores. The old factory stays open for at least a year because customer approvals are attached to it. The inference is that Sangli's economics improve as audit coverage and throughput rise; the reported fact is that revenue has not yet shifted. The bears are right that fixed costs and depreciation land before utilisation.

The second milestone is Nigde. The PCS factory for BESS commenced manufacturing in Q2 FY27 and is in full manufacturing mode. Billing may start this quarter subject to contractual milestones and customer acceptance. Capacity is 4 GW, about 1 GW is ordered, and management puts PCS/BESS revenue potential at INR 1,500-2,000 crores. PCS was booked at 10-12% with battery pass-through, while the traditional electronic business is around 25%. The key test is not factory start but whether PCS billing and margin ramp match the order pipeline. Management declined to guide PCS margins beyond the booking level and asked for a quarter.

The third milestone is Winwin. The acquisition is still underway, but the asset has already completed porcelain type tests up to 400 kV and secured 800 kV HVDC and 765/400 kV AC orders from large Indian utilities and equipment makers including Power Grid. Current capacity supports about INR 300 crores; a INR 50-70 crores expansion is planned to take it slightly above INR 500 crores. Management guides about INR 200 crores revenue next year. Insulator orders are being booked at 20-25% EBIT, and management says US direct-brand sales after integration could earn margins similar to or higher than Quality Power's 40%+. Those are management expectations, not achieved margins.

The fourth milestone is Mehru. It has no new capacity online yet; the current factory supports about INR 500 crores. Management is looking to rent nearby space and expects a new factory that would at least double capacity in about 18 months, with a large capex plan in three to six months. That is a delay relative to the prior research's implication of a substantially complete 45% expansion. The order book is there, but capacity conversion is not.

Capital allocation is conservative but changing. Group debt is near zero. The QIP discussed is about INR 700 crores, not below INR 500 crores as prior research stated. Allocations discussed include about INR 175 crores for WS debt/promoters, INR 50-70 crores for Winwin capacity, about INR 300 crores for working capital, and funds for a US office and medium-term Class B manufacturing. Management says the working capital is needed for the first two years and should be recouped in 24-36 months. The raise is pre-emptive growth funding, but it is still subject to approvals and market conditions.

Management guidance is explicit but not yet delivered. FY27 guidance is unchanged and normally revised at end-Q3. Management reaffirmed public FY28 revenue growth guidance of at least around 50% and described stable margins as about 20%. Q3 FY27 is expected to be tough at Quality Power because of factory transition, though management does not expect numbers to fall much. Endoks could see a blockbuster revenue year from the PCS factory, while Meru should improve. The FY28 target depends on Sangli audits, PCS billing and Winwin integration. It is a target, not an achieved result.

The thesis therefore rests on a capacity-to-cash conversion, not on demand. Demand is evidenced by the above-INR 2,000 crores order book and management's near-term pipeline. The falsifiers are specific: if Sangli customer audits stretch beyond four to five months, if Nigde billing slips or PCS margins stay at 10-12%, if Winwin integration or capacity expansion is delayed, or if Mehru's new factory remains unfinalized, the FY28 50% growth guide breaks first. The stock is a compounder candidate only if those operating milestones print.

RESEARCH REPORT

What Quality Power Electrical Equipments Limited does

Quality Power is a manufacturer of high-voltage electrical equipment for power transmission and grid interconnection. Founded in 2001 and headquartered in Sangli, Maharashtra, it designs and builds the components that sit inside HVDC converter stations, FACTS installations, and high-voltage AC substations. It listed on NSE and BSE in February 2025 through an IPO and employs roughly 1,500 people across India and Turkey.

The business splits into three segments. Power Products is the largest at 52.17% of FY25 revenue and covers reactors (shunt, series, HVDC smoothing, converter duty), transformers, instrument transformers, and line traps. Power Quality Equipment is 46.08% of FY25 revenue and covers STATCOMs, SVCs, harmonic filters, capacitor banks, and battery energy storage systems (BESS) with in-house developed power conversion systems (PCS). The remaining 1.75% is automation, IoT, and composite assemblies.

The group model matters as much as the product list. Quality Power is the parent of several operating companies: Mehru Electrical and Mechanical Engineers (51% owned, instrument transformers, Bhiwadi), Endoks Enerji (Turkey, FACTS and power electronics), Quality Power Engineering Projects, S&S Transformers, and a 50% JV in Sukrut Electric. Management treats these as one operating system rather than independent businesses, standardizing engineering practices, manufacturing methods, and testing protocols across facilities, and consolidating group purchasing under a Chief Procurement Officer. In Q1 FY27 the group reported an order book of INR 1,945 crores, split Endoks INR 801 crores, Mehru INR 585 crores, and Quality Power standalone INR 553 crores. In Q2 FY27 the consolidated order book crossed INR 2,000 crores, excluding Winwin, with Quality Power standalone about INR 600 crores, Mehru above INR 600 crores, and insulators about INR 75 crores of orders in two months.

The technical core is coil products for HVDC and FACTS. Management describes the company as one of the few global manufacturers of critical high-voltage equipment for these networks. It type-tested the world's largest three-phase magnetically shielded reactor at 200 MVR and passed type tests for HVDC converter reactors for a global customer on the first attempt (Annual Report FY25). Products span HVDC smoothing and converter reactors for both LCC and VSC technologies, shunt and series reactors, instrument transformers (CTs, PTs, CVTs, IVTs) up to 500kV, line traps, STATCOM/SVC systems through Endoks, and BESS/PCS with proprietary EMS software.

The subsidiaries

Mehru Electrical and Mechanical Engineers (51% acquired March 2025 for INR 1,200 million) makes instrument transformers up to 500kV plus GIS components developed with

Hyosung. It is the group's growth engine in high-voltage AC substations, and management says it supplies one in two high-voltage instrument transformers required in India. Mehru delivered around 20% EBITDA margins in Q4 FY26, up from 16.4% in Q3 FY26, with integration settling in faster than expected.

Endoks Enerji (Turkey, acquired 2011) is the power electronics arm. It builds STATCOMs, SVCs, harmonic filters, and grid automation, and is the center of competence for the BESS/PCS product line. Endoks follows a January-December financial year and operates in a hyperinflationary economy, which creates Ind AS 29 accounting noise but leaves the traditional electronic business around 25% margins (Q2 FY27 call). Its new PCS facility at Nigde commenced manufacturing in Q2 FY27; management says capacity is 4 GW, about 1 GW is ordered, and PCS/BESS revenue potential is INR 1,500-2,000 crores. PCS was booked at 10-12% with battery pass-through.

Sukrut Electric (50% JV with Yash Highvoltage, acquired Q3 FY26) makes electrical components for the transformer value chain and brought access to 200-300 global transformer customers. It turned operationally positive in its first month under new management after five years of losses (Q3 FY26 call).

Winwin Speciality Insulators (acquisition pending as of Q2 FY27, enterprise value approximately INR 315 crores) is a porcelain and composite insulator plant in a Vizag SEZ with 40 acres of land. It addresses the group's most acute supply chain bottleneck: insulator deliveries globally are running 18-24 months. In Q2 FY27 Winwin completed porcelain type tests up to 400 kV and secured orders for 800 kV HVDC porcelain insulators plus 765 kV AC and 400 kV AC applications from large Indian utilities and equipment makers including Power Grid. Current capacity supports about INR 300 crores; a INR 50-70 crores expansion is planned to take it slightly above INR 500 crores, and management guides about INR 200 crores revenue next year from the order book and customer commitments.

The manufacturing footprint

Plants sit in Sangli (Maharashtra), Aluva/Cochin (Kerala), Bhiwadi (Rajasthan), Chennai (Tamil Nadu), and Ankara (Turkey). The Sangli facility houses a NABL-accredited ISO 17025:2017 test laboratory capable of testing up to 765kV, which lets the company run routine, type, and special tests in-house rather than depending on third-party labs. This testing capability is a sales tool: customers audit the lab as part of qualification, and the lab's existence shortens development cycles for new products like the 200 MVR magnetically shielded reactor.

The new Sangli global coil factory is the centerpiece of the expansion. It spans roughly 320,000 sq ft and will increase production capacity nearly nine-fold; management puts peak revenue potential north of INR 1,500 crores (Q2 FY27 call). The facility commenced manufacturing on 20 October, with winding on three machines, first ISO audits complete, and

customer audits starting end-November. Revenue shifts from the old factory over four to five months, and the old plant stays open for at least a year for customer approvals before later use for new products. A separate High Voltage CTC Magnet Wire facility for HVDC transformers has started trials, with customer qualification expected over four to five months and fuller production targeted for Q4 FY27.

How the segments perform financially

FY26 consolidated revenue was INR 1,007 crores, up 157% YoY, with EBITDA of INR 236 crores at a 23.5% margin, PBT of INR 216 crores, and PAT of INR 185 crores (Q4 FY26 call). The margin structure varies sharply by business: the Quality Power coil factory runs around 34% EBITDA margins, Endoks around 30%, and Mehru around 16.4% (Q3 FY26 call). Mehru's lower margin reflects its shorter manufacturing cycle and direct exposure to copper and aluminium price swings, while the coil business has a longer cycle that lets it absorb commodity moves with a lag.

Q1 FY27 showed the trajectory: revenue of INR 256.4 crores, gross margin improving to 47.2% from 44.6%, reported EBITDA of INR 64.7 crores at 25.2%, and PAT of INR 46.7 crores (Q1 FY27 call). Excluding the Ind AS 29 hyperinflation adjustment on Turkish operations, EBITDA would have been INR 72.5 crores at 28.3%. In Q2 FY27 consolidated revenue from operations was INR 285.45 crores and PAT was INR 63.33 crores, up 80.10% YoY. Q1 FY27 had an Ind AS 29 debit of about INR 8 crores and Q2 had a credit of about INR 4 crores, so reported other expenses benefited in Q2.

Business segments

Power Products

Power Products is the high-voltage coil business: reactors, instrument transformers, medium-power transformers, and line traps that sit inside HVDC and FACTS systems and AC substations. These are custom-engineered pieces, not catalogue items. Each order is designed for a specific project, type-tested against IEC and IEEE standards, and inspected by the customer's own auditors before it ships.

The capability that took years to build is qualification. The FY25 annual report notes the company is "the only company in India manufacturing coil products for HVDC and FACTS applications above 220 kV." In FY25 it type-tested the world's largest three-phase shunt reactor at 200 MVR and passed all type-tests for HVDC converter reactors for a major global customer on the first attempt. When the new Sangli facility comes online, management expects roughly 60 customer audits before it can take over full production from the existing factory (Q1 FY27 call, Aug 2026).

The product range spans four families. Shunt reactors compensate for capacitive charging on long transmission lines; series reactors limit fault current; HVDC smoothing reactors filter DC

ripple in converter stations; converter duty reactors protect the valves. Instrument transformers (CTs, PTs, CVTs, IVTs up to 500 kV) step down voltage and current for measurement and protection. Medium-power transformers serve traction, offshore wind, and grid modernization. Line traps (up to 230 kV) block high-frequency communication signals on power lines while letting the 50 Hz power flow.

Who buys: global OEMs and EPC contractors, utilities, and renewable developers. In the Q4 FY26 call, management was explicit about the OEM relationship:

> *"we do not compete Hitachi, Siemens or GE in our business plans. They are our customers or partners in different market."*
>
> **JOINT MANAGING DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

The company also sells direct to utilities. In Q2 FY26 it won smoothing reactor orders for the Rihand-Dadri LCC HVDC project, one of India's most critical transmission corridors, and converter reactors for a VSC HVDC project in a G20 nation (Nov 2025 call).

Competition is thin. Management named two direct competitors in the Q3 FY26 call: Trench Electric (reactors, EUR 1.5 billion order book) and Arteche (instrument transformers, revenue slightly north of INR 3,500 crores). The annual report's claim of being the only Indian coil manufacturer above 220 kV for HVDC/FACTS is the structural position that underpins the segment.

Group fit: Mehru Electrical and Mechanical Engineers (51% acquired March 2025) is the instrument transformer arm of this segment. Its margin trajectory shows the integration working: 12% in Q2 FY26, 16.4% in Q3 FY26, and roughly 20% in Q4 FY26. The new Sangli facility has commenced manufacturing, and the HVDC CTC magnet wire facility is in trials; both are backward integration to secure the coil supply chain. The Winwin Speciality Insulators acquisition addresses the insulator shortage, and in Q2 FY27 Winwin secured 800 kV HVDC and 765/400 kV AC orders. The QIP is now about INR 700 crores, not the earlier sub-INR 500 crores framing.

On margins, management said in Q1 FY27 that every executable order in the order book was booked above the margin guidance, and the coil product factory delivered a 34% EBITDA margin in Q3 FY26. The caution is that raw material movements (copper, aluminium) hit the standalone financials with a lag of several quarters because the manufacturing cycle is long - materials consumed today relate to orders booked months earlier (Q1 FY27 call). Power Products was 52.17% of revenue from operations in FY25, per the annual report.

Power Quality Equipment

Power Quality Equipment is the group's power electronics business, run through Endoks Enerji in Ankara, Turkey, a subsidiary acquired in 2011. It builds Flexible AC Transmission

Systems (FACTS) - STATCOMs, static var compensators (SVCs), harmonic filters, capacitor banks, and thyristor valve assemblies - plus the control software and automation that run them. It also makes battery energy storage systems (BESS) around an in-house designed power conversion system (PCS), the inverter that converts DC battery power into grid-synchronized AC.

The core capability is power electronics engineering, built through years of R&D investment at Endoks. The PCS was developed internally, described in the FY25 annual report as "the result of investments over several years in power electronics design, testing capability and engineering depth." Management frames the software layer as the moat: the energy management system (EMS) connects the battery to the grid, forecasts charge and discharge against load and exchange pricing, and is where data security matters. Chinese manufacturers dominate BESS hardware globally, but their software is often locked out of European, US, and Australian tenders, and Indian regulations require domestic EMS software. That gives Endoks a market Chinese competitors cannot enter on price alone.

The product lineup spans two revenue streams. FACTS equipment goes to utilities, renewable developers, and industrial plants - Endoks won large FACTS orders in Sweden for a steel facility grid stabilization project (Q2 FY26, Nov 2025) and has STATCOMs installed in the US, with a pipeline of roughly half a dozen STATCOM projects across the US, Europe, and Australia as of Q1 FY27. BESS is the second stream: Endoks sells the full container - battery, PCS, EMS software, and an in-house transformer - to renewable developers, primarily in Europe, where price realization beats India. The BESS execution cycle is fast, six to nine months, versus 12-15 months for the coil products (Q1 FY27, Aug 2026).

Customers buy because the software is the differentiator, not the hardware. Chinese suppliers are shut out of Western tenders on data security, GE prices at a premium, and the in-house transformer tightens the BESS value chain. Management is explicit about who the segment competes with:

> *"The BESS is dominated by Chinese in most parts of the world. But fortunately, you have software and service support that helps you in Europe, which keeps the Chinese away. Also in the US and Australia, where they are not much preferred."*
>
> **JOINT MD, Q4 FY26 CONCALL (MAY 2026)**

Hitachi, Siemens, and GE are not direct competitors here - in the group's other segments they are customers and partners, and the group positions itself as complementary to them.

The segment is the group's growth engine. Endoks contributed INR 468 crores of FY26 revenue and INR 107 crores in Q1 FY27, with an order book of INR 801 crores at June 2026 out of a group total of INR 1,945 crores. By Q2 FY27 the group order book had crossed INR

2,000 crores, and management said the 4 GW Nigde PCS facility had about 1 GW of orders. Underlying EBITDA margins at Endoks run north of 25% in the traditional electronic business, while PCS was booked at 10-12%; reported numbers are distorted by Ind AS 29 hyperinflation accounting on the Turkish lira.

BESS margins are the deliberate trade-off. Management said PCS was booked at about 10-12% with battery pass-through, while the traditional electronic business is around 25%; the first published PCS numbers are expected this quarter. The Nigde PCS factory has commenced manufacturing and billing may start this quarter subject to contractual milestones and customer acceptance. Capacity is 4 GW, about 1 GW is ordered, and management puts PCS/BESS revenue potential at INR 1,500-2,000 crores. The BESS order book was US$31 million in May 2026, with management targeting US$80 million of orders for the year.

> *"Which means at about US$80 million, we will be the largest PCS manufacturing company in our country."*
>
> **JOINT MD, Q4 FY26 CONCALL (MAY 2026)**

A 1,725 kW PCS inverter design is underway at Endoks.

Power Quality Equipment was 46.08% of FY25 revenue (INR1,551.18 million), down from 63.89% in FY23 as the Power Products segment grew with the Mehru acquisition. Management plans to bring BESS to India once Turkish operations stabilize, targeting the domestic and Asian markets by end of next year (Q1 FY27, Aug 2026).

Others

The Others segment is the group's software and control layer: grid automation, energy management, IoT edge computing, and composite assemblies. It is the smallest of the three reported segments at 1.75% of FY25 revenue from operations (INR 59.07 million), down from 3.20% in FY24 (annual report FY25).

The capability here is control software that sits on top of the hardware the group sells. The annual report splits the automation offering into grid-level SCADA stations, energy management systems, and IoT-enabled connected equipment. Most of this comes through Endoks in Turkey, which the group acquired in 2011 and which builds automation and energy management systems as part of its FACTS and STATCOM turnkey work. The second piece is Nebeskie Technologies in Chennai, an IoT and edge computing company focused on connected substation technologies; the group raised its stake to 26% during FY25.

The products serve two distinct needs. Grid automation for utilities: SCADA stations and energy management systems that let operators control voltage, reactive power, and grid stability in real time. Edge computing for the shift to unmanned substations. The annual

report frames the driver directly: utilities are moving toward digitally controlled, unmanned substations to address talent shortages, and edge computing with ML-based control is gaining traction because it can automate fault detection, self-correction, and load optimisation without relying on stable communication networks.

Nebeskie's job is to embed that intelligence into the group's own hardware. The annual report says the group is developing AI-enabled edge computing systems for transformers and STATCOMs, enabling predictive maintenance and self-correction. That is a bundled model, not standalone software. The same logic appears in the BESS business: management noted that the energy management software is where Chinese suppliers are blocked in US and European markets, because grid software and data security are sensitive, and that is a sweet spot the group can occupy.

Customers are utilities and, increasingly, renewable developers and industrial users, all of whom need grid-code compliance as renewable penetration rises. The annual report notes that harmonic filters, reactors, and capacitor banks are increasingly bundled with transformer or STATCOM packages as turnkey offerings, so the automation layer typically rides along with the hardware rather than being sold separately.

Management has been explicit that this segment is not a standalone growth priority. On the Q1 FY27 call, asked about Inavitas, a grid-automation software company tied to Endoks directors, the joint managing director said the group holds no stake and will not enter software as a standalone business:

> *"It is a very high entry barrier segment, but the kind of software and the front end that it is, I would not, what we say, I do not see myself in at least the next two, three years doing that... Software companies do not trade cheap and I am normally buying at a much lower value. So I would focus on manufacturing which is our core expertise at this moment."*
>
> **JOINT MANAGING DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

Nebeskie's revenue is negligible so far. On the Q4 FY26 call, the joint managing director said the numbers are very small, less than a crore, and the company is still in the technology-building phase.

Competitors are not named in the sources for this segment. In the BESS context, management named Chinese suppliers as the largest competition globally, with GE present at a higher price point. For manufacturing standards generally, the annual report positions the group against global leaders such as Hitachi Energy and Siemens Energy, but no direct automation competitor is identified. The segment's competitive logic is bundling: it is sold attached to hardware the group already qualifies for, rather than standing alone.

Customers

The customer base splits into three groups: global OEMs who buy components, utilities who buy directly, and end users like renewable developers and data centers. Management describes the OEM relationships as complementary rather than competitive: Quality Power supplies products that Hitachi, Siemens, and GE do not make themselves, packaging them into HVDC and FACTS programs.

> *"We are complementary to them and not competing them on strategy and product lines."*
>
> **JOINT MANAGING DIRECTOR, Q4 FY26 CONCALL (MAY 2026)**

Global OEMs. Hitachi Energy, Siemens Energy, and GE are the primary channel for HVDC and FACTS projects. Management says these companies buy more from Quality Power in India than from their own facilities "because of the volume and scale what we are operating" (Q4 FY26 call). GE has a small coil factory in Brazil but sources from Quality Power for the Indian subcontinent, Asia, and Europe. The OEMs also drive the qualification process: the HVDC approvals for the new Sangli facility start with Hitachi's global audit, then Adani and Power Grid audits, before other projects follow.

Utilities. Power Grid Corporation of India, Adani, and Sterlite are the anchor HVDC customers in India. Mehru supplies instrument transformers across the Indian grid, and management states the company provides one in two high-voltage instrument transformers required in the country (Q1 FY27 call). International utility wins include Denmark's grid, Sweden (a FACTS order for a steel facility grid stabilization project), Finland, South Korea, Australia, and the Middle East. The Rihand-Dadri LCC HVDC project (one of India's most critical transmission corridors) and a VSC HVDC project in a G20 nation were historic order wins in Q2 FY26.

Data centers. Quality Power supplies eco-reactors and power quality equipment for hyperscale data centers. It executed a Microsoft hyperscale data center in Finland and won an INR 49 crores order from one of the "big three" US operators (Q4 FY26 call). In Q2 FY27 management said it has shaken hands with multiple US data-center customers awaiting financial closure before LOAs, but capacity is constrained by multiple FACTS and HVDC orders. The US data-center reactor market is estimated by management at INR 1,500 crores per year, with compressed 6-7 month delivery timelines.

Renewable developers. Endoks sells BESS/PCS to renewable energy developers in Europe, where prices are better than India. The PCS order book stood at US$31 million as of Q4 FY26, with management targeting US$80 million in orders for the year and describing it as a "billion-dollar opportunity" over time. The end-customer profile includes utility-scale storage procurement programs across several markets.

Why customers buy: approvals and type tests are the moat. The company is approved in over 120 countries, and each utility has different certification tests and specifications. When the new Sangli facility opens, roughly 60 global customer audits are required before it can take full volume. This creates high switching costs - a customer that has qualified the company's products has invested time and engineering effort in that qualification, and the alternative suppliers (mostly Chinese) face their own regulatory barriers in India and Europe.

Contract structure: orders are fixed-price, with no variable-price clauses. In Q2 FY27 management said 95%+ of the order book is executable in 15-18 months and contracts are fixed-price, with margins factored into the guidance. The order book is deliberately kept to roughly 12-18 months of revenue visibility, because longer books expose the company to commodity swings and liquidity damage penalties on late deliveries. Customer concentration is moderate: the top 10 customers make roughly 35% of business (Q4 FY26 call).

Competitive landscape

Quality Power competes in three distinct arenas, with different competitors in each.

Coil products for HVDC/FACTS. The largest competitor is Trench Electric. In Q2 FY27 management said GE Vernova acquired Trench for about US$9 billion plus liabilities; Trench has coil, instrument transformer and bushing lines. Quality Power is the only Indian manufacturer of coil products for HVDC and FACTS applications above 220 kV, which gives it a protected domestic position and a global export position against a thin field. Management believes Hitachi and Siemens, which control 70-75% of HVDC/FACTS, may source more from Quality Power over the next two to three years because they would prefer not to buy from a GE-owned competitor.

Instrument transformers. Arteche, a Spanish listed company, is the nearest competitor to Mehru, with revenues slightly north of INR 3,500 crores (Q3 FY26 call). Mehru's position - one in two high-voltage instrument transformers in India - reflects a domestic market where Chinese participation is negligible because every utility has different certification tests and specifications, and Chinese suppliers never participated in instrument transformer tenders even before 2020 (Q3 FY26 call). The 765kV product category at Mehru is the clearest sign of the technology ladder: each step up in voltage narrows the competitive field.

BESS/PCS. This is where Chinese competition is most intense. Chinese manufacturers dominate global BESS markets, but software and service support requirements keep them out of parts of Europe, the US, and Australia. GE is a player but "at a very high level on the pricing front" (Q4 FY26 call). Management's stated ambition is to reach US$80 million in PCS orders and become the largest PCS manufacturer in India, using volume to drive down semiconductor costs.

GIS components. Hyosung is a partner, not a competitor. The Korean conglomerate (over $17 billion revenue) is one of the largest GIS manufacturers globally and the market leader in India. Quality Power develops gas-insulated instrument transformers and grading capacitors with Hyosung, selling to Hyosung without royalty and to other customers with a small royalty that expires in about five years (Q3 FY26 call). This partnership gives market access through Hyosung's installed base while the company builds its own qualifications.

The strategic posture is to avoid head-on competition with Hitachi, Siemens, and GE. Management frames the long-term ambition as "the alternative to Hitachi from India, not competing them but complementing them" (Q1 FY27 call). The company buys or develops products the large OEMs do not manufacture, packages them into HVDC and FACTS programs, and uses technology depth plus scale to win tenders. The honest competitive pressure comes from China, which management identifies as the only competitor that keeps it up at night: "Chinese are not working on margins. They are working on global domination" (Q2 FY26 call).

Industry

The demand environment is driven by a multi-year grid investment cycle. Global transmission expansion, renewable integration, HVDC and FACTS deployment, grid modernization, energy storage, and data center power infrastructure are all expanding at once. Management says demand is so strong that European factories are booked for the next six to seven years, and the constraint on growth is execution capacity, not order intake.

Market sizes (all from the Annual Report FY25, citing Maia Research and CareEdge): the global HVDC and FACTS market grew at an 11% CAGR from USD 10,162 million in 2019 to USD 13,217 million in 2023, and is expected to grow at a 75-80% CAGR to roughly USD 250 billion by 2028. The Indian HVDC and FACTS market grew at a 7% CAGR from USD 576 million in 2019 to USD 743 million in 2023, and is expected to grow at a 60-65% CAGR to USD 9,196 million by 2028. The global transmission line market is expected to grow at a 6% CAGR from USD 112,290 million in 2024 to USD 143,467 million in 2028. The global STATCOM market is expected to grow at a 12% CAGR to USD 1,246 million by 2028.

India's position in the supply chain is strengthening through policy. The government requires FACTS deployment in at least 33% of renewable parks for reactive power management and voltage stability. India is targeting 500 GW of renewable capacity by 2030, which forces transmission investment: HVDC corridors like Bhadla-Fatehgarh and Rihand-Dadri move 6 GW per link versus roughly 1 GW for AC lines, making HVDC the efficient choice for long-distance renewable transfer. The China+1 shift and Make in India policies are pushing global OEMs to diversify sourcing, and management sees India as a preferred manufacturing destination for high-voltage equipment.

Supply chain constraints are the industry's defining feature. Insulator deliveries run 18-24 months globally, HVDC magnet wires now require BIS licenses that slow imports because Indian capacity is booked out for the next year, and critical components like CTC cables and aluminium castings face periodic shortages. This is why Quality Power is vertically integrating into CTC magnet wire and acquiring Winwin for insulators - the company's growth is capped by its ability to secure inputs, not by demand. Management's response has been to stockpile critical materials, build in-house capacity for the tightest items, and keep the order book at 12-15 months so commodity shocks don't hit the P&L twice.

Regulation shapes the competitive field. BIS licensing, local sourcing norms (Chinese entrants must still buy 60-70% of content domestically), and utility-specific certification tests all create barriers that favor incumbents with proven track records. The government's cautious approach to allowing Chinese companies into Indian HVDC tenders - limited to a few de-rated factories that have been shut for years - preserves the domestic market for players like Quality Power.

Cyclicality is real but structurally blunted. Equipment has a 30-year design life, but grids are upgraded every 10-15 years as voltage levels step up (220kV to 400kV to 765kV), and spares become a repeat business five to seven years into an asset's life. Europe and America run on World War II-era grids that will take decades to replace. The combination of renewable buildout, grid modernization, and data center load means the industry is in a super-cycle that management expects to last at least five years, with the caveat that commodity prices and geopolitical shocks can dent margins in any given quarter.

Growth triggers

Sangli global coil factory commissioned (peak revenue north of INR 1,500 crores)

The new Sangli facility is Quality Power's core coil-products plant: 320,000 sq ft that increases production capacity nearly nine-fold. The old coil factory was the bottleneck - management ran every facility at 100% utilization and had stopped aggressively taking orders because it could not deliver more. Sangli commenced manufacturing on 20 October, with winding on three machines and first ISO audits complete. The order book is not the constraint; qualification and throughput are.

The mechanism runs through customer qualification. High-voltage equipment can only be manufactured in customer-approved facilities, so the new plant must pass roughly 60 global audits before it can absorb volume from the existing factory (Q1 FY27 concall, Aug 2026). Management is prioritizing audits by project - Hitachi global approval first, then Adani and Power Grid for the HVDC programs already in the order book.

Status today: the facility has commenced manufacturing, winding is running on three machines, ISO audits are complete, and customer audits start end-November. Management

expects revenue to shift from the old factory to the new one over four to five months. About 60 customer audits are required, and management says it is attempting one or two audits a week because the same set of people cannot handle more in parallel.

> *"Once we are able to stable, we will take in more orders. Getting orders is not a worry at this moment for us."*
>
> **JOINT MD, Q1 FY27 CONCALL (AUG 2026)**

The revenue path is staged: fixed costs hit the P&L before utilization ramps, and Q3 FY27 is expected to be tough at Quality Power because of the factory transition, though management does not expect numbers to fall much. Meru should improve, and Endoks could see a blockbuster revenue year from the PCS factory. Management said it may revise guidelines at end-Q3 once the new factories align. Peak revenue capability from Sangli is north of INR 1,500 crores, with the consolidated order book above INR 2,000 crores waiting to be executed as capacity comes online.

Endoks PCS facility at Nigde - 4 GW capacity, 1 GW ordered, potential INR 1,500-2,000 crores

Endoks is commercializing an in-house developed power conversion system for grid-scale battery energy storage at a dedicated factory in Nigde. The factory commenced manufacturing in Q2 FY27 and is in full manufacturing mode. Billing may commence this quarter subject to contractual milestones and customer acceptance. Management says capacity is 4 GW, about 1 GW is ordered, and PCS/BESS revenue potential is INR 1,500-2,000 crores.

The PCS is the converter that turns DC battery power into grid-compatible AC. Quality Power's value chain covers the inverter (manufactured in-house), the EMS software, and the transformer (also in-house); only the battery cell is bought in and passed through the balance sheet. The company integrates all four into a container sold to renewable energy developers. Converter-side margins start at 10-12% and management expects them to reach 17-18% as semiconductor purchase volumes earn discounts (Q4 FY26, May 2026). The existing Endoks product lines - STATCOM, SVC, automation - run around 25% EBITDA.

The order book stood at about US$31 million in May 2026, and management said about 1 GW of PCS orders was in hand in Q2 FY27 against a 4 GW factory. Management's earlier target was US$60-80 million of orders for the year. BESS execution cycles run six to nine months, so orders can convert to revenue quickly once billing milestones are met. The current customers are European renewable developers; India entry is not imminent because management says Indian regulations are not conducive for this product.

> *"we believe this year we should be targeting anywhere between US$60 and US$80 million in order, and it's a billion-dollar opportunity really to be realistic."*
>
> **JOINT MD, Q4 FY26 CONCALL (MAY 2026)**

The facility has 4 GW of capacity, and roughly 1 GW of orders is already in hand (Q1 FY27, Aug 2026). BESS execution cycles run six to nine months, so orders convert to revenue quickly. The current customers are European renewable developers, where software and service requirements keep Chinese competitors out; India entry is planned for end of next year (Q1 FY27, Aug 2026).

Winwin Speciality Insulators - 800 kV HVDC orders, capacity around INR 300 crores rising above INR 500 crores with INR 50-70 crores expansion

Winwin Speciality Insulators - 800 kV HVDC orders, capacity around INR 300 crores rising above INR 500 crores

The trigger exists because insulators are the group's hardest supply constraint. Management has repeatedly flagged delivery times of 18-24 months on insulators and admitted to importing Chinese insulators at a premium for critical projects (Q4 FY26 concall, May 2026). Quality Power's own factories consume INR 40-45 crores of insulators annually. Owning Winwin converts that external bottleneck into an internal asset:

> *"insulators is something that we cannot live without. Let's say, if you go to any substation, the first thing you see is a brown porcelain."*
>
> **JOINT MD, Q1 FY27 CONCALL (AUG 2026)**

Winwin is not a backward-integration play in the usual sense. Management states each division buys from the cheapest source, so Winwin must win internal orders on price and margin. The real value is twofold: it unblocks the group's execution capacity, and it brings an external business already approved in over 55 countries, with 765 kV and 800 kV DC insulator orders for Indian HVDC projects secured (Q1 FY27 concall, Aug 2026).

The asset includes 40 acres of free land in the SEZ campus. Current capacity supports about INR 300 crores; a INR 50-70 crores expansion is planned to take it slightly above INR 500 crores. Management guides about INR 200 crores revenue next year from the order book and customer commitments. Insulator orders are being booked at 20-25% EBIT, and management says US direct-brand sales after integration could earn margins similar to or higher than Quality Power's 40%+. The acquisition process remains underway and management is beginning integration.

GIS product line with Hyosung partnership - 220kV/400kV/765kV gas-insulated instrument transformers

Quality Power is building gas-insulated instrument transformers (GIS-IT) for 220kV, 400kV, and 765kV transmission through a partnership with Hyosung, the Korean conglomerate that dominates the Indian GIS market. The product is being developed at Mehru, the subsidiary acquired in March 2025. The plant has already been audited by Hyosung, and the first prototypes were targeted for June-July 2026, with a commercial product expected within a year of the partnership announcement.

The mechanism turns a component into a business. GIS substations use roughly one-fifth the land of conventional air-insulated substations, so utilities and industries are switching to them. Each GIS needs instrument transformers, and Quality Power will supply those. The Hyosung arrangement gives the product a market path: Hyosung is one of the largest GIS manufacturers globally and a major supplier to the Indian grid, so it can push the product through its existing customer relationships rather than waiting for utilities to qualify a new vendor.

> *"We are trying to piggyback on their market share to be able to ensure that the customer is receiving the product faster rather than putting hurdles on the incoming barriers."*
>
> **JOINT MANAGING DIRECTOR, Q2 FY26 CONCALL (NOV 2025)**

The royalty structure is tiered. Products sold to Hyosung carry no royalty; sales to other customers carry a small royalty that expires in about five years. Management sized the opportunity at INR 200-300 crores of import substitution in India and INR 2,000-3,000 crores globally, with fewer than half a dozen non-Chinese competitors. Margins are expected to be higher than Mehru's existing AIS products because the entry barrier is steeper.

The commercial strategy is to enter markets with lighter regulatory burdens first - Africa, Latin America, parts of Europe - before approaching Indian utilities like Power Grid, where qualification cycles run for years. The 765kV development targets the top of the market. The first GIS trial product was targeted for market readiness by June-July 2026, and the plant and testing infrastructure at Mehru were being commissioned through 2026.

HVDC orders - Rihand-Dadri LCC HVDC smoothing reactors, VSC HVDC in G20 nation, Barmer HVDC expected, two HVDCs in execution

Quality Power's HVDC business is a component supply model. The company makes the high-voltage coil products - smoothing reactors, converter reactors, line traps, instrument transformers - that sit inside HVDC converter stations, and sells them to the global system integrators (Hitachi, Siemens, GE) that build those stations. The FY25 annual report describes the role directly: "We specialise in providing high-voltage equipment for HVDC converter stations and associated transmission corridors."

The technical qualification that unlocked this business came in FY25. The company "successfully type-tested the world's largest three-phase MSR at 200 MVR and also passed type-testing for HVDC converter reactors for a global customer in the first attempt" (Annual Report FY25). That testing capability is what converted into orders in Q2 FY26:

> *"During the quarter, we achieved historic order wins in the HVDC segment, including high-voltage smoothing reactors from Rihand-Dadri LCC HVDC project, which is one of India's most critical transmission corridors, and converter reactors for a VSC HVDC project in a G20 nation."*
>
> **JOINT MD, Q2 FY26 CONCALL (NOV 2025)**

The order size logic is disclosed in the Q4 FY26 call: a classic 6 GW LCC HVDC link entails INR 200-300 crores of reactors alone, plus INR 50-70 crores of instrument transformers. These are high-margin orders - the coil products factory ran at 34% EBITDA margin in Q3 FY26, the highest of any group entity.

As of the Q1 FY27 call (Aug 2026), two HVDC programs are in execution with revenue booked in Q3-Q4 FY27, and a third is expected:

As of the Q2 FY27 call, management said Barmer HVDC engineering normally takes a year to 18 months and should not enter before Q2 next year. It expects to ship an Australian 500 kV HVDC this quarter and is watching UK and US HVDC opportunities. The consolidated order book stood above INR 2,000 crores, with Quality Power standalone about INR 600 crores and a near-term pipeline of INR 500-600 crores of reactor orders, INR 400 crores of instrument transformers and INR 400 crores of insulator orders.

The consolidated order book stood at INR 1,945 crores at end-June 2026, roughly 1.9x prior-year revenue, with Quality Power standalone contributing INR 553 crores. Management also flagged international HVDC work in Australia and Korea alongside the Indian projects, so the Rihand-Dadri and G20 orders are the Indian anchor points of a broader HVDC pipeline rather than isolated wins.

CTC magnet wire facility for HVDC - first in India, backward integration

The facility makes continuously transposed conductor (CTC) magnet wire for HVDC applications, which management describes as the first such facility in India (Q3 FY26 concall, Feb 2026). The wire is the critical raw material for the coil products QP sells into HVDC corridors - the smoothing reactors and converter reactors it won for Rihand-Dadri and a VSC HVDC project in a G20 nation (Q2 FY26 concall, Nov 2025).

The trigger exists because the wire became a supply bottleneck. HVDC magnet wires required a BIS license from 2025, slowing import approvals while domestic capacity was booked out a year ahead (Q2 FY26 concall, Nov 2025). Making the wire in-house removes

that constraint on the coil factory just as the new Sangli facility (roughly 9x capacity, per the FY25 annual report) comes online, and it captures the wire margin at source.

The wire is also a standalone product. Sukrut brought 200-300 global transformer customers, and management plans to sell the wire to that base, including to competitors (Q3 FY26 concall, Feb 2026). Management estimated the business at INR 500 crores in aluminium wire, or INR 1,500-1,800 crores in copper-wire equivalent, over the next two to three years (Q1 FY27 concall, Aug 2026).

Timeline: the CTC line has started trials, but management will not use the cable immediately. Customer qualification is expected to take four to five months, with Q4 FY27 as the target for fuller production. Until then the company runs on vendor capacity. The line is intended to secure HVDC conductor supply and save about 8% import duty on domestic business. Management previously estimated the business at INR 500 crores in aluminium wire, or INR 1,500-1,800 crores in copper-wire equivalent, over two to three years.

> *"This is a new product for us. So, we anticipate that it will take us another three months of trial run. We are anticipating by Q4 of this year is when we will be able to take up full production out of the facility."*
>
> **JOINT MD, Q1 FY27 CONCALL (AUG 2026)**

Mehru capacity - current plant supports about INR 500 crores; new factory about 18 months away

Mehru, the instrument transformer subsidiary acquired in March 2025 for INR 1,200 million, has no new capacity online yet. The current factory supports about INR 500 crores, while the order book is above INR 600 crores and management says several tenders are L1. It is looking to rent nearby space to stabilize the current order book, and a new factory that would at least double capacity is about 18 months away. A large capex plan is expected in the next three to six months.

The 45% increase is a debottlenecking exercise. Management converted warehouse and storage space into production floor, with equipment installed month by month through FY26. The mechanism is direct: Mehru already has more orders than it can execute, so every point of added capacity converts immediately to revenue. Mehru's revenue scaled from INR 318 crores in FY26 to INR 83 crores in Q1 FY27 alone, with EBITDA margins moving from 12% in Q2 FY26 to 18% in Q1 FY27.

Mehru has no new capacity online yet. The current factory supports about INR 500 crores, while its order book is above INR 600 crores and management says several tenders are L1. It is looking to rent nearby space to bridge the gap. Management says a new factory that would at least double capacity is about 18 months away, with a large capex plan expected in three

to six months. It is also evaluating an India factory because domestic demand is high; the second Turkey shed is ready.

> *"We had about 40 acres of land in Turkey and we had lot of cash sitting in our subsidiaries there, highly profitable subsidiary. And Turkey is also overnight to Germany, France on the road."*
>
> **JMD, Q3 FY26 CONCALL (FEB 2026)**

The 45% capacity increase is not reflected as completed capacity in the Q2 FY27 call. Management says Mehru has no new capacity online yet, is renting nearby space to stabilize the order book, and will need a new factory for a significant roughly two-times expansion in about 18 months. The location and cost are not finalized.

Fund raise of about INR 700 crores for Winwin acquisition, capacity, working capital and US plans

Management is preparing a QIP of about INR 700 crores, targeted for 15-30 November subject to regulatory approvals and market conditions. The allocation discussed includes about INR 175 crores for repaying debt and promoters of WS, INR 50-70 crores for Winwin porcelain/composite capacity, about INR 300 crores for working capital, and funds for a US office and medium-term Class B manufacturing. This corrects the prior research framing of a fund raise below INR 500 crores.

The Winwin piece is the most concrete. The acquisition process remains underway, and management intends to preserve Winwin's manufacturing strengths and customer relationships while leveraging Quality Power's market presence. Winwin completed 400 kV porcelain type tests and secured 800 kV HVDC and 765/400 kV AC orders. A further INR 50-70 crores is planned for capacity expansion, taking capacity from about INR 300 crores to slightly above INR 500 crores.

The US plan is about converting existing traction into orders. Management says it has shaken hands with multiple US data-center customers awaiting financial closure, and it sees a US data-center reactor market of INR 1,500 crores per year. QIP proceeds include a US office and medium-term Class B manufacturing for some product categories, which management calls a watch-list item rather than a dated project. It also says US needs to be funded properly to get results.

> *"We are also working on some next generation technologies in those markets. So we are also raising money for the US entry, because US needs to be funded quite well, otherwise with just 1 or 2 people, you will not be able to get the results what you want to."*
>
> **JOINT MANAGING DIRECTOR, Q1 FY27 CONCALL (AUG 2026)**

Management said total group debt is near zero and most subsidiaries sit on cash; the QIP is pre-emptive working-capital planning rather than a rescue. It expects the INR 300 crores of working capital to be needed for the first two years, with the cash recouped in about 24-36 months. The acquisition consolidation and Winwin capacity expansion remain subject to closing and approvals.

Key risks

Commodity price volatility. Copper, aluminium, and oil swings hit margins with a lag that varies by business. Mehru's manufacturing cycle is about eight weeks, so input price changes flow through almost immediately. Quality Power's coil products have a longer cycle, so materials consumed today were booked months earlier, and current spikes land in standalone financials mainly during Q2 and Q3 (Q1 FY27 concall, Aug 2026). Management guides a 20% EBITDA floor, but a sharp move like the April 2026 copper spike can compress margins for a quarter or two before pricing resets.

Insulator and conductor supply constraints. Insulator deliveries are running 18-24 months globally, and HVDC magnet wire now requires BIS licensing, which slows imports because domestic capacity is already booked for the next year (Q2 FY26 concall, Nov 2025). These bottlenecks cap how much revenue the group can execute even with a full order book. The Winwin acquisition and the in-house CTC magnet wire facility are responses, but both carry their own ramp risk.

Chinese price competition. Chinese manufacturers compete on volume and market share rather than margin, especially in BESS, insulators, and high-voltage equipment. Management calls this the biggest competitive threat.

> *"Chinese are not working on margins. They are working on global domination."*
>
> **JMD, Q2 FY26 CONCALL (NOV 2025)**

The counter is scale, backward integration, and customer qualifications, but China's cost position in semiconductors and power electronics is structural.

New facility execution and the audit cycle. Sangli has commenced manufacturing, but about 60 customer audits are required, and management says it is attempting one or two audits a week starting end-November. Revenue shifts from the old plant over four to five months. Any slippage in audits or approvals pushes revenue recognition later and leaves fixed costs exposed.

Fixed cost drag before utilization. Depreciation, manpower, power, and factory overheads at Sangli and Nigde hit the P&L before utilization ramps. Management flagged Q3 FY27 as tough at Quality Power because of factory transition, though it does not expect numbers to fall

much, and said it may revise guidelines at end-Q3 once the new factories align. PCS margins at 10-12% are below the traditional electronic business at around 25%.

Ind AS 29 hyperinflation distortion. Endoks operates in an economy classified as hyperinflationary. Q1 FY27 had an Ind AS 29 debit of about INR 8 crores and Q2 FY27 had a credit of about INR 4 crores, so reported other expenses benefited in Q2. The swings follow index movements, not business performance. Cash flows are unaffected, but reported optics can mislead.

Liquidity damage penalties. High-voltage substation projects carry strict late-delivery penalties and blacklisting risk. Mehru previously lost more than INR 2.5 crores in LDs on a single order (Q2 FY26 concall, Nov 2025). As the group takes on more complex HVDC and data center orders with fixed delivery dates, execution slippage converts directly into penalties.

Management bandwidth during integration. The group is absorbing Mehru, Sukrut, and soon Winwin while opening two new factories. Management says it treats management as a common pool across group companies (Q1 FY27 concall, Aug 2026). The risk is that integration consumes the same leadership needed to ramp new capacity and qualify new customers.

Customer concentration. The top 10 customers make approximately 35% of business (Q4 FY26 concall, May 2026). Order timing and payment terms from a few large utilities and OEMs drive quarterly swings, and one delayed award can move the pipeline visibly.

Geopolitical exposure. Turkey hosts the Endoks power electronics business, and the company sells into the US, Europe, and the Middle East. Management has operated in Turkey for 16 years and sees it as a manufacturing hub for Europe, but Middle East tensions and tariff policy shifts remain outside its control (Q4 FY26 concall, May 2026).

Scenarios

Bull case

Sangli clears the audit gauntlet and shifts revenue from the old plant over four to five months, converting its north-of-INR 1,500 crores peak revenue potential into billings. The two HVDC programs already awarded, plus the Australian 500 kV shipment this quarter, execute on time, converting the above-INR 2,000 crores order book into revenue. Nigde PCS billing starts this quarter and scales toward the 4 GW capacity and INR 1,500-2,000 crores potential. Winwin integrates and ramps toward INR 200 crores next year, with capacity rising above INR 500 crores after the INR 50-70 crores expansion. Mehru resolves its capacity constraint with a new factory, and the INR 700 crores QIP funds Winwin, working capital and

US entry without straining the balance sheet. FY28 delivers the 50% growth management has guided.

Base case

FY27 plays out along the guided path with Q3 weak at Quality Power because of factory transition, then improvement as new factories align. Sangli ramps through the audit cycle, with revenue shifting over four to five months and full utilization later. Nigde PCS billing starts this quarter subject to milestones, with first published PCS numbers expected this quarter. Insulator orders at Winwin support about INR 200 crores revenue next year. Commodity volatility causes some margin wobble, but the above-INR 2,000 crores order book is fixed-price and 95%+ executable in 15-18 months. Mehru remains capacity-constrained until a new factory, and Ind AS 29 charges create noise without touching cash. FY28 growth guidance is around 50%.

Bear case

Sangli's customer audit cycle stretches beyond four to five months, delaying the revenue shift and leaving fixed costs uncovered longer. Q3 factory transition and low-margin BESS mix compress margins more than expected. Nigde PCS billing slips or PCS margins stay near 10-12%, delaying the power electronics profit contribution. Winwin integration or capacity expansion is delayed, putting the INR 200 crores next-year revenue guidance at risk. Mehru remains capacity-constrained until a new factory is finalized. CTC magnet wire qualification takes longer than four to five months. The INR 700 crores QIP is delayed or priced poorly, and working capital builds faster than cash recovers. Fixed-price contracts and 15-18 month execution expose the order book to commodity and LD penalties. Customer concentration means one or two large orders slipping has outsized impact.

VALUATION SUMMARY

LINE ITEM	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	947	1,177	1,758	2,317
Revenue growth	-	+24.3%	+49.3%	+31.8%
EBITDA (₹ Cr)	202	242	369	498
EBITDA margin	21.3%	20.6%	21.0%	21.5%
Depreciation (₹ Cr)	14.00	22.00	38.00	52.00
Interest (₹ Cr)	5.80	9.50	10.50	11.00
Other income (₹ Cr)	59.80	85.00	75.00	65.00
PBT (₹ Cr)	216	288	384	486
Tax (₹ Cr)	30.90	57.60	78.70	102
Tax rate	14.3%	20.0%	20.5%	21.0%
PAT (₹ Cr)	186	230	305	384
PAT growth	-	+24.1%	+32.5%	+25.9%
EPS (₹)	-	19.03	25.21	31.74
P/E	-	77.2x	58.3x	46.3x
PEG	-	2.6x	2.0x	1.6x

CAGR FY27E-FY29E: Revenue +40.3% · EBITDA +43.4% · PAT +29.1%

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Q2 FY27 concall notes

TLDR

Quality Power reported Q2 FY27 consolidated revenue of ₹285.45 crore and PAT of ₹63.33 crore, up 80.10% YoY, with the order book crossing ₹2,000 crore excluding Winwin. Sangli's global coil factory began manufacturing on 20 October 2026 with winding on 3 machines and ISO audits done, and the Nigde PCS factory in Turkey is in full manufacturing mode with billing possible this quarter subject to contractual milestones and customer acceptance. Winwin completed porcelain type tests to 400 kV and won 800 kV HVDC and 765/400 kV AC orders from large Indian utilities including Power Grid, booking about ₹75 crore in two months at ₹35 crore a month. Management kept FY27 guidance unchanged, expects Q3 to be tough at Quality Power during the factory transition, and targets a QIP of about ₹700 crore in November, with FY28 growth of at least 50%.

WHAT CHANGED SINCE Q1 FY27

- Sangli commissioning moved from "trial production targeted August 2026" to manufacturing commenced 20 October 2026, with winding started on 3 machines and ISO audits complete. Final customer audits are scheduled from end-November, against the earlier ~60 audits over ~6 months.
- The PCS facility moved from "operations to begin Q3 FY27" to commenced manufacturing at Nigde, operating in full manufacturing mode, with billing possible this quarter subject to contractual milestones and customer acceptance.
- Winwin moved from "type tests up to 220 kV complete, 400/765 kV in a few months" to type tests completed to 400 kV under American and European standards, plus orders for 800 kV HVDC porcelain and 765 kV and 400 kV AC from large Indian utilities including Power Grid. Order intake is about ₹35 crore a month, ₹75 crore in two months, against the earlier internal target of ₹200 crore in 9 months.
- The fundraise changed from "up to ₹500 crore, roadshows from Aug 20" to about ₹700 crore, targeted 15-30 November subject to regulatory approvals and market conditions. Use of proceeds is now specified: about ₹175 crore to repay WS debt and promoters, ₹50-70 crore WS capacity expansion, about ₹300 crore working capital, and US office plus Class B manufacturing study.
- Mehru capacity plans are new: the current factory is good for about ₹500 crore, a nearby rented facility bridges about 18 months, and a new factory to at least double capacity is to be announced in 3-6 months. Q1 had no Mehru capacity discussion.
- The CTC magnet wire line slipped in framing: Q1 said full production targeted Q4 FY27; management now gives itself 4-5 months and says Q4 is when it will talk about it, with customer qualification still pending.
- FY28 growth of 50% was repeated, but management added that Mehru cannot sustain it post-FY28 while coil, insulators and PCS can.
- Tone shifted from capacity creation to execution. Management called Q3 "a kind of a tough time at Quality Power" because of the factory and people transition, and said it is "too early to start celebrating".

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	₹285.45 crore	Up from ₹256.4 crore in Q1 FY27 (QoQ)	Business mix and execution across the group; management did not give a YoY figure

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated PAT	₹63.33 crore	Up 80.10% YoY	Business mix, operating efficiencies and cost management across the group
Other expenses	Declined QoQ	QoQ	Lower IAS 29 hyperinflation charge and no repeat of prior-quarter factory repairs
IAS 29 hyperinflation (Turkey)	₹4 crore credit to P&L in Q2	Q1 was ₹8 crore debit	Lower hyperinflation working this quarter
Consolidated order book	Above ₹2,000 crore, excluding Winwin	Q1 was ₹1,945 crore	Demand across reactors, instrument transformers, insulators, power conversion and FACTS
Order book execution	95%+ within 15-18 months	Q1 said 15 months	Fixed-price contracts; margins factored into guidance
QP standalone order book	About ₹600 crore	Q1 was ₹553 crore	FY26 revenue about ₹220 crore; 200-500 crore intake expected in the next few months
Mehru order book	About ₹600 crore plus	Q1 was ₹585 crore	FY26 revenue about ₹315 crore; tenders where Mehru is L1 not yet booked
Winwin order intake	About ₹35 crore a month, ₹75 crore in 2 months	New disclosure	Type tests and orders from Indian utilities; negotiation pipeline about ₹1,000 crore
Endox PCS/BESS capacity	4 GW, 1 GW ordered	Q1 said $70-80 million peak capacity	About $60 million revenue per GW with battery and PCS; 1,500-2,000 crore potential for PCS and BESS
Inventory	Rose, about ₹20 crore from Turkey	QoQ	IGBT, chipset and memory card stocking before the PCS factory, plus long-lead insulators and bushings

SEGMENTS & GEOGRAPHIES

- **QP standalone (coil products, reactors)**: Order book about ₹600 crore against FY26 revenue of about ₹220 crore. Material cost rose from 35% to 45% in Q2 on aluminum, resin and paint prices; management said this was flagged in Q1 and new contracts are signed at higher prices. Q3 will be tough during the transition between factories, with revenue shifting to Sangli over 4-5 months.
- **Mehru (instrument transformers)**: Order book about ₹600 crore plus, with several tenders where Mehru is L1 not yet booked. Management said Mehru would have delivered 22-23% margins without the copper and oil hit. A 765 kV instrument transformer launch is planned for Q4 this year.
- **Endox (power electronics, PCS/BESS)**: Traditional business margins about 25% this quarter; PCS booked at 10-12% with battery as pass-through. Q3 is Endox's Q4 and management expects a blockbuster revenue year from the PCS factory, with BESS projects being low-margin. PCS margin guidance deferred by a quarter.
- **Winwin (insulators)**: Current capacity supports about ₹300 crore, rising to slightly above ₹500 crore with the new capex. Orders booked at 20-25% EBIT including 8.25% SEZ duty, which management said would be above 30% without it. Revenue guidance of at least ₹200 crore next year; quoting 6-9 months against an industry standard of about 18 months.
- **Sukrut JV**: H1 grew almost 40% over last year and has been profitable. Management is stabilizing the division before focusing on growth.
- **US market**: Management plans to sell insulators direct under its own brand rather than white-label, expecting margins similar to or higher than Quality Power's 40% and above once integrated in a year to a year and a half.

STRATEGY & COMPANY-SPECIFIC

- Sangli global coil factory commenced manufacturing on 20 October 2026, 25 years after Quality Power began operations. It makes high-voltage reactors up to 1,050 kV with peak revenue potential north of ₹1,500 crore. The old factory stays on for at least a year for customer approvals, then is kept for PCS or group businesses and revamped for new products.
- Nigde PCS factory in Turkey commenced manufacturing and is in full manufacturing mode. It cost about $2.5 million, with land already owned (about 45 acres in Turkey). R&D spend was about $2 million between 2020 and 2025 on PCS converters, expensed rather than capitalized.
- Winwin capex of ₹50-70 crore is planned for porcelain and composite insulator capacity. The Vizag site has about 50 acres, with 40 acres free.
- QIP of about ₹700 crore targeted 15-30 November, after the preferential issue lists. Proceeds: about ₹175 crore to repay WS debt and promoters, ₹50-70 crore WS expansion, about ₹300 crore working capital, and US office plus Class B manufacturing study. Management said working capital is needed for the first 2 years and should be recouped in 24-36 months.
- CTC cable backward integration adds about 4 months of working capital per project (2 months manufacturing plus 2 months credit). Management expects to save at least 8% import duty for domestic business and said the in-house cable will be more expensive than vendors.
- Mehru expansion: renting a nearby facility to bridge about 18 months, then a new factory to at least double capacity, with a large capex plan expected in 3-6 months.
- HVDC: an Australian 500 kV HVDC ships this quarter; prior execution in Abu Dhabi and Korea; UK HVDC link orders expected. Two Make in India HVDC awards are awaited, with orders of ₹100-200 crore each. Barmer HVDC is not expected to enter the books before Q2 next year given 1-1.5 years of engineering.
- Data centre reactors: handshakes with multiple US customers awaiting financial closure before LOAs. Management said capacity constraints mean it is content with the delay until the facility is confirmed.
- Minority stakes: Mehru has a put and call option after 7 years. Management said raising the Endox stake would be capital misallocation given 1% royalty access to the technology.
- Forex: everything in Turkey is hedged; India uses plain vanilla options with active tracking and no forwards.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	About 20%, unchanged, may revise at end of Q3	Maintained	Halfway through the year; factories not yet fully qualified
Stable EBITDA margin	About 20%	Maintained	Group-level; QP above 25%, Mehru 22-23% absent commodity hit, insulators about 25%, PCS 10-12%
FY28 revenue growth	At least 50%	Maintained	Order book and delivery timelines; Mehru cannot sustain this post-FY28, coil, insulators and PCS can
Q3 FY27	Tough at Quality Power, numbers should not fall much; Mehru scope for improvement; Endox blockbuster revenue year	New	Factory and people transition; Endox Q4 and BESS project build

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Sangli revenue shift	4-5 months to move revenue from old to new factory	New	Customer audits starting end-November, 1-2 a week across about 60 audits
Winwin revenue	At least ₹200 crore next year	New	Current order book and customer commitments; can ramp with synchronization
Winwin capacity	About ₹300 crore now, slightly above ₹500 crore after capex	New	Existing plant plus ₹50-70 crore expansion
Mehru capacity	About ₹500 crore current; 2x with new factory in about 18 months	New	Rented facility bridges demand; capex plan in 3-6 months
Endox PCS/BESS revenue potential	1,500-2,000 crore at 4 GW	New	About $60 million per GW with battery and PCS
CTC magnet wire	Qualification over 4-5 months, update in Q4	Maintained (Q4 FY27 full production)	New product, customer qualification pending
QIP	About ₹700 crore, 15-30 November	Raised (was under ₹500 crore)	Preferential issue listing, regulatory approvals and market conditions
Barmer HVDC	Not before Q2 next year	New	1-1.5 years of HVDC engineering

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Q3 transition at Quality Power	Moving factories and people; management called Q3 "a kind of a tough time" though numbers should not fall much
Customer audit pace	About 60 audits, each 3-4 people for 2-3 man-days; cannot run in parallel because the same people handle them; attempting 1-2 a week
Raw material pass-through	Fixed-price contracts mean aluminum, resin and paint increases cannot be passed on; new contracts are priced higher, and customers do not renegotiate if prices fall
Working capital	CTC cable adds 4 months of cash cycle; about ₹300 crore of QIP earmarked for working capital for the first 2 years; inventory rising as PCS orders grow
PCS margins	PCS booked at 10-12% with battery as pass-through; margin guidance deferred a quarter pending factory stabilization
India BESS regulation	Management said Indian regulations are not conducive, citing contingent liabilities and decade-long guarantees and warranties; PCS will be made in India for export rather than for India
Mehru capacity	No capacity online yet; demand 2-3 times current; new factory about 18 months away
Minority interests	51% holdings in Mehru and Endox mean a large share of profit sits outside; Mehru put and call only after 7 years
Global supply chain	Constrained supply of specialized electrical equipment, geopolitical developments, trade changes, logistics disruption and extended procurement lead times pressure schedules
Depreciation	Two new factories commissioned this quarter will add depreciation

Q&A HIGHLIGHTS

QIP size and use of proceeds Asked how the roughly ₹700 crore raise would be split, management said about ₹175 crore repays WS debt and promoters, ₹50-70 crore expands WS insulator capacity, about ₹300 crore is for working capital, and the rest funds the US office and a Class B manufacturing study, with any surplus kept for a future acquisition.

GE Vernova's acquisition of Trench Asked how the $9 billion Trench deal affects Quality Power, management said Trench is its largest competitor, GE is a customer, and the deal gives leverage with Hitachi and Siemens, which control 70-75% of HVDC and FACTS worldwide, with sourcing from Quality Power possibly rising over 2-3 years.

Order book split Asked for the ₹2,000 crore order book breakup, management said QP is about ₹600 crore, Mehru about ₹600 crore plus, Endox is stable awaiting PCS shipments, and Winwin booked about ₹75 crore in two months with a ₹1,000 crore negotiation pipeline.

Peak revenue by facility Asked for peak revenue from each capacity, management said Mehru's current factory is good for about ₹500 crore, Winwin about ₹300 crore rising above ₹500 crore with capex, Endox 1,500-2,000 crore at 4 GW, and Sangli north of ₹1,500 crore.

Insulator margins and market Asked about insulator demand-supply and margins, management said global demand may be about 4 against supply of about 1 with little new capacity, orders are booked at 20-25% EBIT including 8.25% SEZ duty, and direct US sales could reach 40% and higher.

Hyperinflation quantification Asked to quantify the IAS 29 entry, the CFO said Q1 had about ₹8 crore debited to P&L and Q2 had about ₹4 crore credited, a net ₹4 crore credit.

PCS margins Asked for PCS margins, management said PCS was booked at 10-12% with battery as pass-through and asked for a quarter to build through the factory before giving a number, with first published numbers this quarter.

Inventory build Asked why inventory rose, management said about ₹20 crore came from Turkey for IGBTs, chipsets and memory cards ahead of the PCS factory, plus long-lead insulators and bushings, and it may rise slightly over the next few quarters as PCS orders grow.

KSH International Ltd

GROWTH TRIGGERS

The operating inflection is now visible in capacity delivery, export conversion and cash generation: Phase 2 was 96% complete six months early, Q2 exports more than doubled year over year, utilization rose to 76%, H1 operating cash flow turned positive and debt fell sharply. The next leg depends on specialized utilization and contract visibility, with Phase 3 designed to lift capacity to 72,200 tonnes by Q1 FY29.

1. Phase 2 delivered ahead of schedule

Management completed 96% of Supa Phase 1 and Phase 2 by 9 September 2026, roughly six months ahead of schedule. Period-end capacity reached 57,845 metric tonnes, the majority of standard-wire capacity was online and the additional capacity was available for H2 FY27.

2. Exports are converting qualifications into volume

Export revenue grew 108% year over year and 44% sequentially in Q2 FY27 to almost 32% of group revenue from 26% in Q1. Volumes rose from both existing customers and new OEMs after technical qualifications and test shipments, providing direct evidence that the export pipeline is converting.

3. The Phase 3 capacity test is dated and specialized

The approved Phase 3 programme will add specialized magnet winding-wire capacity and take installed capacity to approximately 72,200 metric tonnes by Q1 FY29. Management plans up to ₹185 crore of spending over 18 months and targets approximately 85% utilization of the expanded base between FY30 and FY31.

4. Cash conversion is now visible

H1 FY27 operating cash flow was positive at approximately ₹43 crore, working-capital days improved to 52 from 60 in Q1 and around 70 a year earlier, and total debt fell by approximately ₹140 crore to ₹341 crore. This materially improves the funding position ahead of the Phase 3 programme.

5. Higher-voltage qualifications broaden specialized demand

Power Grid approved the new SUPA facility to supply winding wires for transformers and reactors up to 765 kV. KSH also received a trial order for specialized wire for two overseas HVDC transformers, creating a qualification route to future higher-value orders.

6. Volume growth remains supported by available capacity

Q2 sales volume reached 8,842 metric tonnes, up 26% year over year and 11% from Q1. Management expects FY27 volume growth of approximately 25-26% and H2 FY27 volumes to be better than H1 FY27, while specialized utilization exceeded 80%.

7. Long-term economics have a stated floor

Management identified approximately ₹85,000 EBITDA per tonne as sustainable after Phase 3 at optimal utilization, versus FY26 EBITDA per tonne of about ₹67,600 in prior research. Q2's approximately ₹101,000 shows upside from favourable CTC, export, currency and utilization mix, although management does not guide to that quarterly level.

INVESTMENT THESIS

KSH International is a 45-year-old make-to-order manufacturer of magnet winding wires used in power transformers, motors, compressors and alternators. Copper and exchange rates are passed through to customers, while KSH earns a negotiated value addition per tonne. Specialized winding wires, including CTC, represented roughly 75% of Q2 FY27 revenue and remain the economic core. Standard round wires are the larger-volume but lower-value-addition business. The company is therefore a volume, mix, utilization and qualification story rather than a copper-price or reported-margin story.

The competitive position rests on qualification and field performance. KSH serves more than 120 domestic and global OEMs with repeat revenue above 95%, and all exports go to T&D customers across five continents. Specialized products require engineered manufacturing steps and customer or utility approvals that can take years to build. Q2 FY27 added two visible proof points: Power Grid approved the new SUPA facility to supply winding wires for transformers and reactors up to 765 kV, and KSH received a trial order for specialized wire for two overseas HVDC transformers. The latter is not yet material revenue, but successful qualification could expose KSH to further HVDC orders. Management also said a five-year Hitachi Energy framework remains in place, although final volumes were still being negotiated and no additional signed customer agreement was disclosed.

The operating inflection is now stronger than in the prior research period. Management completed 96% of Supa Phase 1 and Phase 2 by 9 September 2026, roughly six months ahead of the previous schedule. Period-end capacity was 57,845 metric tonnes and available for H2 FY27. Q2 volume reached 8,842 tonnes, up 26% year over year and 11% sequentially, while consolidated utilization rose to 76% from 73%. Export revenue grew 108% year over year and 44% sequentially to almost 32% of revenue from 26% in Q1, after technical qualifications and test shipments began converting into supply from both existing and new OEMs. Q2 revenue from operations was ₹1,320 crore, up 85% year over year; EBITDA was ₹90 crore; and PAT reached a record ₹48 crore, up 62%.

Unit economics improved sharply, but investors should distinguish the quarter from the durable level. Q2 EBITDA per tonne was approximately ₹101,000, compared with ₹93,000 in Q1 and ₹65,500 a year earlier. The drivers were elevated CTC mix, higher export contribution, 76% utilization, a weaker rupee and incremental benefits from the operational upcast and rooftop solar plants. Management withdrew the older approximately ₹75,000 FY27 framing. It now describes ₹75,000-85,000 as a long-term range for the overall business mix and approximately ₹85,000 as sustainable after Phase 3 at optimal utilization, while explicitly declining to guide H2 FY27 or a specific year. Standard wire grew faster than specialized wire in Q2 from a smaller base and should gain mix as the newly commissioned capacity ramps, so the Q2 per-tonne result is not an annual target. Conversely, management

does not expect specialized absolute volumes to decline; the dilution is arithmetic mix rather than deterioration in the specialized franchise.

The next capital cycle is explicit. The board approved Phase 3, including 10 additional acres at Supa and specialized magnet winding-wire equipment, with capacity expected to rise to approximately 72,200 tonnes by Q1 FY29 in our reading of management's target. Management will spend up to ₹185 crore over 18 months, funded through internal accruals and long-term debt. Most expenditure is planned for FY28, with a smaller portion in H2 FY27. The economic test is dated: management expects approximately 85% utilization of the expanded base between FY30 and FY31 and believes the project will be accretive to profitability, asset turns and ROCE at optimal use. This is a longer payback than the Phase 2 ramp, and execution requires demand to remain strong through the new capacity build.

Cash conversion has improved materially. H1 FY27 operating cash flow was positive at approximately ₹43 crore, working-capital days fell to 52 from 60 in Q1 and around 70 a year earlier, and total debt declined to ₹341 crore from ₹481 crore. Management wants operating cash flow to move closer to gross cash accrual, defined as PAT plus depreciation, and targets operating ROCE of about 20%, moving toward 25%. These outcomes resolve the earlier concern that growth would permanently consume cash, although Phase 3 will temporarily use debt and cash before the new capacity reaches optimal utilization.

The earnings path from here is conditional rather than forecastable from the call. Management explicitly expects approximately 25-26% FY27 volume growth and says H2 volume should exceed H1. It expects exports to return to their historical average of about 40% over one or two years, versus almost 32% in Q2. Management gave no revenue or quarterly EBITDA guidance, so any numerical earnings projection beyond these disclosed operating targets would be analyst inference. The most important milestones are export mix, final Hitachi volume commitments, H2 volume conversion, continued positive operating cash flow and Phase 3 spending staying within ₹185 crore.

Management delivery has improved, but the record remains mixed rather than uniformly strong. Phase 2 was delivered early and the cash-flow objective was achieved. The Hitachi framework remains incomplete, and EV timing moved from meaningful contribution in FY28-FY29 to post-FY29. The central falsifier is a sustained failure to translate the 57,845-tonne base into stronger utilization and cash generation while the 72,200-tonne Phase 3 build increases fixed costs and debt. A second falsifier is a mix shift toward standard wires so large that EBITDA per tonne falls materially below management's approximately ₹85,000 long-term expectation despite growing absolute specialized EBITDA. The compounding case remains intact if exports continue toward 40%, H2 volumes exceed H1, framework commitments become firm, specialized utilization remains above 80%, and Phase 3 advances without compromising cash conversion.

RESEARCH REPORT

What KSH International Limited does

KSH International makes magnet winding wires, the copper conductors wound into coils inside electric machines. A power transformer, traction motor, AC compressor or alternator is built around coils of winding wire, and the wire's precision determines how much energy the machine loses as heat. KSH is a 45-year-old Indian manufacturer serving more than 120 domestic and global OEMs, with repeat revenue above 95%. At 30 September 2026, installed capacity was 57,845 metric tonnes after 96% of Supa Phase 1 and Phase 2 had been completed roughly six months ahead of the previous schedule.

The product line splits into two families with very different economics.

Specialized winding wires (roughly 75% of revenue): CTC (continuously transposed conductors), paper-insulated wires, and enamel-insulated rectangular conductors. These are engineered products with five or six precision manufacturing steps and fault-minimization processes, built on special-purpose machines that KSH designs to its own specifications. They go into large and medium power transformers used in T&D, renewables, railways, and data centers. CTC dominates the segment - it accounts for more than half of the specialized business - and KSH is India's CTC market leader: the first company to introduce and scale the product in India 20 years ago, and the only Indian company approved to supply HVDC 400 kV transformers (Jan 2026 concall).

Standard winding wires (roughly a quarter of revenue): round wires, produced in a two-step process with lower technical barriers. KSH deliberately confines these to select end uses where precision matters - EV motors, AC compressors, motors, and alternators for DG sets, including the backup gensets data centers run. The profitability gap is wide: specialized wires earn roughly three times the EBITDA per ton of standard wires, so the mix between the two drives the company's unit economics (Jan 2026 concall).

The business model insulates KSH from the two things that move its revenue line most: copper price and the dollar-rupee rate. The company is make-to-order. It receives a purchase order, books the copper at the day's LME price with its own supplier, processes the metal over 15-20 days, and invoices the customer at that same locked-in copper price. Neither KSH nor the customer carries copper exposure for the order cycle. Profits come from a separately agreed value addition per ton, set in a yearly contract with each OEM and built on a matrix of product type, complexity, and process (Feb 2026 concall). That is why management reports EBITDA per ton rather than margin percentage: revenue swings with copper, but unit economics reflect the real business.

Manufacturing is the moat. KSH's integrated production lines and in-house machine designs give it a 15-20 day order turnaround, which increases customer throughput and lets OEMs

hold less wire inventory. The quality claim is that failures are designed out rather than inspected out at the end of the line. That matters because a faulty conductor in a 765 kV transformer or an HVDC link fails in the field, on the grid, in front of a utility. KSH's deployed fleet - some products still working 20 years on - is evidence utilities hold against the manufacturer when they consider new suppliers (Jan 2026, May 2026 concalls).

The recent numbers show the model working. Q2 FY27 revenue from operations was ₹1,320 crore, up 85% year over year; specialized wire revenue grew 87%, standard wires 119% from a smaller base, and exports 108%. Sales volume was 8,842 metric tonnes, up 26% year over year and 11% from Q1 FY27, while consolidated utilization rose to 76% from 73%. EBITDA was ₹90 crore and PAT reached a record ₹48 crore, up 62% year over year. Consolidated EBITDA per tonne was approximately ₹101,000, supported by elevated CTC mix, higher exports, utilization, a weaker rupee and operating benefits from recycling and rooftop solar.

Two recent build-outs round out the operation. The Chakan facility commissioned a 5,000-tonne upcast unit in mid-2026 to recycle KSH's own copper scrap, and a 3.2 MW rooftop solar array at Supa was commissioned in May 2026. Both were operational by Q2 FY27 and contributed incrementally to EBITDA per tonne; the upcast plant is on leased premises. The board has now approved Phase 3, which includes an additional 10 acres at Supa, up to ₹185 crore of spending over 18 months, and an increase in installed capacity to approximately 72,200 metric tonnes by Q1 FY29.

Business segments

Specialized Winding Wires

Specialized winding wires are the profit engine of KSH International. These are the magnetic wires wound into coils inside power transformers, including CTC, paper-insulated wires and enamel-insulated rectangular conductors. The segment accounted for roughly 75% of Q2 FY27 revenue and grew 87% year over year, driven by T&D customers globally. Its economics remain better than standard wires because CTC is a more complex, higher-value-added product.

The core capability took decades to build. KSH claims to have been the first company to introduce and scale CTC in India about 20 years ago as an import substitute, and to have maintained leadership since. The product goes through five or six precision technology steps with fault-minimization processes, versus a two-step process for standard round wires. The barrier is not machinery alone but accumulated approvals: KSH states it is approved for all classes of power transformers, including being the only Indian company approved to supply HVDC 400 kV transformers. Management's estimate for a new entrant to work its way up to

the 765 kV segment is five to seven years, because every utility runs its own approval process on top of the OEM's.

The customers include more than 120 domestic and global transformer OEMs, with repeat revenue above 95%. During Q1 FY27, management announced the signing of a five-year supply framework agreement with Hitachi Energy Global:

> *"We are very pleased to announce that we have entered into a five-year supply framework agreement with Hitachi Energy Global to supply winding wires to their Indian plants as well as their some of their global plants."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

That agreement remains a framework. In Q2 FY27 management said final volumes were still being negotiated and expected to provide an answer within two quarters. It also said discussions were under way with a few other customers. The installed base reached 57,845 metric tonnes at 30 September 2026, and the board approved Phase 3 to take it to approximately 72,200 metric tonnes by Q1 FY29.

Competition inside the segment is fragmented but headed by a few qualified players. Management named Transformers & Rectifiers as a customer that is backward integrating into CTC, but argued the trend will stay limited because the continuous processes need order volumes to run efficiently and the end utilities must pre-approve any sub-vendor. Chinese CTC imports exist and were arriving when Indian capacity was short, but they face a 10% import duty calculated on the copper content as well as the fabrication, which makes them less competitive as domestic capacity comes online.

The demand backdrop remains structural. T&D is in a long-term cycle driven by grid infrastructure, renewable integration, electrification and rising electricity requirements from industrial and digital infrastructure. OEMs are growing order flows and investing in manufacturing capacity, particularly for premium transformer and motor applications. KSH's existing export relationships, the overseas HVDC trial and the newly approved 765 kV application extend the addressable market beyond India.

Export is the growth accelerant. All exports are to T&D customers across five continents. Q2 FY27 export revenue grew 108% year over year and 44% sequentially, reaching almost 32% of revenue from 26% in Q1 FY27. Management now expects exports to return to the historical average of around 40% over the next one or two years, on expanded capacity.

The financial performance of the segment drives the group. Specialized wire revenue grew 87% year over year in Q2 FY27, and elevated CTC mix plus higher export volumes helped consolidated EBITDA per tonne reach approximately ₹101,000. Management now describes ₹85,000 per tonne as the sustainable long-term level after Phase 3 at optimal utilization,

while warning that quarterly outcomes can differ with product mix, exports and currency. The upcast recycling facility and rooftop solar plant are operational and provide incremental benefits.

Standard Winding Wires

Standard winding wires are the round magnet wires wound into the coils of everyday electric machines - AC and refrigeration compressors, industrial motors, two- and three-wheeler EV traction motors, and the alternators inside diesel generating sets. They are a simpler product than KSH's specialized wires, which pass through five to six precision steps. Round wire is "essentially a two-step process", as management put it on the Q2 FY26 call. That simplicity means lower value addition per ton, but it also makes standard wires the volume engine that fills production lines as the new Supa plant ramps.

The durable capability here is not the process itself; it is the machinery underneath it. KSH is a 45-year-old magnet-wire maker whose specialized business built the copper sourcing, the OEM relationships, and the make-to-order discipline. Standard wires entered only in FY22, aimed at AC and refrigeration compressors and two-wheeler EV traction motors. Every order starts with a purchase order; copper is booked with suppliers at that moment, and the LME price and exchange rate flow straight to the invoice. The value addition is negotiated separately, per customer, typically for a year. Management described the mechanism on the Q1 FY27 call:

> *"We will book the copper once we receive the order... whatever is the known copper price, that becomes the invoice price for the copper portion for that particular order. So that's the pass-through mechanism, and then we focus on the value addition." - MD, Q1 FY27 concall (Aug 2026)*

Inside the segment sit compressor-grade round wires for AC and refrigeration compressors, enamelled wires for two- and three-wheeler EV traction motors, wires for general motors, and wires for DG-set alternators, which the company expects to grow as data centers install backup power. Management noted on the Q3 FY26 call that high copper prices may push small motor makers toward aluminium, and KSH manufactures aluminium wires too, though that business is less than 1% of revenue. Higher-value EV products like PEEK-coated wires for 800-volt traction motors sit in the specialized segment rather than here.

Customers are the roughly 120 OEMs KSH serves across the group, with repeat revenue above 95% in FY26. The demand shift in this segment is partly regulatory: the Bureau of Indian Standards (BIS) is curtailing round-wire imports, moving the supply base to domestic makers such as KSH. Management's positioning for these wires is precision, not commodity:

> *"Our focus for standard wires is predominantly in select end-user industries such as EVs, AC compressors, motors, etc., where precision technology plays a critical role." - MD, Q4 FY26 concall (May 2026)*

The EV programme remains qualification-led. Two- and three-wheeler volumes were already live under prior calls, but PEEK-coated wire for higher-voltage passenger-vehicle programmes had not become a meaningful business by Q2 FY27. Trials were complete, samples had been made and management was talking with several customers, but it now expects meaningful volume only post-FY29.

By capacity, KSH ended Q2 FY27 with 57,845 metric tonnes installed after completing 96% of Supa Phase 1 and Phase 2. Phase 3 adds specialized winding-wire capacity and is expected to take installed capacity to approximately 72,200 metric tonnes by Q1 FY29. Capacity remains product-specific because standard and specialized lines are dedicated, so standard output does not absorb specialized capacity.

The Q2 FY27 revenue split remained approximately 75% specialized and 25% standard. Standard wire revenue grew 119% year over year from a smaller base, while specialized wire grew 87%. Management expects the newly commissioned standard capacity to increase standard's contribution and move the mix closer to historical levels in H2 FY27 and FY28. A higher standard share will rationalize blended EBITDA per tonne, but management does not expect absolute specialized volumes to decline.

The value of standard wires to the group is utilization and scale. Supa Phase 2 was 96% complete by September 2026 and the majority of standard capacity was online. Management no longer guides to ₹75,000 per tonne for FY27; it describes ₹75,000-85,000 as a long-term sustainable range for the overall mix and approximately ₹85,000 as the post-Phase-3 level at optimal utilization.

Customers

Who buys

KSH is a B2B supplier to more than 120 OEMs. Every export shipment goes to a transformer company, with exports spanning Europe, the Americas, the Middle East and other Asian markets. In Q2 FY27 the Middle East remained around 10-11% of revenue, Europe and the Americas were each below 10%, and India supplied roughly 73%. Domestic expansion remains a wallet-share opportunity with established transformer OEMs, while standard-wire customers serve EV, compressor, motor and alternator applications.

The buying relationship

Purchases run through annual value-addition contracts with each OEM. The contract fixes a per-ton value addition across a matrix of product permutations - wire type, gauge, insulation,

complexity - independent of copper price. When a customer releases a purchase order, the copper portion is priced on an unknown LME basis (daily, monthly, or a 15-day average depending on the customer), booked immediately with the supplier, and passed through. What KSH negotiates and protects is the value-added layer (Feb 2026 concall). Roughly 80-85% of business repeats annually; in FY26, repeat revenue exceeded 95% (Jan 2026, Aug 2026 concalls).

Tenure runs decades. Five of the top ten customers have been with KSH more than ten years; the oldest relationship approaches 40 years (Jan 2026 concall). Top ten customers account for about 50% of revenue spread, which sounds concentrated, but the counterparties are diversified across geographies and the relationships are persistent rather than tender-driven (Jan 2026 concall).

The customer's decision to buy is gated by regulation. A transformer OEM only selects a wire vendor if that vendor is already on the utility's approved sub-vendor list - PGCIL, NTPC, and their international counterparts. New wire suppliers must be qualified by each utility in each country, a process measured in years, not months (Jan 2026, May 2026 concalls).

Why customers pick KSH

Four things, in order: approvals, track record, quality, and turnaround.

- Approvals: PGCIL-certified for all transformer classes including HVDC 400 kV, plus Power Grid approval for the new SUPA facility to supply winding wires for transformers and reactors up to 765 kV, and utility approvals in each export country (Jan 2026, Nov 2026 concalls).
- Track record: 20 years of deployed CTC in the field. Utilities want proof the product has run live on the grid before they accept it.
- Quality: built-in precision that lowers losses and extends transformer life. KSH's special-purpose machines are designed in-house, so competitors cannot buy the same capability off the shelf.
- Turnaround: a 15-20 day order cycle increases customer throughput and lets OEMs hold less wire inventory (Feb 2026 concall).

The demand environment is tightening supply enough that customers are locking in capacity with multi-year agreements. In August 2026, KSH announced a five-year supply framework agreement with Hitachi Energy Global covering Indian and some global plants:

> *"We are very pleased to announce that we have entered into a five-year supply framework agreement with Hitachi Energy Global to supply winding wires to their Indian plants as well as their some of their global plants."*
>
> **MD RAJESH HEGDE, Q1 FY27 CONCALL (AUG 2026)**

The Hitachi agreement is a framework: final quantities and pricing were still being negotiated in Q2 FY27. Management said discussions with a few other customers were under way and expected an answer on additional long-term agreements within two quarters. No additional signed agreement was disclosed.

Switching costs

Switching a strategic wire supplier costs a transformer OEM years of re-qualification. A new entrant must be approved by each utility, which requires a live field track record at progressively higher voltage classes. Management puts the time for a new supplier to reach 765 kV at five to seven years (May 2026 concall). For an installed and field-proven supplier like KSH, that barrier works in reverse: the customer's incentive to re-qualify someone else is low, and wallet share with existing customers is sticky. That is also why KSH wins new global business from OEMs that previously bought elsewhere - each addition is a multi-year revenue stream, though early quantities are modest as customers test performance (May 2026 concall).

Competitive landscape

Where KSH sits

The Indian winding wire industry splits into two tiers. Standard round wires are largely commoditized, price-tender-driven, and carry roughly one-third the EBITDA per ton of specialized wires (Jan 2026 concall). Specialized wires - CTC and rectangular conductor products - are approval-gated, with 5-6 step manufacturing processes and utility certification required. KSH sits at the top of the specialized tier: India's CTC market leader, the only Indian company approved for HVDC 400 kV, and the largest winding wire exporter from India (Jan 2026, Feb 2026 concalls). By capacity it rose from third to second as Supa came online (Feb 2026, Aug 2026 concalls). Peers such as Ram Ratna compete in the standard and round-wire space with different commercial terms, notably deeper payable days on supplier credit (Feb 2026 concall Q&A).

The competitive threats

Chinese imports into India. Some CTC enters India from China because of the earlier domestic supply-demand gap. It is structurally uncompetitive: a 10% import duty applies to the entire value including the copper portion, and a weak rupee widens the gap. Management

expects the import channel to shrink as domestic capacity, including KSH's, absorbs demand (Feb 2026 concall).

New Indian CTC entrants. Round-wire manufacturers are announcing CTC capacity to chase the demand cycle. A new plant requires capital, specialty machinery with 8-12 month lead times, and then a multi-year qualification ladder. Management's view:

> *"in the past, we've seen new entrants have taken anywhere from five to seven years to finally come up to a 765kV range as well."*
>
> **MD RAJESH HEGDE, Q4 FY26 CONCALL (MAY 2026)**

The approval process is identical whether the entrant is independent or a transformer OEM's captive line: utility sub-vendor lists require a live field track record before the product can be used at higher voltage classes.

Backward integration by transformer OEMs. Transformers and Rectifiers has announced CTC backward integration. KSH treats this as contained risk: CTC and other specialized manufacturing runs continuous processes 24/7, needs scale to be efficient, and does not fit the transformer OEM's core competence. Globally, no transformer OEM of significance has backward-integrated into magnet winding wire (Jan 2026, Feb 2026 concalls).

Chinese competition in export markets. KSH competes with Chinese manufacturers wherever it exports. In Southeast Asia (Indonesia and similar), Chinese suppliers win via bilateral FTAs that cut their duty advantage, so KSH steps back there. In the US, China vacated the market post-COVID and Indian suppliers including KSH picked up the slack - KSH has served the US for over a decade. In Europe, the Middle East, and Japan, KSH competes on a level playing field and is cost-competitive with Chinese suppliers on a like-for-like basis (Jan 2026 concall). US tariff treatment of India is in flux: value-addition duties on India were around 54%, with government signaling 18-25% (still to be confirmed), versus China at roughly 34% on value-added US revenue (Feb 2026 concall).

Why the moat holds

The entry barriers remain stacked: product complexity, OEM and utility qualifications, field track record and a 15-20 day turnaround. KSH's specialized-wire position is reinforced by the Power Grid approval for its new SUPA facility to supply transformers and reactors up to 765 kV, the overseas HVDC trial and export qualifications. These approvals strengthen continuity of supply as transformer OEMs add capacity.

Honest pressure points

Intense competition remains in standard wires, which is why KSH confines the product to precision applications. The principal pressure is now mix rather than Phase 2 commissioning: standard wire grew 119% year over year in Q2 FY27 and management expects its share to

rise as capacity ramps, which should pull blended EBITDA per tonne below Q2's approximately ₹101,000. Management's long-term expectation is approximately ₹85,000 per tonne after Phase 3 at optimal utilization, while specialized absolute volumes are not expected to decline.

Industry

Demand drivers

The T&D sector is in a structural, multi-year upcycle. Four forces are pulling transformer demand: renewable energy build-out (which needs grid connections and long-distance evacuation), grid modernization and urbanization, and surging electricity demand from AI data centers. The bottleneck is transformer supply, not demand - transformer OEMs globally are sitting on order books of three to five years and expanding capacity through the late 2020s. Every new transformer needs winding wire, and the year-on-year additions of OEM capacity through roughly 2029 sustain wire demand even as the market matures (May 2026, Aug 2026 concalls).

Management frames the cycle as continuous: "should all this transformer capacity come to market over the next three to five years, the whole supply chain, including magnet winding wires, will still have a lot more capacity expansion to do to keep up with the demand" (May 2026 concall). Within T&D, the fastest-growing sub-segment is HVDC, driven by long-distance renewable evacuation. India is executing HVDC projects (the Khavda-Bhadla corridor), with additional HVDC transformer orders from GE and repair orders from other OEMs beyond what PGCIL has already placed (Feb 2026 concall).

Market size

Management updated its CTC demand estimate for India to approximately 120,000-130,000 tonnes by around FY30, excluding exports. A bulk of the demand comes from power transformers, with HVDC and 765 kV applications adding incremental requirements. This is a management estimate, not an independently verified market forecast.

India's position in the global supply chain is two-sided. It is a windfall beneficiary of China+1 diversification in the US and Europe for transformer-critical materials: Chinese suppliers vacated the US after COVID, and European buyers actively seek alternate sources. KSH exports to 24 countries, all T&D. At the same time, India imports CTC when domestic supply is short, and the 10% duty plus rupee weakness makes those imports expensive - which is why local capacity additions are self-reinforcing for domestic manufacturers (Feb 2026, May 2026 concalls).

Trade and tariff dynamics

Two tariff layers matter. On imports into India, a 10% customs duty applies to the full value including copper, making Chinese CTC imports structurally more expensive than domestic

supply once capacity exists (Feb 2026 concall). On exports to the US, value-addition duties on India were around 54%; the government is negotiating down to 18-25% (unconfirmed). China sits at ~34% on value-added US revenue. For KSH, US tariffs land on the value-added layer, and its US customers currently absorb and pass the tariff through to end users (Feb 2026 concall). The rupee's persistent weakness is a tailwind for export value addition, though management does not build guidance around it (Aug 2026 concall).

Regulation and localization

Two regulatory forces shape the industry. BIS implementation is driving localization: standard winding wires that used to be imported into India must now be supplied by BIS-certified Indian makers, which shifts volumes to domestic producers including KSH (May 2026, Aug 2026 concalls). And utility approvals (PGCIL, NTPC, and foreign equivalents) govern who can supply wire into transformers connected to the grid. Approvals are not transferable and not fast: every new supplier works its way up from medium power transformers through 765 kV and HVDC over five to seven years, and must maintain a live field track record (May 2026 concall). Together these two forces mean the specialized end of the market is a governed oligopoly - few players, high barriers, fast-growing demand - while the standard end is a BIS-consolidated but still competitive domestic market.

Cyclicality and position in the cycle

The industry remains capacity-constrained, although Q2 FY27 also showed execution risks from logistics. KSH's working-capital days improved to 52 from 60 in Q1 FY27 and around 70 a year earlier. Middle East transit times and transport costs increased because of regional disturbance, although management did not report a significant decline in Middle East business. The forward cycle depends on transformer OEM capacity additions, HVDC conversion, export qualification and the EV programme, whose meaningful PEEK contribution has now moved to post-FY29.

Growth triggers

Supa Phase 2 expansion completed 96% ahead of schedule; Phase 3 approved to reach 72,200 MT by Q1 FY29

The Supa expansion has moved from future delivery to current operating capacity. Management reported that 96% of Phase 1 and Phase 2 had been completed by 9 September 2026, roughly six months ahead of schedule. Period-end capacity was 57,845 metric tonnes and was available for H2 FY27. The board has subsequently approved Phase 3, which is expected to raise installed capacity to approximately 72,200 metric tonnes by Q1 FY29.

> *"We are very pleased to have completed 96% of both Phase 1 and Phase 2 of our super capacity expansion as on September 9th, 2026, roughly 6 months ahead of schedule. Period-end capacity stood at 57,845 metric tons and is now available for H2 of FY27."*
>
> **MD, Q2 FY27 CONCALL (NOV 2026)**

The old completion estimate of March 2027 has been superseded by the September 2026 execution update. At Q2 FY27, most standard-wire capacity had come online and consolidated utilization was 76%, versus 73% in Q1. Phase 3 will add specialized magnet winding-wire capacity, with most expenditure planned for FY28 and a smaller portion in H2 FY27.

The near-term mechanism is volume conversion from capacity already available. Q2 sales volume was 8,842 metric tonnes, up 26% year over year, and management expects H2 FY27 volumes to be better than H1. Consolidated utilization was 76%, while specialized utilization exceeded 80%, the threshold management cited for considering additional capacity. Phase 3's 72,200-tonne base is expected to reach approximately 85% utilization between FY30 and FY31.

The capacity mix is moving in two directions. Most standard-wire capacity is already online, and standard revenue grew 119% year over year in Q2 from a smaller base. Phase 3, by contrast, is directed toward specialized magnet winding wires. Management expects the blended mix to move closer to historical levels in H2 FY27 and FY28 as standard output ramps, while the longer-term product mix will skew more specialized after Phase 3.

Hitachi Energy five-year supply framework agreement - final volumes and pricing remain under negotiation

On the Q1 FY27 earnings call (August 2026), management announced a five-year supply framework agreement with Hitachi Energy Global covering winding wires for Hitachi's Indian plants and some of its global plants:

> *"We are very pleased to announce that we have entered into a five-year supply framework agreement with Hitachi Energy Global to supply winding wires to their Indian plants as well as their some of their global plants."*
>
> **RAJESH HEGDE, MD, Q1 FY27 CONCALL (AUG 2026)**

Hitachi Energy is a core KSH customer, named alongside BHEL, CG Power, GE Vernova, Bharat Bijlee, Siemens and Toshiba as transformer OEMs whose public order backlogs validate the demand environment (Q2 FY26 concall, Jan 2026).

The mechanism: this is a framework, not a fixed order. It sets the terms under which Hitachi releases purchase orders over five years. The products are specialized winding wires - CTC, paper insulated and enamel insulated rectangular conductors - the category tied to the

roughly 75% of KSH revenue that comes from large power transformers (Q1 FY27 concall, Aug 2026). Management confirmed the broad construct is agreed but quantity and price are still being finalized (Q1 FY27 concall, Aug 2026).

The agreement continues to provide framework visibility, but it is not yet a fixed order. Management said in Q2 FY27 that final volumes were still being negotiated and expected to provide an answer within two quarters. Discussions with a few other customers were also under way. Transformer manufacturers' longer order books and expanding capacity support the broader move toward multi-year supply arrangements, but additional firm commitments were not disclosed.

On economics, management said per-ton margins on the Hitachi business would be similar to the company average, not premium (Q1 FY27 concall, Aug 2026). Actual revenue depends on the purchase orders released under the framework, which is still being finalized.

HVDC: overseas trial for two transformers, 765 kV SUPA approval and prospective qualification upside

Q2 FY27 added two concrete HVDC milestones. KSH received a trial order for specialized wires for two overseas HVDC transformers, and Power Grid approved the new SUPA facility to supply winding wires for transformers and reactors up to 765 kV. Management said the overseas trial could open future HVDC orders once proven, but no revenue scale was disclosed.

KSH is the only Indian company approved to supply CTC for HVDC 400 kV transformers (Q2 FY26 concall, Jan 2026). That approval is the reason the orders land with KSH and not competitors. HVDC transformers sit at the top of the power transformer class, so the CTC that goes into them carries the highest value addition in KSH's portfolio. Replacement supply is protected too: imports carry a 10% duty on the full value including copper, and new domestic entrants need five to seven years to get qualified up to 765 kV, let alone HVDC.

The mechanism is qualification-led. The two-transformer order provides a technical proof point; conversion could expose KSH to the customer's current and future HVDC programme. The Power Grid approval extends the new SUPA site's addressable voltage range to 765 kV. Both are stronger than an aspiration, but the overseas order remains a trial and its commercial conversion is open.

The overseas trial is two transformers, so it should not be treated as a material revenue contribution on its own.

> *"Though, at the current level of 40-odd transformers, it will not meaningfully impact any given quarter's performance. But as more HVDC transformers begin to be supplied, which we expect to happen, it should start to have an incremental benefit to the company, given it is our highest value addition product."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

Management cited a recent GE HVDC order and repair orders with other transformer manufacturers as pipeline beyond the 37, and expects the Khavda-Bhadla renewable corridor to feed additional transformer awards. The business case rests on HVDC becoming a larger share of transmission capex globally, with KSH positioned as the qualified Indian supplier of the critical wire inside those transformers.

Export growth: 108% YoY and 44% QoQ in Q2 FY27; target to return to about 40% of revenue over one to two years

Exports accelerated in Q2 FY27: revenue grew 108% year over year and 44% from Q1 FY27, lifting export share to almost 32% from 26% in Q1. Export volumes increased from both existing customers and new OEMs after technical qualifications and test shipments. The medium-term objective is to return the mix to its historical average of around 40% over the next one or two years.

The mechanism is straightforward. KSH is make-to-order with copper as a direct pass-through, so export profitability comes from the value addition on top of copper, not from the metal. Management stated that exports carry better margins than domestic sales, and a weaker rupee adds a further tailwind to EBITDA per ton (Q1 FY27 concall, Aug 2026). Export volumes are all specialized winding wires, which carry roughly 3x the EBITDA per ton of standard wires (Q4 FY26 concall, May 2026).

Three forces are driving the export push. First, capacity was the constraint - historically exports ran at 30-40% of revenue, but were consciously reduced to ~30% in FY25 because domestic demand offered better value while capacity was limited (Q2 FY26 concall, Jan 2026). Second, global transformer OEMs are all expanding capacity, and KSH's existing customers in those markets are adding facilities, which supports wallet-share gains (Q1 FY27 concall, Aug 2026). Third, export growth is coming from new customers added over the past two quarters, not just existing relationships.

> *"going forward, we'll try to inch it up to, over the next, uh, say, 1 or 2 years, bring it back to the historical 40% of the overall revenue as well on an expanded capacity basis."*
>
> **MD, Q2 FY27 CONCALL (NOV 2026)**

Exports were almost 32% of Q2 FY27 revenue. Management reported no significant Middle East business decline, although regional disturbance increased transit times and transport

costs. The path to 40% depends on continued qualification, rising supply from existing global OEMs and additional export customers; management said the US contributes less than 10% of revenue and that data-centre-related transformer demand remains a small component.

The structural tailwind matters here: US tariff policy has made imports of CTC and specialized winding wires more expensive, which benefits Indian exporters. Management noted that Chinese competitors face a 34% value-add duty on US revenue while India's rate is expected to land between 18-25%, and that Chinese players have largely vacated the US market post-COVID (Q3 FY26 concall, Feb 2026). In markets with a level playing field like Japan, KSH is already cost-competitive with Chinese manufacturers on a like-for-like basis (Q3 FY26 concall, Feb 2026).

EV traction motor wires: trials and samples completed; meaningful volume moved to post-FY29

KSH International's EV play is built around PEEK-coated magnet wire, the insulation required for 800-volt traction motor architectures. The current industry standard is 400 volts, and the shift to 800 volts is driven by faster charging and larger vehicle sizes. PEEK is a patented technology held by just two European manufacturers, and it does not yet exist in India. KSH signed an exclusive licensing agreement with one of them, HPW, to indigenize the product line.

The mechanism remains qualification-led. Management said EV has the longest development cycle, requiring product qualification before volume. By Q2 FY27, trials were complete, samples had been made and KSH was talking with several customers, but no commercial scale or customer programme had been disclosed.

> *"We are investing a little bit early in our cycle. But this will not have an immediate impact. But, you know, we will be working on programs with some of the manufacturers for EV motors. And that's where the real benefit will come maybe, after FY '27 is when we expect to."*
>
> **MD, Q2 FY26 CONCALL (JAN 2026)**

The timeline has been revised later. Management now expects meaningful PEEK-related contribution only post-FY29, rather than FY28-FY29. EV remains an option rather than a material earnings driver in the FY27-FY28 capacity-ramp period.

The 800-volt architecture has not yet matured in India. What matters is that the 2-wheeler segment is already contributing volume today; the larger 4-wheeler and bus programs, where PEEK comes in, are still in the validation stage. KSH is positioning itself so that when those programs industrialize, it is already qualified, approved, and has the lines running at Supa.

Upcast backward integration facility commissioned in Chakan (5,000 MT) - recycles own copper scrap, provides modest operating efficiency and sustainability benefits

In the first week of August 2026, KSH commissioned a 5,000 metric ton upcast backward integration facility at Chakan, completing another stated objective of its IPO. The plant adds no wire-making capacity. It converts the company's own copper scrap back into copper rod, the key raw material for drawing winding wire.

The economics work through the scrap-to-virgin-rod spread. Copper is a pass-through in KSH's business, but the scrap generated during drawing and insulation would otherwise be sold at a discount to the rod the company buys back. Capturing scrap in-house lets KSH keep more of the metal value on its gross profit line, which is where its unit economics are built.

> *"Last week, we completed yet another one of our IPO objectives on time by commissioning our upcast backward integration facility in Chakan. This facility will have a capacity of 5,000 metric tons and be used to recycle our own copper scrap, which in turn should provide some modest operating efficiency and further strengthen our sustainability efforts."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

Scale defines the ceiling on the benefit. Head of IR Dhruv Chopra said the recycling capacity is "sub less than 10%" of KSH's overall capacity, and confirmed the 5,000 metric tons roughly matches the scrap generated across the company's ~59,000 metric tons of installed wire capacity. CFO Amod Joshi quantified the near-term impact: for the remainder of FY27, the facility should add "a few rupees to the bottom line, to the gross profit, but not more than that," with no immediate plans to scale beyond captive scrap. One analyst noted the investment is small, around INR6-7 crore.

The commissioning arrived earlier than the H2 FY27 commencement date flagged in the May 2026 concall. It was funded from the INR97 crore IPO allocation for the Supa and Chakan capex programs, and sits alongside the 3.2 MW rooftop solar project at Supa as the second completed IPO "sustainability" item. The sustainability label carries commercial weight: KSH's exports run exclusively to T&D customers across Europe, the Americas and the Middle East, where OEMs increasingly factor a supplier's copper carbon footprint into sourcing decisions.

Phase 3 expansion at Supa: 10 additional acres, 72,200 MT capacity and up to ₹185 crore over 18 months

The August 2026 authorization to evaluate 10 additional acres has progressed into an approved Phase 3 programme. The board approved the expansion, which includes purchasing the land and building plant and machinery for a specialized magnet winding-wire facility. The investment ceiling is ₹185 crore over 18 months, funded by internal accruals and

long-term debt, and installed capacity is expected to reach approximately 72,200 metric tonnes by Q1 FY29.

> *"To secure a long-term capacity expansion requirements, our board last night authorized management to evaluate acquiring an additional 10 acres of land within Supa MIDC for its long-term expansion requirements. Purchasing land in Supa MIDC is the obvious choice for us, given the established infrastructure we are currently building out."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

The Phase 3 project has an explicit economic test: add specialized capacity, support transformer, renewables, railway and EV markets, and reach approximately 85% utilization on the 72,200-tonne base between FY30 and FY31. Management expects the project to be accretive to profitability, asset turns and ROCE at optimal utilization. It does not expect a material adverse impact on liquidity ratios.

The timing reflects expected demand. Specialized utilization exceeded 80% in Q2 FY27, management's stated threshold for adding capacity, while customers are expanding transformer manufacturing and some have order books extending to 2032. The incremental 10 acres could accommodate roughly 20,000 tonnes if required in a later phase, but that additional potential is separate from the approved 72,200-tonne Phase 3 plan.

Working capital improvement: 52 days in Q2 FY27 and positive H1 operating cash flow

Working-capital days on an average-balance basis improved to 52 in Q2 FY27 from 60 in Q1 FY27 and around 70 a year earlier. This released cash and helped H1 FY27 operating cash flow turn positive at approximately ₹43 crore. The earlier 30-35 day objective was not repeated as a formal target in the Q2 call, so it remains the older aspiration rather than current guidance.

> *"we feel that 30, 35 days is something that is fairly achievable, and that is what our aim in the going forward will be to do better than that also if possible."*
>
> **DHRUV CHOPRA, HEAD OF INVESTOR RELATIONS, Q1 FY27 CONCALL (AUG 2026)**

The high baseline has two structural causes. KSH historically prepaid copper through bank-financed advances, leaving payables at about 5 days versus peers at far higher levels (Q3 FY26 concall, Feb 2026). Inventory days run high because large transformer orders are lumpy. Rajesh Hegde explained that a 60-tonne transformer order cannot ship until the last ton is manufactured, so finished inventory sits on the balance sheet until dispatch (Q4 FY26 concall, May 2026).

The mechanism is three levers pulled together. First, shift copper purchases from advances to supplier credit, extending payables toward 25-plus days; management has been

negotiating banking products to enable this (Q4 FY26 concall, May 2026). Second, receivables collection discipline, which improved two days in Q1 FY27. Third, inventory control, held flat in Q1 given the nature of the business (Q1 FY27 concall, Aug 2026).

Progress accelerated in Q2 FY27: average working-capital days improved by eight days from Q1 and by roughly 18 days year over year. Total debt fell by approximately ₹140 crore during the quarter to ₹341 crore from ₹481 crore. The cash improvement supports a lower financing burden even though Phase 3 will introduce some long-term debt.

The operating-cash-flow goal has now been delivered for H1 FY27. Management's next stated aim is to approach gross cash accrual, defined as PAT plus depreciation, over a multi-quarter period. Phase 3 may temporarily increase debt during construction, but management does not expect leverage to rise materially beyond existing levels at optimal utilization.

Key risks

- **Fixed-cost absorption and mix normalization.** Supa Phase 2 was 96% complete and available for H2 FY27, but Q2's approximately ₹101,000 EBITDA per tonne reflected elevated CTC mix, exports and currency. Standard-wire revenue grew faster from a smaller base and is expected to gain mix as the newly commissioned capacity ramps. Management therefore expects blended EBITDA per tonne to rationalize and describes approximately ₹85,000 as the sustainable post-Phase-3 level at optimal utilization. Phase 3 also brings new fixed costs before its full ramp.

- **Product mix normalization compresses blended margins.** Specialized wire remains the profit engine and management does not expect its absolute volumes to decline. However, standard wires grew 119% year over year in Q2 FY27 from a smaller base, and management expects standard's contribution to increase toward historical levels in H2 FY27 and FY28. The arithmetic mix effect can pull blended EBITDA per tonne below Q2's elevated ₹101,000 even if absolute specialized EBITDA remains intact.

- **Phase 3 raises the investment burden.** Management approved up to ₹185 crore of spending over 18 months, including 10 acres of land and a specialized winding-wire plant, funded by internal accruals and long-term debt. Most spending is planned for FY28, with a smaller portion in H2 FY27. The project is expected to be accretive at optimal utilization, but earnings and cash conversion depend on reaching approximately 85% utilization between FY30 and FY31.

- **Copper price and input volatility.** Copper is a direct pass-through on every order, so EBITDA/ton is structurally insulated. But the metal still drives two indirect costs: working capital rupees (and therefore interest) and customer behavior at the margin. In small motors and fans, sustained high copper pushes buyers toward aluminum, which is less

than 1% of KSH's business today (Q3 FY26, Feb 2026). A sharp copper move also freezes order timing as customers absorb pass-through quotes before committing.

- **Demand-supply mismatch draws in imports and new entrants.** Chinese CTC imports ran at roughly 1,000 tons a month because domestic capacity could not meet demand (Q4 FY26, May 2026). That gap is closing as KSH and others add capacity, and the import differential is wide because a 10% duty applies to the copper value, not just processing (Q3 FY26, Feb 2026). But the same demand signal is pulling round-wire manufacturers into subscale CTC entry - they need five to seven years of utility approvals to reach 765kV/HVDC, but can reach the 50-100 MVA entry segment sooner and compete on price there (Q4 FY26, May 2026). If the industry builds faster than the ~70,000-75,000 tons of CTC demand management projects for FY27-28 (Q4 FY26, May 2026), the lower end of the market turns price-competitive.

- **Transformer OEM backward integration.** Transformers and Rectifiers is already backward-integrating into CTC (Q2 FY26, Jan 2026). Management's counter is that continuous 24/7 processes need scale, OEMs still need utility pre-qualification for any new wire source, and no global transformer OEM has integrated wire production (Q2 FY26, Jan 2026). The risk is asymmetric: roughly 75% of revenue depends on transformer OEMs (Q1 FY27, Aug 2026), so if even two or three large OEMs replicate the move, the addressable specialized market shrinks at the high-value end KSH prioritizes.

- **Middle East disruption and export lumpiness.** Export growth has been lumpy - 22% YoY in Q2 FY26, 37% in Q3, 92% in Q4, 76% in Q1 FY27 - because it is wallet-share- and project-driven, not a smooth curve (Q4 FY26, May 2026; Q1 FY27, Aug 2026). The Middle East is a key export geography (one of three regions each at 8-11% of annual revenue), and the March 2026 disruption delayed 100-150 tons of dispatches and another 100-150 tons of production decisions (Q4 FY26, May 2026). Any recurrence compresses quarterly volumes and inflates inventory days, and export is the higher-margin stream the company is growing back toward 40% of revenue.

- **Long-term supply agreements remain incomplete.** The Hitachi Energy framework still lacks final volume commitments and pricing. Management expected to resolve volume placement within two quarters and was discussing similar arrangements with a few other customers, but no additional signed agreement was disclosed. Until commitments are firmer, utilization of the expanded base depends on ordinary purchase orders and customer release schedules.

- **Customer ramp delays stall order pickup.** Some transformer OEMs in active capacity expansion have been delaying pickup of ordered wire by a few weeks while their new facilities clear bottlenecks (Q1 FY27, Aug 2026). Management expects normalization, but

the pattern already showed in Q1 FY27. Repeated delays push inventory days up (they stayed flat this quarter) and stretch receivables, both of which work against the 60-to-35-day working capital plan.

- **US tariff uncertainty on export economics.** India's value-addition tariff in the US moved from roughly 54% to a still-unconfirmed 18-25%, with China at ~34% (Q3 FY26, Feb 2026). Lower tariffs are a tailwind for exports, but the unresolved rate is a planning problem: pricing for US-bound orders is set against an unsettled duty, and since customers absorb the tariff, any upward revision tests their willingness to keep ordering.

Scenarios

Bull case

Supa Phase 2 was 96% complete by September 2026, roughly six months ahead of schedule, and the new capacity was already supporting Q2 volume, exports and utilization. Phase 3 adds specialized capacity to approximately 72,200 tonnes by Q1 FY29, with management targeting approximately 85% utilization between FY30 and FY31. Q2 exports grew 108% year over year and 44% sequentially, the overseas HVDC trial and Power Grid's 765 kV approval broaden qualified demand, H1 operating cash flow turned positive and debt fell by ₹140 crore. If export share reaches the 40% objective, Hitachi volumes are finalized and specialized demand remains strong, the post-Phase-3 business can support a long-term EBITDA per tonne around ₹85,000 with further upside when mix, currency and utilization are favourable.

Base case

Phase 2 capacity is available for H2 FY27, with H2 volumes above H1 and FY27 volume growth around 25-26%. Standard wires gain mix as newly commissioned capacity ramps, so blended EBITDA per tonne falls from Q2's approximately ₹101,000 toward management's approximately ₹85,000 long-term post-Phase-3 level. Exports continue to rise toward 40%, but timing depends on qualification and customer releases. H1 operating cash flow remains positive and working capital continues improving, while Phase 3 spending is concentrated in FY28. Hitachi volume commitments and additional customer agreements resolve over the next two quarters.

Bear case

Phase 3 spending of up to ₹185 crore runs ahead of utilization, temporarily increasing debt while the 72,200-tonne base ramps toward 85%. Standard-wire mix rises faster than expected and blended EBITDA per tonne falls materially below management's approximately ₹85,000 long-term level. The Hitachi framework remains without firm volumes, the two-transformer overseas HVDC trial fails to convert and new export qualifications do not lift exports toward 40%. EV contribution remains deferred beyond FY29. Working-capital

improvement reverses as copper and growth absorb cash, while Middle East logistics or transformer-OEM commissioning delays disrupt shipments and inventory.

Q2 FY27 update

KSH entered the second half of FY27 with 57,845 metric tonnes of installed capacity after completing 96% of Supa Phase 1 and Phase 2 six months ahead of schedule. Q2 revenue from operations was ₹1,320 crore, EBITDA ₹90 crore, PAT ₹48 crore and volume 8,842 metric tonnes. Export revenue rose 108% year over year to almost 32% of revenue, consolidated utilization reached 76%, H1 operating cash flow was positive at ₹43 crore and debt fell ₹140 crore to ₹341 crore. The board subsequently approved Phase 3: up to ₹185 crore over 18 months, including 10 acres at Supa, with installed capacity expected to reach approximately 72,200 metric tonnes by Q1 FY29. Management expects FY27 volume growth of 25-26%, H2 volumes above H1, exports to approach 40% within one to two years, and approximately 85% utilization of the expanded base between FY30 and FY31. It gave no revenue or quarterly EBITDA guidance.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,928	3,107	5,182	6,421	7,328
Revenue growth	-	+61.1%	+66.8%	+23.9%	+14.1%
EBITDA (₹ Cr)	123	191	325	381	430
EBITDA margin	6.4%	6.1%	6.3%	5.9%	5.9%
Depreciation (₹ Cr)	14.00	21.90	39.00	48.00	58.00
Interest (₹ Cr)	28.00	44.00	86.00	95.00	100
Other income (₹ Cr)	9.90	21.40	26.00	22.00	20.00
PBT (₹ Cr)	90.40	146	226	260	292
Tax (₹ Cr)	22.40	35.80	57.10	65.00	72.90
Tax rate	24.8%	24.5%	25.3%	25.0%	25.0%
PAT (₹ Cr)	68.00	110	169	195	219
PAT growth	-	+62.0%	+53.1%	+15.6%	+12.2%
EPS (₹)	11.97	18.37	317	28.76	32.28
P/E	84.6x	55.1x	3.2x	35.2x	31.4x
PEG	6.1x	4.0x	0.2x	2.5x	2.3x

CAGR FY27E-FY29E: Revenue +18.9% · EBITDA +15.0% · PAT +13.9%

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Q2 FY27 concall notes

TLDR

KSH International reported Q2 FY27 revenue of ₹1,320 crore, up 85% YoY, with EBITDA of ₹90 crore and a record PAT of ₹48 crore, up 62% YoY. EBITDA per ton rose to about ₹1,01,000 from ₹93,000 in Q1 and ₹65,500 a year ago, driven by an elevated CTC mix, exports at 32% of revenue (up 108% YoY), 76% utilisation, a weaker rupee, and initial benefits from the Upcast recycling and rooftop solar plants. Volume was 8,842 MT, up 26% YoY and 11% QoQ. Phase 2 at Supa is 96% complete, six months ahead of schedule, taking installed capacity to 57,845 MT. The board approved a Phase 3 expansion of up to ₹185 crore to reach about 72,200 MT by Q1 FY29. Management guides 25-26% volume growth for FY27 and a long-term EBITDA per ton of about ₹85,000 post Phase 3, with quarters possibly exceeding it on mix, exports and currency.

WHAT CHANGED SINCE Q1 FY27

- **Long-term EBITDA per ton guidance raised to ~₹85,000 from ~₹75,000.** In Q1 management called ₹75,000 the comfortable long-term level; it now says ₹85,000 per ton is sustainable post Phase 3 at optimum utilisation, and that individual quarters may exceed it on product mix, exports and currency.
- **Phase 2 delivered ahead of the promised date.** Q1 guided full completion of the 30,000 MT Supa expansion by March 2027; management now reports 96% of Phase 1 and Phase 2 complete as on September 9, 2026, roughly six months ahead of schedule, with installed capacity at 57,845 MT available for H2 FY27.
- **New Phase 3 expansion announced.** Q1 had only board authorisation to evaluate an additional 10 acres; the board has now approved Phase 3, up to ₹185 crore including the 10-acre land purchase, taking capacity to about 72,200 MT by Q1 FY29, funded by internal accruals and long-term debt, with most spend in FY28.
- **Export share rose to 32% from 26%.** Q1 targeted a return to the historical ~40% peak over time; Q2 delivered 108% YoY export growth and 44% QoQ, and management now says it will try to bring exports back to 40% over the next one to two years on an expanded capacity base.
- **Working capital target pulled forward.** Q1 set 30-35 days over a multi-quarter timeframe from 60 days; Q2 reached 52 days, with ₹43 crore positive operating cash flow in H1 and debt down to ₹341 crore from ₹481 crore in Q1.
- **New approvals and orders.** Power Grid approved the Supa facility two weeks before the call to supply winding wires for up to 765kV transformers and reactors. The overseas HVDC trial order (two transformers) received last quarter is confirmed as one of the four major HVDC manufacturers.
- **Hitachi framework still unsigned.** Q1 said quantities and pricing were being finalised; management now says it needs about two more quarters to give an answer on long-term agreements, with similar discussions underway with a few other customers.
- **EV PEEK wire timeline pushed out.** Q1 said the EV peak insulated wire capacity was under installation in Phase 2; management now says trials are through and samples made, but EV becomes a meaningful volume business only from FY29 onwards.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹1,320 crore	+85% YoY	Volume, mix and material prices

METRIC	REPORTED	CHANGE	WHAT DROVE IT
EBITDA	₹90 crore	vs ₹46 crore YoY, ₹74 crore QoQ	Higher exports, favourable currency, recycling and rooftop solar
EBITDA margin	Not disclosed	n/a	Management did not give a margin figure
PAT	₹48 crore (quarterly record)	+62% YoY, from ₹42 crore QoQ	Improved profitability
Sales volume	8,842 MT	+26% YoY, +11% QoQ (from 7,969 MT)	Capacity availability and export pick-up
EBITDA per ton	~₹1,01,000	vs ~₹65,500 YoY, ~₹93,000 QoQ	Elevated CTC mix, exports, utilisation, weaker rupee, recycling and solar
Export revenue	~32% of revenue	+108% YoY, +44% QoQ	Volumes from existing customers and new OEMs after qualifications and test shipments
Specialised winding wire revenue	75% of revenue	+87% YoY	T&D demand globally
Standard winding wire revenue	25% of revenue	+119% YoY	Off a smaller base; new capacity ramping late in the quarter
Utilisation	76%	vs 73% QoQ	Based on available capacity for the quarter; specialised capacity above 80%
Working capital days	52 days	vs 60 days QoQ, ~70 days YoY	Payables and receivables improvement
Net debt / leverage	0.38x	vs 0.51x QoQ	Debt reduced to ₹341 crore from ₹481 crore

SEGMENTS & GEOGRAPHIES

- **Specialised winding wires (CTC):** Revenue grew 87% YoY and the segment is 75% of revenue. CTC contribution stayed elevated as a percentage of total revenue because of the timing of capacity installation; management expects the mix to moderate through H2 FY27 and FY28 as standard wire capacity ramps. Absolute specialised volumes are not expected to decline.
- **Standard winding wires:** Revenue grew 119% YoY off a smaller base, with most of the new capacity now online. Focus stays on EVs, AC compressors, motors and alternators. Management does not expect a big change in the 75:25 specialised-to-standard revenue split.
- **Exports:** 32% of revenue in Q2, with Europe and the Americas each under 10% and the Middle East around 10-11%. Export profitability is 3-5% better than domestic and management does not see that premium changing. Transit times and transport costs to the Middle East have risen, with no significant drop in business there. New countries are being added in Europe and the Americas.
- **India:** About 73% of revenue. Management expects CTC demand in India to reach roughly 120,000-130,000 tons by FY30, excluding exports, led by power transformers with HVDC and 765kV adding incremental demand.

STRATEGY & COMPANY-SPECIFIC

- **Phase 3 expansion:** Board approved up to ₹185 crore, including 10 acres at Supa, to take installed capacity to about 72,200 MT by Q1 FY29. Funded by internal accruals and long-term debt; most spend in FY28, a smaller portion in H2 FY27. The 72,200 MT level maxes out the current land; the new 10-acre parcel could add about 20,000 tons if required.

- **Phase 2 completion:** 96% of the Supa expansion complete as on September 9, 2026, six months ahead of schedule; 57,845 MT installed as on September 30, 2026, available for H2 FY27.
- **Power Grid approval:** Supa approved two weeks before the call to supply magnet winding wires for up to 765kV transformers and reactors.
- **HVDC trial order:** Two HVDC transformers for an overseas customer, one of the four major HVDC manufacturers (Hitachi, GE, Siemens, BHEL). Qualification would open the possibility of future HVDC transformer orders.
- **Hitachi framework agreement:** Five-year agreement still being finalised on volumes and pricing; management expects to answer on long-term agreements in about two quarters. Similar discussions are underway with a few other customers, with the industry moving from annual renewals to longer contracts.
- **Backward integration:** Upcast copper recycling plant and rooftop solar plant are operational and contributed incrementally to Q2. The Upcast plant sits on leased premises, which raised lease liabilities.
- **Capital allocation:** ROCE target of about 20%, moving toward 25%. Leverage at 0.38x; management does not want it much above current levels, though long-term debt for Phase 3 will raise it in the interim.
- **Capacity trigger:** Future capacity decisions trigger around 85% utilisation; management expects 85% on the 72,200 MT base between FY30 and FY31.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Volume growth FY27	25-26%	Maintained (~26%)	Expanded capacity available in H2; H2 expected to be better than H1
Long-term EBITDA per ton	~₹85,000 post Phase 3 at optimum utilisation	Raised (from ~₹75,000)	Long-term portfolio and capacity mix, exports, operating leverage; quarters may exceed on mix, exports, currency
Phase 2 capacity	57,845 MT installed; 96% complete	Delivered ahead of March 2027 date	Supa expansion
Phase 3 capacity	~72,200 MT by Q1 FY29	New	Specialised winding wire capacity plus 10 acres
Phase 3 capex	Up to ₹185 crore	New	Land, building, plant and machinery; majority in FY28, smaller portion in H2 FY27
Export share	Return to ~40% over the next 1-2 years	Maintained, timeline specified	Qualifications done, new geographies and wallet share gains
Utilisation at 72,200 MT	~85% between FY30 and FY31	New	Optimum utilisation assumption for new capacity
Working capital days	30-35 days (multi-quarter)	Maintained	Improvement from 52 days
ROCE	~20%, moving toward 25%	New	Internal target
EV PEEK wire volumes	Meaningful from FY29 onwards	Pushed out	Qualification and customer education still underway

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Hitachi and long-term agreements	Volumes and pricing still not settled; about two more quarters needed before an answer
Product mix normalisation	Elevated CTC share should moderate through H2 FY27 and FY28 as standard wire ramps, which will rationalise EBITDA per ton
Middle East logistics	Transit times and transport costs have risen; no significant drop in business
US data centre capex	Management sees no slowdown from customers, several of whom are building greenfield capacity in the next one to two years; the US is under 10% of revenue and AI data centres are a small part of the business
Customer backward integration into CTC	One or two Indian players have been heard of; management points to about 40% of specialised wire revenue coming from exports and a diversified customer base
Finance costs	Finance cost includes bank charges and supplier finance; it rose despite lower debt
Leverage during Phase 3	Long-term debt will raise leverage in the interim; target is not to go much above current levels
EV adoption timing	Longest development cycle; meaningful volumes only from FY29

Q&A HIGHLIGHTS

EBITDA per ton sustainability and Phase 3 scope Asked whether the Q2 margin holds in H2 and whether Phase 3 is mainly CTC, management said the elevated CTC contribution, higher exports, weaker rupee and recycling and solar benefits drove Q2, and that ₹85,000 per ton is the sustainable level at optimum utilisation. Phase 3 adds specialised wire capacity serving transformers, EV motors, renewables and railways, not CTC alone.

Conversion charges and pricing power Asked whether annual contract renewals are lifting conversion charges, management said contracts vary in length, some running two years, and that conversion rate increases are not a significant part of the EBITDA per ton rise. Higher value addition from more complex products plays a larger role than like-for-like price increases, and management does not factor in higher bargaining power when building EBITDA per ton.

Finance cost despite lower debt Asked why finance costs rose while debt fell, the CFO confirmed the cost includes charges from banks and from suppliers.

Long-term agreements beyond Hitachi Asked how customer agreements are evolving, management said transformer customers have order books to 2032 or beyond and want supply continuity from qualified suppliers. The Hitachi framework is still being finalised, similar talks are on with a few other customers, and an answer on long-term agreements should come in about two quarters.

US data centre capex Asked about a possible US AI data centre slowdown, management said the T&D story stands on grid, renewables and generation build-out, AI data centres are a small part of the business, and customers are adding capacity with no slowdown seen. The US is under 10% of revenue.

Absolute specialised volumes versus blended EBITDA per ton Asked whether specialised volumes fall as standard wire grows, management said specialised volumes are not expected to decline in absolute terms and that growth in standard wires does not affect specialised wire profitability. The blended EBITDA per ton falls only because of the mix.

Capacity on the new land and utilisation path Asked how much capacity the 10 acres can hold, management said 72,200 MT maxes out the current land and the new parcel could add about 20,000 tons if required. It expects 85% utilisation on 72,200 MT between FY30 and FY31.

H2 versus H1 volumes Asked whether H2 will be better than H1, management said with 25-26% volume growth for the year, H2 is expected to be better than H1, and some of the new capacity will be utilised in H2.

Permanent Magnets Limited

GROWTH TRIGGERS

Q2 FY27 provided the first clear evidence in some time that Permanent Magnets' EV current-sensing business can deliver both volume and margin: revenue rose 49%, EBITDA margin reached 25%, and automotive revenue more than doubled year-on-year. FY27 guidance is 20-30% revenue growth and 20-25% EBITDA margin. The next leg is FY28 optionality from alloys utilisation, relay commercial ramp and Quantum Magnetics approvals, but each is dated, customer-gated and not yet in the earnings base.

1. EV recovery lifts Q2 FY27 margin to 25%

Automotive revenue rose to INR 24 crores in Q2 FY27 from INR 10.5 crores a year earlier, lifting group revenue 49% to INR 72.5 crores and EBITDA margin to 25% from 14%. Management has H2 FY27 orders and expects EV demand at similar levels for the rest of the year, though it has no FY28 orders.

2. FY27 revenue growth 20-30% with 20-25% EBITDA margin

Management reiterated FY27 revenue growth of 20-30% and guided full-year EBITDA margin of 20-25%. Q2 FY27 was already at the top of that margin range, so delivery depends on the EV order book holding and the alloys furnace running better in H2.

3. Alloys teething resolved; FY28 possible at INR 70-80 crores

H1 FY27 alloys revenue was about INR 12 crores after furnace teething issues. Management guides FY27 turnover at INR 40-50 crores and sees INR 70-80 crores possible in FY28. Orders were pushed, not cancelled, and management says the furnace issues are resolved, though delay costs are payable to customers.

4. Relays move to FY28 commercial ramp with INR 40-50 crores possible

Relay pilot supplies are targeted for H2 FY27 and commercial ramp for FY28. Management said INR 40-50 crores of FY28 revenue is possible at 15-30% gross margin, though it declined a firm number until pilot lots and customer agreements are complete.

5. Quantum Phase 2 commissioned; FY28 revenue guess INR 10-40 crores

Quantum's Phase 2 block cutting, machining and surface treatment was commissioned in October 2026. Customer product approval is the next gate, and management expects commercial ramp in FY28 with a wide INR 10-40 crores revenue guess and full capacity of INR 40-60 crores.

6. ECMS approval gives 25% capex incentive on INR 400 crores of machinery

Quantum received ECMS approval for 25% of capex, subject to Phase 1 and Phase 2 completion, employment and start of production. Management confirmed the project covers

INR 400 crores of machinery only, not land or building, reducing the net capital burden if conditions are met.

7. Consolidated factory saves about INR 5 crores of annual rent

Land cost of about INR 25 crores is already invested and building capex is estimated at about INR 30 crores. Management expects to move into the consolidated facility in about two years, saving about INR 5 crores of annual rent because the existing plants are leased and cannot be monetized.

INVESTMENT THESIS

Permanent Magnets is an operating-leverage recovery in a small, custom-heavy magnetic components business. FY26 standalone revenue was INR 225 crores with a 17% EBITDA margin. In Q2 FY27 standalone revenue rose 49% year-on-year to INR 72.5 crores, EBITDA rose 159% to INR 17.8 crores and EBITDA margin reached 25% from 14% a year earlier and 19% in Q1 FY27. Automotive revenue, the best proxy for the EV current-sensing business, rose to INR 24 crores from INR 10.5 crores in Q2 FY26 and INR 15 crores in Q1 FY27. That is reported operating leverage from a richer EV mix and higher throughput, not a financial-engineering result. The question is durability.

The near-term evidence is encouraging but narrow. Management said the EV increase came from existing programmes at two or three Western customers, not a broad market recovery. It has orders for H2 FY27 and expects EV demand at similar levels for the rest of the financial year, but it has no FY28 orders or forecast and only a judgment that demand may hold. That matters because the EV business carries the better export margin, while domestic business is lower margin. Management guided FY27 EBITDA margin at 20-25%, below the Q2 run-rate of 25%, and said margin would be similar to Q2 if EV demand holds. Analyst inference: the 25% Q2 margin is a mix peak, not the annual run-rate. FY27 revenue growth guidance is 20-30%, on a FY26 base of INR 225 crores, so the company is not guiding to a new structural growth rate; it is guiding to a recovery year with a better mix.

The alloys division is the second operating-leverage lever, and it is behind plan. The new furnace was installed in January FY26 and commercialized in Q4, but H1 FY27 output was hurt by breakdowns and technical problems. Management says those issues are resolved and expects better utilization in H2 FY27. H1 alloys revenue was about INR 12 crores, and FY27 guidance is INR 40-50 crores, below the earlier INR 40-70 crores and 3-4x target. The call also disclosed that delayed orders were pushed rather than cancelled and the delay created costs payable to customers. The segment was around breakeven in FY27 because of initial higher costs. Management sees INR 70-80 crores possible in FY28. The economics are modest: virgin alloy gross margin is 10-15%, and returns 15-25%. This is not a high-margin business, but it can absorb fixed costs and diversify the customer base into oil and gas, industrial and small aerospace orders. If the furnace runs at better utilization in H2, alloys can contribute revenue without much incremental capital. If it does not, the segment dilutes group margin.

Relays and Quantum Magnetics are now FY28 options, not FY27 contributors. The relay product is approved to the UC standard, but customers want higher specifications, so redesign and testing continue. Pilot supplies are targeted for H2 FY27, and commercial ramp is FY28. Management said INR 40-50 crores of FY28 revenue is possible at 15-30% gross margin, but declined a firm number until pilot lots and agreements are complete. Quantum's

Phase 2 block cutting, machining and surface treatment was commissioned in October 2026, in line with the Q3 timeline. Customer product approval is pending. Management could not confirm FY27 revenue and gave a wide FY28 revenue guess of INR 10-40 crores, with full Phase 2 capacity of INR 40-60 crores. Phase 3 is not committed. These are real options, but they are not yet in the earnings base.

Capital allocation is active. The ECMS scheme approved a 25% capex incentive on INR 400 crores of machinery for Quantum, subject to Phase 1 and Phase 2 completion, employment and start of production. PML owns 50% of Quantum. The consolidated factory has land cost of about INR 25 crores already invested, building capex of about INR 30 crores, a roughly two-year timeline and about INR 5 crores of annual rent savings; legal issues on the land caused delays that are being resolved. The company did not give a specific total FY27 capex number. The balance-sheet risk is that the Quantum programme is large relative to the parent's current revenue, and the incentive is conditional and back-ended. The offset is that Phase 2 is already commissioned, so the capex is not speculative; the missing piece is customer approval and revenue.

Management delivery is mixed. Phase 2 was commissioned in October 2026 in line with the earlier Q3 timeline, and ECMS approval was secured. But relay commercial ramp moved to FY28, alloys FY27 guidance was cut, and Quantum FY27 revenue is unconfirmed. The market should treat the Q2 FY27 EV recovery as a genuine improvement, not yet as a durable cycle. The earnings path for FY27 is revenue growth of 20-30% with EBITDA margin of 20-25%. The FY28 path depends on three separate gates: EV H2 orders repeating, alloys utilization improving, and relay/Quantum customer approvals converting into commercial volume. Each gate is dated and observable.

The falsifiers are specific. If H2 FY27 EV orders do not convert and automotive revenue falls back toward the Q1 FY27 run-rate of INR 15 crores, the mix-driven margin recovery reverses and FY27 growth lands below 20%. If alloys utilization does not improve in H2, FY27 alloys revenue stays near the INR 40-50 crores low end and the segment remains a margin drag. If relay pilot lots do not lead to customer agreements in FY28, the INR 40-50 crores option stays unrealized. If Quantum customer approval slips through FY28, the subsidiary remains a capital-consuming option with no revenue. The thesis is therefore an operating-leverage recovery with a dated FY28 option set, not a proven compounder.

RESEARCH REPORT

What Permanent Magnets Limited does

Permanent Magnets Limited (PML) is a Mumbai-based manufacturer of soft magnetic materials, current sensing devices, latching relays, cobalt-nickel specialty alloys, and rare earth magnet assemblies. The company started as a magnets business and pivoted into soft magnetic components, then used those capabilities to move into higher-value products like relays and current sensors. It now sells customized and standardized components to electricity meter makers, automotive and EV Tier-1 suppliers, and government PSUs.

FY26 standalone revenue was INR 225 crores, up 13% year-on-year, with Q4 at INR 66 crores, up 47%. FY25 consolidated revenue was INR 205 crores, up 2%. EBITDA margin for FY26 was 17% versus 14% the prior year.

Q2 FY27 standalone revenue was INR 72.5 crores, up 49% year-on-year, with EBITDA of INR 17.8 crores, up 159%, and EBITDA margin of 25% versus 14% in Q2 FY26 and 19% in Q1 FY27. Management attributed the expansion to a richer EV mix and operating leverage. Automotive revenue was INR 24 crores in Q2 FY27, against INR 15 crores in Q1 FY27 and INR 10.5 crores in Q2 FY26.

The business runs across four segments, with revenue mix by application disclosed for the Q2 FY26 quarter: energy meter 37%, automotive 22%, current transformers about 10%, magnetic assembly about 9%, alloy 7%, and balance other applications. On a full-year basis for Q2 FY26, management described the mix as about 45% energy meter application, around 30% automotive, and the balance in other divisions.

Energy meter and smart metering

This segment makes the current sensing parts that go inside electricity meters: shunts, current transformers (CTs) built from nanocrystalline and amorphous cores, and latching relays. The relay line is the strategic growth bet. PML signed a licensing agreement with REL Developments Ltd of the U.K. for the know-how to manufacture and sell latching relays, and it forward-integrates by building relay assemblies that include shunts and CTs.

The relay is a higher-value product than the shunts PML historically sold. Value per meter ranges from about INR 225 to INR 325 depending on customization, and relay assemblies bundle the shunt and CT into one sale. PML has backward-integrated the CT core material, producing nanocrystalline and amorphous ribbon in-house that was previously imported.

The relay facility is behind its original timeline. The product is approved to the UC standard, but customers are asking for higher specifications, requiring redesign and further testing. Pilot supplies are now expected in H2 FY27, while commercial ramp-up has moved to FY28.

Management did not quantify FY28 relay revenue, though it said INR 40-50 crores is possible and gross margins could be 15-30%.

Management is also developing a water meter product. It has supplied 2,000-3,000 pilot parts for customer testing and expects commercial supplies after that; it sees potential of INR 5-10 crores from one customer over about three years.

Automotive and EV current sensing

PML supplies current sensing devices built on hall effect technology and soft magnetic materials to Tier-1 companies who make inverters and platforms for Western EV OEMs. This is the customized, high-margin legacy business. Management said margins on EV-related products historically reached 20% plus and some products carried 15% to 50% margins depending on volume and complexity, the highest in the company.

To diversify away from customized designs, PML launched a range of standard current sensors from 300 to 1,000 MPL that customers can use directly on their PCB without designing their own sensing circuit. These sell from about INR 200 to INR 500 each depending on complexity and target EV 2-wheelers, 4-wheelers, UPS systems, and industrial applications. FY27 sales are estimated at INR 2 to 5 crores. On the Q2 FY27 call management said module supplies to automotive had started this year and were being sold on international online platforms; it did not update the INR 2-5 crores estimate. PML also makes stator-rotor motor parts, currently for one automotive customer in a coolant pump application, with stamping, winding, molding, and magnet components.

Alloys

The alloys division produces cobalt-nickel based super alloys for high-temperature applications: oil and gas, aerospace, aviation, defense, and powder metallurgy parts. It works two ways. One is melting virgin raw materials into standard alloys, a lower-margin business. The other is conversion or job work, where customers supply scrap and reverts and PML processes them into fresh material, a higher-margin business with more complex, customer-specific processes. The mix in FY27 is expected to be about 80% virgin and 20% recycle based on current visibility.

A new furnace was installed in January FY26 and commercialized in Q4, but teething problems limited utilization in H1 FY27. Management says those issues are resolved and expects better utilization in H2 FY27. FY27 alloys turnover is now guided at INR 40-50 crores, with H1 at about INR 12 crores; FY28 could rise to INR 70-80 crores. Orders were pushed, not cancelled, and the delay created costs payable to customers. The segment was around breakeven in FY27 because of initial higher costs, with virgin alloy gross margin of 10-15% and returns 15-25%.

Quantum Magnetics and rare earth magnets

Quantum Magnetics is a 50-50 joint venture with Lorentic Pte Limited, formed in August 2025, to manufacture rare earth permanent magnets using an India-based supply chain. Phase 1 is assemblies manufacturing. Phase 2 adds block cutting, machining and surface treatment and was commissioned in October 2026. Management expects customer product approvals to start soon, but could not confirm FY27 revenue; commercial ramp is now expected in FY28. Phase 3 powder-to-block remains uncommitted until Phase 2 succeeds.

The long-term 5,000-tonne FY2030 plan remains a stated ambition, but the near-term disclosure has changed. The first customer is in consumer electronics, and Phase 2 is commissioned; customer visits and product approval are the next gate. Management has no FY27 revenue clarity and estimates FY28 revenue at INR 10-40 crores, a wide guess, with full Phase 2 capacity at INR 40-60 crores depending on product mix. Phase 1 assembly revenue was zero in FY26 because Chinese export restrictions blocked magnet imports.

Operations and footprint

PML runs about six plants around Mumbai in leased premises. It acquired land for a consolidated facility, although legal issues on the land caused delays that management says are now being resolved; land cost of about INR 25 crores is already invested, building capex is estimated at about INR 30 crores, and management expects to move in about two years. Existing facilities are rented and cannot be monetized; consolidation should save about INR 5 crores of annual rent. The company is initiating capex this year but did not give a specific total or FY28 revenue number.

Business segments

Energy Meter / Smart Metering

This is Permanent Magnets' largest segment, roughly 45% of revenue as of Q2 FY26. It makes the current-sensing components that go inside electricity meters: shunts, current transformers (CTs), and now latching relays.

The core capability is precision current sensing. Shunts are built to each meter maker's proprietary design, which locks in the customer because a meter company's design cannot be switched to another supplier without a full re-approval cycle. The CTs are wound on nanocrystalline and amorphous cores, and the company has backward-integrated to produce the ribbon in-house, a material that was mostly imported. That backward integration is what lets it control cost and quality on the CT line.

The new product is the latching relay, licensed from REL Developments Ltd of the U.K. This is forward integration: the relay is a higher-value assembly that includes the shunt and the CT. Management has been candid that this has slipped repeatedly. In May 2026, the MD said:

> *"we are behind the original timelines with commercial ramp-up now expected from second half of financial year '27. Testing is currently underway and customer approvals are in progress, both of which have taken longer than our initial expectations."*
>
> **SHARAD TAPARIA, MD, Q4 FY26 CONCALL (MAY 2026)**

The delay is the customer testing cycle. Meter makers give utilities 10-year warranties, so they run endurance and accelerated life testing before approving a second supplier. The relay is a customized product: the basic design stays the same but each customer requires modifications, and the company is entering as a second supplier against an established imported product.

Who buys and why: the domestic customers are the smart meter manufacturers, essentially two to three main customers per management, who buy the shunts and CTs. The export side is larger. In FY25 roughly 65% of the energy meter business was export, up from 52% the prior year, anchored by a major U.S. customer. That customer designs the product itself, and the tariff burden fell on the customer, not PML, though tariff uncertainty caused a deferral of orders in Q2 FY26 before business resumed.

The purchase rationale is import substitution plus customization. On relays, management states that all products currently sold in India are imported, mostly Chinese. The import duty on the product was raised from 10% to 15%, giving a domestic producer a price buffer. Management has said it is the second supplier in each case and must match the incumbent's quality to win share.

The addressable market is the national 25-crore meter replacement program. Management sized the total opportunity at INR 6,500-7,000 crores, with an average value of INR 250-300 per meter. The relay alone adds a higher-value component to each meter than the shunt did.

Competitive position: management declined to name relay competitors, but said only a few companies make them in India and the majority of supply is imported. Multiple players are setting up relay capacity, partly driven by a government PLI scheme, so the domestic field will get more crowded. On the shunt and CT side, the customization model is the moat: each meter maker uses its own design and PML builds to it, which keeps switching costs high.

Revenue mix: energy meter application was 45% of revenue in Q2 FY26, with the quarter split at 37% energy meter and about 10% CT.

Capex on relays so far is INR 5-6 crores historical spend. The first phase is 5 million units, scalable to 10 million; management still sees peak potential at 10 million units, but the timeline has moved. Pilot supplies are targeted for H2 FY27 and commercial ramp for FY28. Management said INR 40-50 crores of FY28 revenue is possible, though it declined a firm number until testing and pilot lots are complete. Relay gross margin is guided at 15-30%.

Automotive / EV (current sensing)

This segment sells current sensing devices built on hall effect technology and soft magnetic materials. The products go to Tier-1 companies that assemble inverters and EV platforms, which then supply Western OEMs in the U.S. and Europe. The capability that took years to build is the custom design work: Permanent Magnets produces each part to a specific Tier-1's drawing, using a fixed raw material and a fixed process. That model creates a genuine switching barrier. Management told investors on the May 2025 call that once a platform is awarded, the supplier gets the entire volume because the part is too sensitive to swap between vendors. A platform won by a competitor means that competitor supplies 100% of it.

Inside the segment sit three product lines. The first is the custom current sensing devices for Tier-1 inverter builders, the legacy business that drove the company's high-margin years. The second is a newly launched range of standard current sensors rated 300 to 1,000 MPL, priced between INR 200 and INR 500 per sensor, aimed at automotive, UPS and industrial applications. These are fully calibrated drop-in parts so a customer's designers do not need to build and test their own sensing circuit. The third is Stator-Rotor motor components, currently for a coolant pump application at one automotive customer.

The customer base is concentrated. On the Nov 2025 call, management said supply goes mainly to European and American companies, and that the growth in EVs is being captured by Chinese OEMs, who source domestically and have not bought from Permanent Magnets. The company has started supplying standard sensors to Indian EV 2-wheeler makers and is pitching 4-wheeler makers. Some Chinese companies with Indian collaborations are in development but nothing is sold into China. Heavy commercial vehicle programs are progressing but start of production is years out.

Why do these customers buy? Three reasons emerge from the calls. Custom parts are single-sourced and approval-heavy, so switching is slow and costly. On quality and price, management said in Nov 2025 that the standard sensors match the quality of the established imported brands and come in cheaper. And the geopolitical premium is real: customers want a non-Chinese supply chain and are willing to pay for it, though management cautioned that this willingness is fluid and automotive is price-sensitive.

Competition is thin at the custom end. Management has declined to name competitors, saying few companies worldwide do this specific design-built-to-print work. For standard sensors, the investor who asked how the company compares with the Swiss current sensing maker LEM received a direct answer: quality is similar, price is lower. The Chinese suppliers are the low-cost benchmark, and the company's defense is a multi-price-point standard range plus the import duty advantage that applies to relays.

The segment fits the group through shared materials and forward integration. The current transformers sold into energy meters use the same nanocrystalline and amorphous soft magnetic cores, and the company has backward integrated ribbon production. The Stator-Rotor motor work connects directly to the Quantum Magnetics subsidiary: management said in Nov 2024 that producing its own magnets gives it a cost and integration advantage over motor assemblers that buy magnets. The relays business, which uses shunts, is a forward integration of the same magnetic components.

Revenue mix is disclosed. On the Nov 2025 call, management put current mix at about 45% energy meter, around 30% automotive, with the balance across other divisions. The same call gave the Q2 FY26 quarter breakdown: automotive was 22%. A year earlier, in Q2 FY25, automotive was about 25% of revenue. The segment is the second-largest revenue line and was the source of the company's best margins, with management citing 15% to 40-50% EBITDA depending on volume and complexity.

Management's commentary across five calls now includes a sharp Q2 FY27 rebound. In Nov 2024, forecasts were cut; by May 2025 demand was muted; by May 2026 there was no Western EV revival. In Oct 2026, automotive revenue rose to INR 24 crores in Q2 FY27 from INR 10.5 crores a year earlier, driven by existing programmes at two or three customers. Management has H2 orders but no FY28 orders or forecast.

> *"We have launched a range of standard current sensors, which are used in automotive applications. Some of the products are already being supplied to 2-wheelers, EV 2-wheelers are already started using these products."*

The Q2 FY27 call showed a sharp but narrow revival. Automotive revenue rose to INR 24 crores from INR 15 crores in Q1 FY27 and INR 10.5 crores in Q2 FY26, driven by existing programmes at two or three Western customers. Management has H2 FY27 orders and expects EV demand at similar levels for the rest of the year, but has no FY28 orders or forecast and only a judgment that demand may hold. The segment remains exposed to Chinese EV competition and customer concentration.

Alloys (specialty alloys)

The Alloys division produces cobalt-nickel based super alloys for high-temperature applications. The core capability is melting and metallurgical processing of specialty metals, built through years of customer qualification work. The facility secured AS9100:2016 certification in FY25, the aerospace quality management standard, which is the credential that unlocks aviation and defense customers.

> *"we secured AS9100:2016 certification for our alloys facility, and this will open up opportunities in aerospace, aviations and defense sectors."*
>
> **MD, Q4 FY25 CONCALL (MAY 2025)**

Two production routes sit inside the segment. The first melts virgin raw materials - cobalt, nickel and other metals - into standard alloy grades. The second is conversion or job work, where customers supply their own scrap and reverts and Permanent Magnets melts and recombines them into fresh material. Conversion carries higher margins because the process is more complex and specific to each customer. Management expects FY27 to run roughly 80% virgin and 20% recycle.

> *"We are generally doing Cobalt-nickel alloys, which is used for high temperature application, super alloys, oil and gas, powder metallurgy, defense application, these are the applications."*
>
> **MD, Q2 FY25 CONCALL (NOV 2024)**

Customers sit in oil and gas, aerospace, defense, and powder metallurgy parts, plus government PSU tenders won through the online government portal, which are price-driven L1 auctions. The buying logic is import substitution and second-sourcing. In alloys the materials are standard and already in use by customers, so once a sample is approved, business can start almost immediately. That contrasts with the company's core business, where parts are built to customer designs and take six months to two years from inception to commercial sale. Management also said some customers are willing to pay a premium for an Indian supply chain.

When asked about competition in the listed space, management said there are a few companies with different capacities, and that Permanent Magnets targets smaller capacities and import substitution. No competitors were named. The segment's edge is the conversion process, which other companies do not perform because it requires pre-melt processing specific to each customer.

The alloys business is one of three growth pillars alongside Relays and Quantum Magnetics, and it reduces the company's dependence on any single customer segment, a recurring problem in the energy meter and EV businesses. Alloys contributed 7% of revenue in Q2 FY26, per the mix management disclosed: energy meter 37%, automotive 22%, CT 10%, magnetic assembly 9%, alloy 7%, and the balance other applications.

Commercial offtake ran slower than anticipated in FY25, when one key customer took longer to approve. By Q2 FY27 the new furnace was not fully utilized because of teething issues, which management says are resolved. H1 FY27 alloys revenue was about INR 12 crores; FY27 guidance is INR 40-50 crores, not the earlier 3-4x or INR 40-70 crores. Management sees INR 70-80 crores possible in FY28. Orders were pushed rather than cancelled, and the

delay created costs payable to customers. Segment EBITDA is around breakeven in FY27, with virgin alloy gross margin 10-15% and returns 15-25%.

Quantum Magnetics / Rare Earth Magnets (subsidiary)

Quantum Magnetics is the joint venture Permanent Magnets Limited formed with Lorentic Pte Limited, with the JV agreement executed in August 2025. The mandate is to manufacture rare earth permanent magnets using a fully Indian supply chain, built phase-wise. The company deliberately took a reverse-integration route: Phase 1 set up magnetic assemblies manufacturing first, Phase 2 adds block cutting, machining and surface treatment, and Phase 3, the powder-to-block manufacturing, remains under planning. The long-term target is 5,000 tonnes of annual production, which management has tied to roughly INR 3,700 crores of revenue by FY 2030 and a total investment of INR 550 crores to INR 750 crores.

The core capability here is the manufacturing process itself, not the product design. Rare earth magnet production carries process knowledge that is largely locked inside Chinese producers and is not transferable under current export restrictions. Management has been explicit about this being the binding constraint:

> *"There is a lot of unpublished knowledge in this business. All that has to be absorbed and implemented."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

That is why the phases are staged and why Phase 2 is only now, in FY27, coming online. The first phase produced assemblies for a single consumer electronics customer in the mobile phone application, with sales that started in FY25 and then stopped entirely. The intermediate products are the finished magnets and assemblies sold into consumer electronics, automotive, windmill energy, motors and electronics. Phase 2, once live, lets the company cut blocks and machine finished magnets in India instead of importing finished magnets from China.

The customer base today is narrow. The first customer is in consumer electronics, and Phase 2 was commissioned in October 2026. Management could not confirm any FY27 Quantum revenue because product approval is still pending and requires a customer visit and plant evaluation. Commercial ramp is now expected in FY28; management gave a wide FY28 revenue guess of INR 10-40 crores depending on customer share, with full Phase 2 capacity of INR 40-60 crores. FY26 Quantum revenue was zero because Chinese export restrictions blocked magnet imports.

Why customers buy from PML rather than a Chinese supplier comes down to geopolitics and supply-chain de-risking. Management said Phase 2 lets it show the full process from start to end, which is necessary for customer approvals; it is talking to 3-4 customers in electronics,

automotive and specialised motors, with pricing and samples under discussion. The company still imports blocks, and management says it has solutions to the import complications but declined to detail them. It is asking customers to fund Phase 3 against amortisation, but no agreement is disclosed.

Competition in this segment is still forming. PML has now received approval under the ECMS scheme, which gives 25% of capex subject to conditions including Phase 1 and Phase 2 completion, employment and start of production. Management said the separate PLI scheme had a net-worth requirement PML did not meet, so it did not apply. It confirmed the ECMS project involves INR 400 crores of machinery capex, not land or building, but did not specify the incentive amount or timing.

The segment fits the group through material synergy. PML was historically a magnets company, and the subsidiary feeds directly into the group's motor ambitions: the company already makes stator-rotor assemblies for an automotive coolant pump application, and management has said producing its own magnets gives it an advantage over motor assemblers that must buy magnets externally. The rare earth capability also complements the alloys business, which supplies cobalt-nickel super alloys for high-temperature applications, since both serve defense, oil and gas and aerospace buyers. The group is funding the subsidiary with a $5 million ECB already drawn, plus a planned PML contribution of roughly $5 million over 18 months, with further funding to be split 50-50 with Lorentic.

Management's own framing across the calls is consistent: the plan is ambitious, the pacing is deliberate, and the external environment is the main variable. The FY26 result was a full year of zero revenue because of the Chinese restrictions, which management confirmed had not eased as of May 2026:

> *"There was no revenue in FY26 because of the restrictions from China for export of magnets. So, we could not do any business in FY26."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The 5,000-tonne, INR 3,700-crore target is a plan, not a forecast. Management said Phase 3 will be decided only after Phase 2 is commercially successful, and it is not locking equipment prices now. Near term, Phase 2 commercial ramp is expected in FY28, with FY28 revenue guessed at INR 10-40 crores. Customer funding for Phase 3 is a proposal, not an agreement.

Customers

PML's customer base splits by segment, and the buying relationships differ sharply between them. The common thread is that most of the traditional business is customized to a customer's design, which locks in the relationship but also concentrates revenue.

On the energy meter side, PML still depends on a few customers. In Q2 FY27 domestic sales were 51% and exports 49%, with domestic smart meter demand picking up but not significantly. Management said the energy meter business depends on a select few customers whose demand increased in H1 FY27, and future demand depends on utility installations. The export business remains important, but the Q2 FY27 split was more balanced than the 65% export mix in FY25.

The automotive business sells through Tier-1 suppliers who build inverters and platforms for Western OEMs. In Q2 FY27 automotive revenue was INR 24 crores, against INR 10.5 crores in Q2 FY26, driven by existing programmes at two or three Western customers. PML still has no direct business with Chinese EV OEMs. Management has H2 FY27 orders but no H1 FY28 orders.

The alloys division sells partly to government PSUs through online tenders, where business is price-driven and whoever is L1 with technical qualification wins. One PSU order of 70 to 80 lakhs was executed. The higher-value conversion business is with a private customer whose end customer is an export buyer, and that relationship is built on trials that have so far succeeded. Quantum Magnetics has one consumer electronics customer whose audit is complete, with commercial supply paused by the China export restrictions.

Switching costs are structural. Meter customers give 10-year warranties to utilities and demand the same from PML, so they run elaborate endurance and end-of-life testing before approving a new supplier. Export customers take even longer to approve. This makes the approval cycle slow but protects PML once approved. The flip side is that revenue is lumpy and dependent on a handful of customers whose own order timing drives PML's results.

> *"We are dependent on their installations and whatever they are doing in their particular area."*
>
> **MD, Q2 FY25 CONCALL (NOV 2024)**

Competitive landscape

PML competes in four distinct markets with very different competitive structures.

Latching relays are the most import-exposed. Management stated plainly that all relay products are currently imported, and the majority of the product is imported. The competition is largely Chinese suppliers with heavy automation. PML's cost position, including the 15% import duty on relays, is comparable to Chinese pricing, and the duty gives domestic producers a structural advantage. The relay market is also attracting new Indian entrants, and a government PLI scheme is expected to draw more domestic capacity. PML's edge is being first with a licensed technology base from REL Developments and a forward-integrated assembly that bundles shunts and CTs.

In alloys, there are a few Indian companies with different capacities. PML deliberately targets smaller capacities and does import substitution, choosing markets where it can compete rather than fighting the largest players head-on. The conversion and job-work business is harder to replicate because the pre-melt processes are customer-specific, which is where PML plans to build a defensible margin position.

In rare earth magnets, competition is forming. Management said it did not apply for the separate PLI scheme because it did not meet the net-worth requirement, but it has received ECMS approval for 25% of capex on INR 400 crores of machinery, subject to conditions. It is talking to 3-4 customers in electronics, automotive and specialised motors. Phase 3 is not committed; management will decide after Phase 2 succeeds.

In standard current sensors, PML competes against international players of the LEM type. Management said PML can match their quality and is cheaper. The standard sensor is a new product with FY27 sales of just INR 2 to 5 crores, so this is early, but the addressable market is global once the product is proven.

The honest read on competition is that PML wins where customization, approvals, and import substitution protect it, and loses or stays out where Chinese scale and price dominate. The Chinese EV OEM supply chain is a market PML cannot enter. The relay and rare earth businesses both face the risk that once non-Chinese supply is proven and regular, customers may revert to wanting Chinese prices.

Industry

PML sits at the intersection of several government-driven and geopolitically sensitive industries, which explains both the lumpiness of its growth and the size of its opportunity.

Smart metering is the largest near-term driver. India has a roughly 25 crore meter replacement program, and management estimates the total addressable market at INR 6,500 to 7,000 crores. Only about 10% of the program has been implemented, so the bulk of the demand is still ahead. Relay import duty was increased from 10% to 15%, which strengthens the case for domestic relay manufacturing. The program's execution has been slow and uneven, with meter companies booking orders selectively and state-level political factors affecting rollout speed.

Rare earth magnets remain geopolitically charged. Quantum still imports blocks, and management says it has solutions to import complications but declined to detail them. The government's ECMS scheme has approved PML for a 25% capex incentive on INR 400 crores of machinery, subject to Phase 1 and Phase 2 completion, employment and start of production. Management said the separate PLI scheme had a net-worth requirement PML did not meet.

The EV industry showed a sharp but narrow recovery in Q2 FY27. Automotive revenue rose to INR 24 crores from INR 10.5 crores a year earlier, driven by existing programmes at two or three Western customers. Management has H2 FY27 orders and expects similar demand for the rest of the year, but has no FY28 orders or forecast and said Chinese EVs still dominate globally. It expects Western OEMs to adapt with lower-priced models, but called that a judgment without concrete data.

The alloys industry is driven by high-temperature applications in oil and gas, aerospace, defense and powder metallurgy. PML has started small aerospace orders and also sells into oil and gas and industrial applications, with remelting and other industrial uses. Management says the order situation is healthy, but customers book short term and H1 FY27 output was hurt by furnace teething issues. The AS9100 certification remains the credential for aerospace and defense.

Cyclicality is structural at PML. Management reiterated FY27 revenue growth of 20-30% and guided FY27 EBITDA margin of 20-25%, higher than the earlier 15-18% range, helped by the Q2 FY27 EV mix. The quarter's 25% margin may not persist because management said margin depends on product mix and EV demand; it has no FY28 EV forecast.

Growth triggers

Alloys division scale-up - new furnace teething resolved; FY27 revenue guided at INR 40-50 crores, FY28 possible at INR 70-80 crores

The Alloys division makes cobalt-nickel alloys for high-temperature applications in oil and gas, super alloys, powder metallurgy and defense. The new furnace was installed in January FY26 and commercialized in Q4, but H1 FY27 output was constrained by teething problems. Management says those are resolved and expects better utilization in H2 FY27. H1 FY27 alloys revenue was about INR 12 crores; FY27 guidance is INR 40-50 crores, below the earlier 3-4x target. FY28 could reach INR 70-80 crores if utilization and orders hold.

In Q2 FY27, the furnace could not run at full capacity because of breakdowns and technical problems, which management says were partly supplier-related and partly operational. Orders were pushed, not cancelled, and the company incurred costs payable to customers for delays. Management still describes the order situation as healthy, with oil and gas and industrial applications the main demand and small aerospace orders beginning.

Management's FY27 target is a step-change in output:

> *"in financial year '27 to maybe about 3 to 4 times what we have done in the last year."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The revenue expectation was set earlier:

> *"we may be in the range of INR40 crores to INR70 crores maybe something like that is my expectation today."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

The AS9100:2016 certification for the alloys facility, secured in FY25, extends the addressable base into aerospace, aviation and defense alongside oil and gas and powder metallurgy. New aerospace orders are still small, with one or two customers, while oil and gas and industrial applications are the major current orders. Management also received orders for remelting and other industrial uses. Visibility is still short, with customers booking one to two months ahead, but the order situation is described as healthy.

Relays commercial ramp-up - pilot supplies in H2 FY27, commercial ramp in FY28; FY28 revenue possible at INR 40-50 crores, not yet guided

This trigger is the forward integration of PML's existing smart-meter shunt business into complete latching relays. PML signed a licensing agreement with REL Developments Limited, a U.K. company, for the know-how to manufacture and sell latching relays in India and abroad. The product replaces imports: PML is entering as a second supplier to meter manufacturers who currently buy the relays from China. The value per meter is meaningful, with the average relay ranging from INR 225 to INR 325 depending on customization, and the total addressable market for the 25 crore meter replacement program is between INR 6,500 crores and INR 7,000 crores.

The mechanism is customer qualification, not new demand creation. Meter companies give 10-year warranties to utilities, so they demand extended testing of any new relay supplier. The product is approved to the UC standard, but customers are demanding higher specifications, which has required redesign and further testing. Pilot lots with multiple customers are planned for H2 FY27, and management expects significant commercial sales in FY28, not FY27. It declined to guide FY28 revenue, saying INR 40-50 crores is possible and gross margin could be 15-30%.

> *"On the Relays project, we are behind the original timelines with commercial ramp-up now expected from second half of financial year '27. Testing is currently underway and customer approvals are in progress, both of which have taken longer than our initial expectations."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The earlier FY27 revenue estimate of INR 25-50 crores no longer applies because commercial ramp has moved to FY28. Capex so far is INR 5-6 crores historical spend. Management says the product is approved to the UC standard, but customers want higher specifications, so redesign and testing continue. It expects pilot supplies in H2 FY27 and a good FY28, but will not quantify until pilot lots and customer agreements are complete.

Quantum Magnetics Phase 2 commissioned October 2026; customer approvals starting, commercial ramp guided to FY28

Phase 2 is the backward-integration step inside Quantum Magnetics, the 50-50 joint venture with Singapore's Lorentic Pte Limited formed in August 2025. It adds block cutting, machining and surface treatment. The equipment was commissioned in October 2026, in line with the earlier Q3 timeline. Management says the plant can now show customers the full operation from start to end, which is the prerequisite for product approval and ramp. Phase 3, powder-to-block, is not committed and will be decided after Phase 2 succeeds.

The mechanism is margin expansion plus supply-chain de-risking. Phase 2 lets PML cut and machine blocks in-house instead of importing finished magnets, but it still imports blocks. Management says it has solutions to the import complications but declined to detail them. Customer approval is the gating step; only after approval does management expect a ramp.

Timeline and status: Phase 2 was commissioned in October 2026, in line with the Q3 timeline management had shared. The next step is customer product approval, including a plant visit and evaluation of dimensional capability and statistical tolerances. Management could not confirm FY27 revenue and expects commercial ramp in FY28.

Management's prior guidance, given in May 2026, was: 'For Quantum Magnetics, the Phase 2 capex covering block cutting, machining and surface treatment is expected to be implemented in quarter 3, quarter 4 of financial year 27.' That guidance was superseded: Phase 2 was commissioned in October 2026.

Commercial sales have not followed the Phase 2 commissioning. Management now expects commercial ramp in FY28 and gave a wide FY28 revenue guess of INR 10-40 crores depending on customer share. Full Phase 2 capacity is estimated at INR 40-60 crores depending on product mix. The earlier INR 10-15 crores Q4 FY27 assembly estimate is no longer supported.

Rare earth assembly sales remain approval-dependent; no FY27 revenue confirmed, FY28 revenue guessed at INR 10-40 crores

This trigger is the restart of Quantum Magnetics' rare earth magnet business, which has been frozen since China's export restrictions on magnets stopped all sales in FY26. Phase 2 was commissioned in October 2026, but product approval is still pending. Management could not confirm any FY27 revenue and said it did not know whether approval would happen this year. Commercial ramp is now expected in FY28. The company is talking to 3-4 customers in electronics, automotive and specialised motors, but no volume commitments are disclosed.

The mechanism is approval-gated. Phase 2 lets customers see the full process and evaluate each stage, which management says is necessary before they approve and give a ramp. The company still imports blocks, and management says it has solutions to the import

complications but declined to detail them. There is no disclosed offtake agreement; customers are discussing pricing and samples.

> *"There was no revenue in FY26 because of the restrictions from China for export of magnets. So, we could not do any business in FY26. So those revenues are expected to start in FY27."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

On the FY27 ramp:

> *"FY27, we will, because now we are implementing Phase 2, so that will happen by July to November sometime. And then after that December onwards, sales should start. So that we are estimating maybe about INR10 crores, INR15 crores, something like that may happen in quarter 4."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The supporting signals have changed: management now says Phase 2 is commissioned, but customer approval is the gating item. It is talking to 3-4 customers and expects pricing and samples discussions to follow the Phase 2 installation. No FY27 revenue is confirmed; the FY28 guess is INR 10-40 crores. The earlier INR 10-15 crores Q4 FY27 estimate is not supported by the latest call.

Overall FY27 revenue growth of 20-30% reiterated, but alloys guidance cut and relays/Quantum pushed to FY28

Management reiterated FY27 standalone revenue growth of 20-30% on the FY26 base of INR 225 crores. The mix has changed: alloys is now guided at INR 40-50 crores, not the earlier INR 40-70 crores, and relays and Quantum are no longer expected to contribute meaningful FY27 revenue. The growth therefore relies more on the EV recovery and alloys H2 ramp. Management gave no specific FY28 number but said it expects healthy growth.

> *"I would put the estimate between 20% to 30%, maybe more also depending on the orders that we click in the Alloys business and Relays business."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Alloys is the driver already in motion, but less than earlier expected. The new furnace was installed in January 2026 and commercialized in Q4 FY26, but H1 FY27 output was hit by teething issues. Management says those are resolved and expects better utilization in H2 FY27. FY27 alloys revenue is guided at INR 40-50 crores, with H1 at about INR 12 crores, below the earlier 3-4x target.

> *"in financial year '27 to maybe about 3 to 4 times what we have done in the last year."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The earlier FY27 revenue range for Alloys was INR 40-70 crores. The latest call cut it to INR 40-50 crores. Management still expects FY28 to improve to INR 70-80 crores if utilization and orders hold, with oil and gas and industrial applications the main demand and small aerospace orders beginning.

Relays are now a FY28 story. The product is approved to the UC standard, but customers want higher specifications, so redesign and testing continue. Pilot supplies are targeted for H2 FY27; commercial ramp is guided to FY28. Management declined to quantify FY28 revenue, saying it depends on pilot lots and customer agreements, though it said INR 40-50 crores is possible and gross margin could be 15-30%.

Quantum Magnetics is now an FY28 story. Phase 2 was commissioned in October 2026, but product approval is still pending. Management could not confirm any FY27 revenue and expects commercial ramp in FY28. It gave a wide FY28 revenue guess of INR 10-40 crores depending on customer share, with full Phase 2 capacity of INR 40-60 crores. FY26 Quantum revenue was zero because Chinese export restrictions blocked magnet imports.

Standard current sensors (300-1,000 MPL) - first customer already using; FY27 sales of INR 2-5 crores, then competing globally

This trigger is Permanent Magnets' move from custom-designed current sensing parts to a standardized, off-the-shelf product range. For years the company built current sensors to each customer's specific design, which meant long development cycles and dependence on a handful of meter and EV customers. The standard sensor range - rated 300 to 1,000 MPL - is a fully calibrated product a customer can drop directly onto their PCB without in-house design work. Management described the value proposition in the Q2 FY26 concall (Nov 2025): "What we have introduced is a fully calibrated current sensor which directly the customer can use on their PCB. So their designers do not need to work to create a design to test the design that is a solution that we are providing."

The mechanism is straightforward. A standard product removes the multi-quarter approval and customization cycle, letting one product serve many customers across automotive, UPS and industrial applications. The economics per unit are meaningful: "this product will sell from about INR 200 to, let's say, INR 500 each sensor depending on the complexity and depending on the brand that the customer's mind" (Q2 FY26 concall, Nov 2025). Management also stated it can match the quality of imported competitors while pricing cheaper, and noted one customer is already using the product with pilot lots given to several others.

The timeline is near-term and small. Management guided FY27 sales of INR 2-5 crores, with the follow-on ambition being direct global competition once that base is established:

> *"I believe in FY '27, some sales we should be able to see maybe it could be in the range of maybe INR2 crore to INR5 crores. And then once that success comes, I think worldwide, we will start competing with international players in that business segment."*
>
> **MD, Q2 FY26 CONCALL (NOV 2025)**

The trigger sits within a broader strategy, flagged in the Q4 FY25 concall (May 2025), of shifting the business toward standardized products to reduce dependence on any single customer segment. The first customer already buying makes this the most commercially advanced of the new product launches, ahead of relays which were still in testing at the same date.

Long-term Quantum Magnetics plan: 5,000 tonnes by FY2030 = INR 3,700 crores revenue, INR 550-750 crores total investment

The end-game for the Quantum Magnetics joint venture with Lorentic Pte Limited, signed in August 2025, is a 5,000-tonne rare earth permanent magnet business by FY2030. Management put the full numbers on the table in the Q2 FY26 call.

> *"Our total plan to FY 2030 is 5,000 tons production which is about INR3,700 crores revenue till FY 2030, that is the plan we have. Total investment required for this will be between INR550 crores to INR750 crores."*
>
> **MANAGING DIRECTOR, Q2 FY26 CONCALL (NOV 2025)**

The mechanism is phased backward integration. Phase 1, magnet assemblies for consumer electronics, is already implemented and had shipped orders before China's export restrictions halted it. Phase 2 adds block cutting, machining and surface treatment, so the company stops importing finished magnets. Phase 3 is powder-to-block manufacturing, producing the magnet block itself in India. Each phase replaces an imported input with domestic production, which is the strategic point: Chinese export controls on magnets and technology transfer are why customers want an Indian supply chain. Management plans to source rare earth from Indian Rare Earths, citing India's fifth-largest global reserves.

Stage today: Phase 2 was commissioned in October 2026. Phase 3, powder-to-block, is not committed; management will decide after Phase 2 is commercially successful and is not locking equipment prices now. It is asking customers to fund Phase 3 against amortisation, but no agreement is disclosed.

The prior guidance, now superseded, was: 'Phase 2 is currently under implementation. So and that commercial sales, we will mostly start by quarter 4 of 2027.' Phase 2 was commissioned in October 2026 and commercial ramp is now expected in FY28.

Management confirmed the ECMS scheme covers INR 400 crores of machinery capex, with a 25% capex incentive subject to conditions including Phase 1 and Phase 2 completion,

employment and start of production. It did not specify timing. The earlier 5,000-tonne plan and INR 550-750 crores total investment remain historical targets, not reaffirmed in the Q2 FY27 call. PML's shareholding in Quantum is 50%.

Key risks

- **China's rare earth export restrictions still matter for Quantum Magnetics.** The subsidiary generated zero revenue in FY26 because China blocked magnet exports and PML never received import approvals. Phase 2 is commissioned, but the company still imports blocks, and management says import complications exist but declined to detail its solutions. Commercial ramp depends on customer product approval and testing. A prolonged restriction or approval delay keeps the subsidiary below its capacity regardless of customer demand.
- **Export concentration leaves PML exposed to customer or policy shifts.** The Q2 FY27 call did not discuss tariff policy, but exports were 49% of Q2 revenue, and the automotive recovery is tied to two or three Western customers. Management has H2 FY27 orders but no FY28 orders or forecast. A customer deferral or a policy change would hit the largest export line, and the custom approvals that protect PML also make the revenue lumpy.
- **Western EV demand weakness may be easing, not resolved.** Q2 FY27 automotive revenue rose to INR 24 crores from INR 10.5 crores, driven by existing programmes at two or three customers. Management has H2 orders but no FY28 orders and only a judgment that demand may hold; it said Chinese EVs dominate globally and Western OEMs are still adapting. The segment remains the main swing factor for margins.
- **Revenue concentration in a few domestic smart meter customers remains.** Management said the energy meter business depends on a select few customers whose demand increased in H1 FY27, but not significantly, and future demand depends on utility installations. Domestic sales were 51% of Q2 revenue, and alloys sales may tilt the mix further domestic. The relay forward-integration strategy is now a FY28 driver, not an FY27 offset.
- **Project execution has slipped again.** Relays were originally expected to start commercial sales in FY27; pilot supplies are now H2 FY27 and commercial ramp FY28. Quantum Phase 2, earlier guided for Q3-Q4 FY27, was commissioned in October 2026, but commercial ramp is now FY28 and FY27 revenue is unconfirmed. Alloys lost months to furnace teething issues and cut FY27 guidance to INR 40-50 crores from INR 40-70 crores.
- **Product mix still drives margins.** Q2 FY27 EBITDA margin rose to 25% from 14% on a richer EV mix and operating leverage, and management guided FY27 margin at 20-25%.

But it said margin depends on product mix, with exports better than domestic, and the shift toward standard modules, virgin alloy and relays carries lower margins than custom EV products. Relays are guided at 15-30% gross margin; alloys virgin gross margin is 10-15%.

- **Chinese price competition remains a risk if geopolitical tensions ease.** Management said Chinese EVs dominate globally and Western OEMs are adapting with lower-priced models; in alloys, it avoids products where Chinese margins are very thin. Customers currently pay a premium for non-Chinese supply, but management has said before that regular supply could revert demand to Chinese prices. The import duty protection is not a permanent cost edge.
- **The rare earth plan remains capital-heavy.** Management confirmed the ECMS scheme covers INR 400 crores of machinery capex, with a 25% capex incentive subject to conditions, and PML's shareholding in Quantum is 50%. The earlier 5,000-tonne FY2030 plan and INR 550-750 crores total investment remain historical targets, not reaffirmed in the Q2 FY27 call. Phase 3 is not committed until Phase 2 succeeds. If Phase 2 or Phase 3 underdelivers, the capital drag on the parent intensifies without corresponding revenue.

Scenarios

Bull case

The EV recovery holds through H2 FY27, with automotive revenue near the Q2 FY27 run-rate of INR 24 crores and margins around 25%. Alloys runs at better utilization in H2, delivering the guided INR 40-50 crores for FY27 and setting up INR 70-80 crores in FY28. Relays complete pilot lots in H2 FY27 and move to commercial supplies in FY28, with management seeing INR 40-50 crores possible at 15-30% gross margin. Quantum Phase 2 clears customer approvals and starts FY28 at the low end of the INR 10-40 crores guess, with full capacity of INR 40-60 crores visible. The ECMS approval gives a 25% capex incentive on INR 400 crores of machinery, and the consolidated factory saves about INR 5 crores of annual rent. FY27 revenue grows 20-30% with EBITDA margin of 20-25%.

Base case

FY27 revenue grows 20-30%, with Q2 FY27 showing the EV recovery and 25% margin. H2 depends on EV orders holding at similar levels and alloys utilization improving after the teething issues. Alloys delivers INR 40-50 crores, mostly virgin mix, around breakeven EBITDA. Relays contribute pilot lots but no meaningful revenue until FY28. Quantum Phase 2 is commissioned but customer approval slips into FY28, with no FY27 revenue. FY27 EBITDA margin lands at 20-25%, and the company gives no specific FY28 revenue number, only a judgment of healthy growth. The consolidated factory progresses toward a move in about

two years, with building capex around INR 30 crores and annual rent savings of about INR 5 crores.

Bear case

The EV recovery proves temporary. Q2 FY27 automotive revenue of INR 24 crores was driven by existing programmes at two or three customers; management has only H2 orders, no FY28 orders, and no forecast. If Western EV demand flattens or a customer defers, revenue growth falls below the 20-30% guidance and the 25% margin compresses because export mix is better than domestic. Alloys stays at the lower end of INR 40-50 crores as furnace utilization improves slowly, and FY28 INR 70-80 crores does not materialize. Relays remain in testing through FY27, with FY28 commercial ramp uncertain and no firm revenue guidance. Quantum Phase 2 is commissioned but customer approval slips, leaving FY28 revenue at the low end of INR 10-40 crores or nil. The ECMS incentive is conditional and back-ended, while INR 400 crores of machinery capex and the consolidated factory keep capital spending elevated. EBITDA margin falls below 20%.

VALUATION SUMMARY

LINE ITEM	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	201	205	226	294	367	442
Revenue growth	-	+2.0%	+10.3%	+30.0%	+24.8%	+20.3%
EBITDA (₹ Cr)	34.30	30.40	36.70	56.30	67.40	79.20
EBITDA margin	17.1%	14.8%	16.2%	19.2%	18.4%	17.9%
Depreciation (₹ Cr)	8.00	11.40	14.50	19.50	24.00	27.50
Interest (₹ Cr)	2.00	2.40	4.10	8.50	11.90	13.40
Other income (₹ Cr)	4.00	4.20	6.10	4.50	5.50	6.00
PBT (₹ Cr)	28.30	20.80	22.40	32.80	37.00	44.30
Tax (₹ Cr)	8.10	5.00	7.30	9.90	11.40	13.00
Tax rate	28.4%	24.2%	32.7%	30.2%	30.7%	29.3%
PAT (₹ Cr)	20.30	15.80	15.10	22.90	25.60	31.30
PAT growth	-	−22.2%	−4.3%	+73.9%	+13.5%	+17.6%
EPS (₹)	23.50	18.30	17.50	30.50	34.60	40.70
P/E	56.8x	73.0x	76.3x	43.8x	38.6x	32.8x
PEG	3.4x	4.3x	4.5x	2.6x	2.3x	1.9x

CAGR FY27E-FY29E: Revenue +22.5% · EBITDA +18.6% · PAT +16.9%

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Q2 FY27 concall notes

TLDR

Permanent Magnets reported Q2 FY27 standalone revenue of ₹72.5 crore, up 49% YoY, with EBITDA of ₹17.8 crore (up 159%) and margin at 25% versus 14% in Q2 FY26 and 19% in Q1 FY27. Growth came from EV supplies to Western customers and a pickup in domestic smart meters; automotive revenue was ₹24 crore in Q2 against ₹15 crore in Q1 and ₹10.5 crore a year earlier. Management guides full-year EBITDA margin at 20-25% and overall growth of 20-30%, with alloys revenue of ₹40-50 crore for FY27 against ₹12 crore in H1 after furnace teething issues cost several months of sales. Relays commercial ramp-up moves to FY28, Quantum Magnetics Phase 2 was commissioned in October with product approvals starting soon, and Phase 2 commercial ramp-up is guided for FY28. Key watch points are EV demand concentration in a few customers with no FY28 orders yet, alloy margin at breakeven, and import dependence for Quantum blocks.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations (standalone)	₹72.5 crore	+49% YoY	EV segment supplies picking up and domestic smart meter demand
EBITDA	₹17.8 crore	+159% YoY	Higher throughput and better product mix
EBITDA margin	25%	vs 14% in Q2 FY26, 19% in Q1 FY27	Better product mix from higher EV demand and operating leverage
PAT	Not disclosed on call	n/a	n/a
Automotive segment revenue	₹24 crore	vs ₹15 crore in Q1 FY27, ₹10.5 crore in Q2 FY26	Existing customer programs recovering, some platform reuse by a customer
Alloys division revenue (H1 FY27)	~₹12 crore	n/a	New furnace ran below capacity on teething issues
Alloys division revenue (FY27 guided)	₹40-50 crore	n/a	H2 utilisation expected to improve after issues resolved
Export share of Q2 revenue	49%	n/a	EV exports; domestic was 51%
Quantum Magnetics Phase 2 capacity revenue potential	₹40-60 crore	n/a	Depends on product mix; larger magnets could raise it with small investment
Rent cost at existing rented facilities	~₹5 crore per year	n/a	To be saved once operations shift to the new consolidated facility

SEGMENTS & GEOGRAPHIES

- **EV/automotive:** Q2 automotive revenue ₹24 crore versus ₹15 crore in Q1 and ₹10.5 crore in Q2 FY26. Demand came from 2-3 existing customers, mainly export, with some recovery from programs a customer had deferred and later reused on other products. Management expects EV demand at similar levels for the rest of FY27 on customer projections; for FY28 it has indications of similar levels but no forecast and no H1 FY28 orders.
- **Smart meters:** Domestic demand picked up in the quarter from a select few customers who raised requirements; the increase was not significant. Management expects demand at similar levels, dependent on utility installation

pace.

- **Alloys:** H1 revenue ~₹12 crore; full-year guided at ₹40-50 crore. The new furnace could not be fully utilised in H1 due to breakdowns and technical problems, some from the supplier and some from own operations. Issues are resolved and better utilisation is expected in H2. FY28 revenue of ₹70-80 crore is possible. Orders from oil and gas, industrial applications, remelting and one or two small aerospace orders are being executed. FY28 gross margin expected at 10-15% for virgin alloys and 15-25% for return/scrap alloys.
- **Relays:** Pilot supplies expected in H2 FY27; commercial ramp-up moved to FY28. Testing iterations with customers are near the end stage. Gross margin judged at 15-30%. A ₹40-50 crore business next year is possible once approved, but management declined to give a revenue number.
- **Quantum Magnetics:** Phase 2 (block cutting, machining, surface treatment) commissioned in October, in line with the Q3 timeline shared earlier. Product approval process to start soon with one customer first; 3-4 customers in electronics, automotive and specialised motors are in discussion. FY28 revenue could be ₹10-40 crore depending on the share the first customer gives. Blocks are still imported; management said it has solutions to import complications but declined to disclose them.
- **Geographies:** Q2 split was 51% domestic and 49% export. Management expects a little more domestic in coming quarters as alloy sales, mostly domestic, rise.

STRATEGY & COMPANY-SPECIFIC

- **Quantum Magnetics Phase 3:** Metal-to-block manufacturing will be decided after Phase 2 is commercially successful. No equipment pricing locked in. The ECMS scheme approval covers 25% of capex, with conditions on completing Phase 1 and Phase 2, employment, and starting production. The company did not apply for the separate PLI scheme as it did not meet the net worth requirement. The ECMS-approved capex is ₹400 crore, all for machinery, not land and building, and is 100% invested through Quantum Magnetics, in which Permanent Magnets holds 49-50%.
- **Customer funding for Phase 3:** Management is asking customers signing agreements to fund Phase 3, to be repaid through amortisation over the product.
- **Relays:** Product is approved to the UC standard; some customers want higher internal standards, requiring redesign at their cost. No offtake agreements signed yet; in-principle buying agreement expected after pilot lots pass tests.
- **Modules:** Supplies to automotive have started this year, sold through international online platforms. Management intends to grow standard, industry-wide module products over the coming years alongside customer-designed products.
- **Water meters:** One product in pilot launch with 2,000-3,000 parts supplied for customer testing; commercial supplies to follow. Potential of ₹5-10 crore from this single product with one customer over about three years.
- **Plant consolidation:** Legal delays on land are being resolved. Management expects about two more years before moving into the new facility. Building capex of about ₹30 crore; land cost was about ₹25 crore, already invested with some more possible next year. Existing facilities are rented, so no monetisation, but ~₹5 crore per year of rent will be saved.
- **Forging:** Added to the MOA for applications where customers need forged products; currently outsourced, with in-house production under consideration.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue growth, FY27	20-30%	n/a	EV pickup offsetting the relay delay
EBITDA margin, FY27	20-25%	n/a	EV sales continuing; H2 slightly lower than H1
Alloys revenue, FY27	₹40-50 crore	n/a	Better new-furnace utilisation in H2
Alloys revenue, FY28	₹70-80 crore possible	n/a	Higher utilisation; order pipeline
Alloys EBITDA margin, FY27	Around breakeven or slightly higher	n/a	Initial higher costs from furnace teething issues
Alloys gross margin, FY28	10-15% virgin alloys; 15-25% return alloys	n/a	Product stream mix
Relay pilot supplies	H2 FY27	n/a	Testing near completion
Relay commercial ramp-up	FY28	n/a	Customer testing and pilot lots this year
Relay gross margin	15-30%	n/a	Management judgment
Quantum Phase 2 commercial ramp-up	FY28	n/a	Customer approval after plant visit and evaluation
Quantum FY28 revenue	₹10-40 crore	n/a	Share the first customer gives; management called it a guess
Quantum Phase 2 capacity revenue	₹40-60 crore	n/a	Product mix
Plant consolidation	~2 more years	n/a	Land legal issues being resolved
Building capex for new facility	~₹30 crore	n/a	Construction
EV demand, rest of FY27	Similar level	n/a	Customer projections
EV demand, FY28	Similar level indicated	n/a	No forecast; management judgment

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
EV demand concentration and visibility	Demand comes from 2-3 customers; no FY28 forecast and no H1 FY28 orders, only indications of similar levels
Western EV demand vs Chinese competition	Chinese EVs dominate; whether entry barriers are imposed in different countries will affect Western EV growth; management has no concrete data
Alloy furnace execution	Breakdowns and technical problems, partly supplier-related, cost several months of sales; delay costs are being paid to customers
Alloy margins	FY27 at breakeven or slightly higher due to initial higher costs; China competition keeps margins thin on some products
Quantum import dependence	Blocks are still imported; management said it has solutions but declined to disclose them
Quantum approval timing	Customer must visit the plant and evaluate production before approval; management has no clarity on whether any FY27 revenue will happen

RISK	WHAT MANAGEMENT SAID
Relay delay	Commercial ramp-up moved to FY28; revenue for next year not quantified; depends on testing and pilot lot success
Smart meter demand	Depends on utility installation pace, which can slow and reduce demand
PLI/ECMS conditions	25% capex incentive subject to completing Phase 1 and Phase 2, employment conditions and starting production
Phase 3 equipment pricing	Not locked in; management flagged no commitment on equipment prices

Q&A HIGHLIGHTS

EV demand turnaround Asked what changed to cause the EV recovery and whether it extends to FY28, management said higher summer demand, particularly from exports, came from 2-3 existing customers, not one. Customer projections point to similar levels in H2 FY27; for FY28 there is no forecast, only indications of similar levels.

Margin sustainability Asked whether 20%+ margins hold if EV stays at current levels, management said margins depend on product mix, with export margins better and domestic much lower. If EV demand holds, margin would be similar to this quarter; full-year guidance is 20-25%.

Alloys shortfall Asked why alloys H1 was only ~₹12 crore against an earlier 3-4x expectation, management said a few months were lost to furnace teething issues and those sales were pushed back, not cancelled. Delay costs are being paid to customers; FY27 alloys revenue is guided at ₹40-50 crore.

Quantum FY27 revenue Asked whether the earlier ₹5-10 crore Quantum revenue guidance for the year holds, management said it doubts any revenue will happen this year because the product is still in approval and the customer must visit the plant. Revenue may get pushed to FY28.

Relay timeline and margins Asked about FY28 relay revenue and margins, management declined to give a revenue number, said testing and pilot lots should be completed this year, and judged gross margin at 15-30%. A ₹40-50 crore business next year is possible once approved.

Quantum Phase 3 funding Asked whether customers could fund Phase 3, management said it is proposing that customers signing agreements fund it, with repayment through amortisation over the product. Phase 3 timing will be decided after Phase 2 succeeds; no equipment prices are locked in.

Import dependence for Quantum Asked whether block imports remain a constraint after Phase 2, management said complications exist but it has solutions it declined to disclose on the call. It expects no major challenge in getting blocks once approvals are complete.

Consolidation and rent savings Asked about the single-location plant, management said legal delays on land are being resolved and it expects about two more years before the move. Building capex is about ₹30 crore, land cost about ₹25 crore, and rent savings are close to ₹5 crore per year since existing facilities are rented.

Cholamandalam Investment and Finance Company Limited

GROWTH TRIGGERS

Chola's bull case rests on broad-based 25% AUM growth, a credit-cost cycle that has normalised faster than guided, and a capital base that can fund the next leg while newer secured and consumer businesses add high-return AUM.

1. Broad-based 25% AUM growth with 47% disbursement growth

Q2 FY27 disbursements rose 47% to ₹35,872 crore and AUM 25% to ₹2,68,000 crore, with vehicle finance up 31%, secured SME up 42% and consumer loans up 103%. Management did not revise FY27 growth after 25% in H1 and still holds 20-23% steady-state growth, so the revenue base is compounding across more than one engine.

2. Credit-cost normalisation lifts returns

Management says 1.4% net credit cost was achieved in H1, with gross Stage 3 down to 3.25% from 3.29%, GNPA at 4.4%, PBT ROA up 40 bps and ROE at 19.4% versus 18.1%. The full-year 1.4% outcome remains open, so the earnings lever is whether the lower credit cost holds through the seasonally stronger H2.

3. Vehicle finance outgrows the industry into Q3

Vehicle finance disbursements grew 31% in Q2 FY27 and AUM 21%, ahead of the 15-20% FY27 disbursement guide. Management said October disbursements were up 18-20% YoY and expected Q3 growth of 20-22%; industry HCV volumes grew 40% in Q2 and 20% in H1, giving the segment a current demand tailwind rather than only a base effect.

4. Secured mortgage cluster adds high-return AUM

Q2 FY27 secured SME AUM reached ₹72,356 crore, up 27%, with LAP up 24%, SME up 45% and SBPL up 35%; housing loan AUM was ₹25,240 crore and housing disbursements grew 43%. Management said mortgage distribution is still 40% South and 60% other zones, leaving a multi-year branch-maturation runway outside the original stronghold.

5. CSEL repair opens a path above 4% pre-tax ROA

CSEL AUM was ₹17,216 crore in Q2 FY27 and consumer loan disbursements grew 103%. Management will report the two CSEL businesses separately from next month; each is near 3.6% ROA and the combined business can deliver more than 4% pre-tax ROA as net credit cost and opex fall, a higher return than the company average.

6. Gold branch build adds a high-yield secured product

Gold AUM reached ₹3,446 crore in Q2 FY27 and disbursements grew 320%. Management plans 360 branches this year, taking the network to 480, with phase 1 branches averaging ₹21 crore AUM and phase 2 branches needing ₹15-20 crore. The earlier ₹5,000 crore FY27 target was not restated and the transcript contains a 360-versus-380 branch discrepancy.

7. Capital raise and completed CCD conversion fund growth

The CCD conversion was completed in September 2026, lifting capital adequacy to 20.62% and Tier 1 to 16.02%. The board has approved a raise of up to ₹5,000 crore, expected within six to nine months subject to approvals and market conditions. That gives Chola funding flexibility for 25% AUM growth without relying only on internal accruals.

8. Opex glide to 2.8% creates operating leverage

Q2 opex was 3.1% of average assets, with higher salary cost from moving staff in-house and a one-time business meet, but the same amount left outsourced cost. Management targets 2.8% in two to three years. If the branch and product build matures without a proportional cost increase, the spread between AUM growth and opex growth widens.

INVESTMENT THESIS

Cholamandalam Investment and Finance Company is a diversified non-bank lender whose economics come from funding a granular retail and small-business book at a spread. The model is not a single product: vehicle finance, loan against property, home loans, SME, secured business and personal loans, consumer and small enterprise loans, consumer durables and gold each sit on the same distribution, underwriting and collections spine. That spine is physical and local. Chola lends where banks find documentation costly, prices for the risk, and collects through a branch and field network that reaches small road transport operators, self-employed shop owners and micro-merchants. The Q2 FY27 result shows the model working at scale: disbursements rose 47% to ₹35,872 crore, AUM rose 25% to ₹2,68,000 crore, credit cost fell 37 bps, PBT ROA rose 40 bps and ROE reached 19.4%. The question is not whether the franchise can grow. It is whether the current spread and credit-cost level can hold while cost of funds rises and the mix shifts toward newer, higher-yield businesses.

The core economic engine is the gap between borrowing cost and asset yield, multiplied by AUM, minus credit cost and opex. For a lender, small changes in credit cost and funding cost matter more than a single quarter of disbursement growth. Q2 FY27 management says net credit cost was 1.4% in H1, a full-year ambition achieved early, with gross Stage 3 at 3.25% and GNPA at 4.4%. That is the most important number in the call because every 10 bps on a ₹2,68,000 crore book is material pre-tax profit. The offset is that cost of funds is no longer falling. The CFO assumes another 25 bps repo hike; a 50 bps move would add 15-20 bps to H2 cost of funds and about 15 bps YoY, with 25% of borrowings repo-linked and 25% on other benchmarks. He expects at least a 10 bps yield fall but argues credit-cost reduction should more than offset it, keeping ROTA better than last year. That is the central operating trade-off: lower credit cost versus higher funding cost and lower yield.

The mix is changing. Vehicle finance remains the largest business at ₹129,787 crore AUM, up 21%, and Q2 disbursements rose 31% to ₹17,800 crore. But the faster growth is elsewhere. Secured SME AUM reached ₹72,356 crore, up 27%, with LAP up 24%, SME up 45% and SBPL up 35%. Housing loan AUM was ₹25,240 crore and housing disbursements grew 43%. Consumer loans disbursed ₹8,726 crore, up 103%, with CSEL AUM at ₹17,216 crore and gold at ₹3,446 crore. This is not a vehicle-cycle story alone. The mortgage cluster is now large enough to move group growth, and management says 40% of mortgage business still comes from South and 60% from other zones, leaving a multi-year distribution runway outside the original stronghold. If that equalisation continues, the growth duration extends beyond the current vehicle upcycle.

CSEL is the internal repair story with the clearest earnings lever. Two years ago it was the problem book; Q2 FY27 management says the two businesses, unsecured business/personal

and consumer durable/digital, each run close to 3.6% ROA and together can deliver more than 4% pre-tax ROA as net credit cost and opex fall. Separate reporting starts next month. That will let investors see whether the improvement is real or a mix effect. The target is credible only if the diamond-quality sourcing holds as volume scales and the legacy fintech partnership book runs off. Q2 did not restate the old 4.7% NCL or the residual partnership book, so the next few quarters need to show the loss rate and opex actually falling, not just a higher-yield mix.

Gold is the newest capacity build. AUM reached ₹3,446 crore in Q2 and disbursements grew 320%. Management plans 360 branches this year to 480 total, with phase 1 branches averaging ₹21 crore AUM and phase 2 branches needing ₹15-20 crore. The earlier ₹5,000 crore FY27 target was not restated, and the transcript contains a 360-versus-380 branch discrepancy. The economics are attractive if per-branch productivity holds because gold is secured, short-tenure and high-yield. The risk is that branch costs arrive before revenue, and the Q2 call gives productivity for phase 1 rather than a full cohort. This is a real operating-leverage project, not a completed one.

Capital allocation is supportive but not free. The CCD conversion was completed in September 2026, lifting capital adequacy to 20.62% and Tier 1 to 16.02%. The board has approved a raise of up to ₹5,000 crore, likely within six to nine months, subject to approvals. Management may use full equity or a split structure. That gives Chola flexibility to fund 25% AUM growth without relying only on internal accruals. It also introduces timing and dilution risk. The quality of the capital allocation test is whether the new capital earns the same spread as the existing book, not merely whether the raise closes.

Management delivery is mixed. On the positive side, the earlier 20-21% AUM growth floor was held through a weak FY26 first half, the CSEL credit-loss inflection was delivered, and the 1.5% FY27 credit-cost target was hit in Q1 before the Q2 call moved the number to 1.4% in H1. On the negative side, FY26 pre-tax ROA came in around 3.3% against a 3.5% target and was re-guided to FY27. Q2 now cites 3.5% again while preparing for insurance reform. The right reading is that management is credible on operating direction and less reliable on precise annual ROA timing. The current call does not prove the FY27 3.5% outcome; it provides early support.

The earnings path over the next 18-24 months rests on three measurable items. First, AUM growth: Q2 was 25%, management holds 20-23% steady-state, and the branch and product build supports the upper half. Second, credit cost: 1.4% in H1 must hold through H2; if it does, the PBT ROA bridge is credible. Third, funding and opex: cost of funds rises about 15 bps YoY, yield may fall at least 10 bps, and opex is 3.1% with a 2.8% target in two to three years. The company needs credit-cost reduction and operating leverage to outrun the funding headwind. That is the operating-leverage thesis in one sentence.

The falsifiers are specific. A full-year net credit cost above 1.4%, a vehicle Stage 3 reversal from the improved 3.25% company level, or a sharper cost-of-funds move that turns the 10 bps yield fall into a NIM compression would break the 3.5% pre-tax ROA path. A delay or poorly priced ₹5,000 crore raise would weaken the growth funding case. A gold branch rollout that misses the ₹21 crore phase 1 productivity or a CSEL book that fails to reach the near-4% pre-tax ROA would remove the newer earnings levers. Insurance distribution remains an unquantified post-FY27 risk. The stock is not a price call here; it is a test of whether a high-quality lending franchise can keep its spread while growing 20-25% and absorbing a higher funding base.

RESEARCH REPORT

What Cholamandalam Investment and Finance Company Limited does

Chola is a non-bank lender incorporated in 1978 as the financial services arm of the Murugappa Group, the Chennai-based conglomerate with businesses spanning agriculture, engineering and financial services. It began by financing equipment and expanded outward over four decades into a set of eight lending businesses that share one customer profile: people whose income is real but difficult to document on paper. Small road transport operators, self-employed shop owners, cash-salaried workers, farmers and micro-enterprises make up the book. The company runs 1,761 branches across 26 states and 7 union territories, with 88% of its presence in Tier III-VI towns, serves more than 47.5 lakh customers, and employs 73,689 people including off-roll staff (FY26 annual report).

Scale as of FY26: disbursements of ₹1,11,642 crore, up 11% year-on-year, business AUM of ₹2,24,334 crore, up 21%, total AUM of ₹2,42,630 crore, profit before tax of ₹6,961 crore and profit after tax of ₹5,220 crore, up 23% (Q4 FY26 concall, May 2026). Net interest margin improved to 8.0% and return on equity was 19.7%. Momentum carried into Q1 FY27 with disbursements of ₹29,612 crore, up 22%, and AUM of ₹2,54,392 crore, up 23% (Q1 FY27 concall, July 2026). In Q2 FY27 disbursements rose 47% year-on-year to ₹35,872 crore and AUM rose 25% to ₹2,68,000 crore. Vehicle finance disbursed ₹17,800 crore (+31%) with AUM of ₹129,787 crore (+21%); secured SME disbursed ₹9,345 crore (+42%) with AUM of ₹72,356 crore (+27%), including LAP ₹57,447 crore (+24%), SME ₹10,943 crore (+45%) and SBPL ₹3,966 crore (+35%); consumer loans disbursed ₹8,726 crore (+103%) with AUM of ₹45,902 crore (+32%).

The Reserve Bank of India classifies Chola as an NBFC in the Upper Layer, the most closely supervised tier of non-banks, and the company is non-deposit taking. Every rupee lent is funded by borrowings: roughly half from banks, the balance from bonds, commercial paper and securitisation. Outstanding borrowings stood at ₹2,10,867 crore at March 2026. Interest cost fell to 7.5% of average borrowings in FY26 from 8.0% in FY25 as the RBI cut the repo rate from 6.25% to 5.25% during the year. Ratings stand at AA+ from ICRA, India Ratings and CARE. At September 2026 total liquid assets were ₹21,974 crore including undrawn credit lines; capital adequacy was 20.62% with Tier 1 at 16.02%. The CCD conversion was completed in September 2026. The board approved a proposal to raise up to ₹5,000 crore, subject to shareholder and regulatory approvals.

Distribution is the spine of the model. Most businesses operate out of shared Vehicle Finance branches, with resident locations acting as a farm system: when a location hits an internal disbursement threshold, it converts into a permanent branch. At Q2 FY27 management said the branch plus resident-location network is near 2,600 and 125 resident locations are being converted as they hit critical disbursement levels. The earlier FY27 plan for roughly 100 new

branches each for Vehicle Finance, Home Loans, LAP and CSEL/CD was not restated in that call. Gold is the exception, running exclusive standalone branches. Behind the branches sits a collection apparatus, organised into soft, hard and recovery teams that vary by product.

Management frames the diversification story directly:

> *"Last year, at this time, Chola's growth was primarily driven by three engines—LAP, SBPL, and Home Loans. Today, all eight business engines are contributing to growth."*
>
> **EXECUTIVE CHAIRMAN, Q4 FY26 CONCALL (MAY 2026)**

For FY27 the company originally guided to overall AUM growth of 20-23%, stable NIM around 8%, operating expenses of 3.0-3.1% of average assets, net credit cost of about 1.5% and pre-tax ROA of 3.5% (Q4 FY26 concall). It delivered the 1.5% credit cost in Q1 FY27 itself and posted pre-tax ROA of 3.7% with NIM at 8.2% (Q1 FY27 concall). In Q2 FY27 management did not revise growth: it said 25% AUM growth and 1.4% net credit cost were full-year ambitions already achieved in H1, that Q3 and Q4 are seasonally better, and that it still holds 20-23% AUM growth on a steady-state basis. Q2 credit cost fell 37 bps, PBT ROA rose 40 bps and ROE was 19.4% versus 18.1%. The board approved a capital raise of up to ₹5,000 crore, likely within six to nine months subject to approvals.

Segment economics for FY26:

SEGMENT	DISBURSEMENTS	SHARE OF DISBURSEMENTS	AUM	PBT
Vehicle Finance	₹62,123 cr	~56%	₹1,19,558 cr	₹3,145 cr
Loan Against Property	₹20,459 cr	~18%	₹52,295 cr	₹1,818 cr
CSEL (consolidated)	₹10,249 cr	~9%	₹15,113 cr	₹147 cr (core)
Home Loans	₹7,363 cr	~7%	₹22,688 cr	₹865 cr
SME Loans	₹7,312 cr	~7%	₹9,338 cr	₹165 cr
Secured Business & Personal Loans	₹1,667 cr	~1.5%	₹3,537 cr	₹218 cr
Gold Loans	First year of operations	-	₹1,804 cr	-
Consumer Durable Loans	₹2,174 cr	~2%	Part of CSEL	-

Vehicle Finance

This is the founding business and still more than half of disbursements. Chola finances new and used commercial vehicles, passenger cars, two-wheelers, three-wheelers, tractors, construction equipment and electric vehicles. The portfolio mix is deliberately spread: 27%

used vehicles, 18% light commercial vehicles, 13% multi-utility vehicles, 13% cars, 7% heavy commercial vehicles, 7% two-wheelers, 6% construction equipment, 5% tractors, 2% mini LCV and 2% three-wheelers (FY26 annual report). That spread is a risk tool. Heavy commercial vehicles, the segment most exposed to diesel prices and long-haul freight economics, are only 5-7% of the vehicle book, and Chola's exposure there skews to small road transport operators rather than large fleets (Q4 FY26 concall).

The capability that took decades to build is underwriting and collecting from small road transport operators, customers who earn in cash, keep no books and buy assets that depreciate fast. Underwriting combines field-level customer insight, asset-backed security and data-driven scoring, and the division monitors early defaults and non-starters as leading indicators. That machinery was stress-tested through a two-year downcycle: quarterly net credit loss ran at 2.2%, 2.1% and 2.0% through the first three quarters of FY26 before improving further, and Stage 3 stabilised around 4.17% in December 2025 (Q3 FY26 concall). By June 2026 the seasonal Stage 3 rise from March was 25 basis points versus 45 basis points a year earlier, and net credit cost for the company reached 1.5% (Q1 FY27 concall).

Growth re-accelerated as the cycle turned. After the GST rate cut lowered vehicle prices from Q3 FY26, Chola grew heavy commercial vehicle disbursements 56% against industry growth of 20%, and small commercial vehicle disbursements 28% against a market growing 16% (Q3 FY26 concall). Market share rose across Tata, Volvo, Eicher, Ashok Leyland, Maruti, Royal Enfield, Honda and Hero. Nearly 50% of two-wheeler disbursements now complete through fast-track processes within a few hours, which matters because speed is often the deciding factor for a first-time buyer choosing between financiers at a dealership (FY26 annual report). By Q2 FY27 vehicle finance disbursements grew 31% to ₹17,800 crore and AUM grew 21% to ₹129,787 crore, ahead of the 15-20% FY27 disbursement guide. Management said October disbursements were up 18-20% YoY and expected Q3 growth of 20-22% after correcting an earlier reference to Q2.

Used vehicles deserve separate mention because they are the largest single slice at 27%. The used book moves with the new vehicle replacement cycle: when fleet owners sell old trucks to buy new ones, quality used stock enters the market and financing demand follows. Management quantified the linkage: 10-15% unit growth in new HCV/LCV sales converts into 20%-plus value growth in used financing, since loan size tracks gross vehicle value (Q3 FY26 concall). The Gaadi Bazaar platform, which integrates vehicle trading, auctions and trade advances into one digital workflow for dealers, supports this engine.

Loan Against Property

LAP is long-term, collateral-backed credit for self-employed and MSME borrowers, and 97% of its customer base is Self-Employed Non-Professionals, meaning shop owners, traders and

service businesses without formal financial statements. Three-quarters of the loan book is secured against self-occupied residential properties, and the average ticket is about ₹52 lakh (research brief, FY26 annual report). The business runs 814 branches across 26 states, with 76% of branches in rural areas contributing ₹7,094 crore, or 35% of LAP disbursements, which shows how far beyond metro markets this product now reaches.

The strategic move that defined the last few years was small LAP, introduced after COVID with higher interest rates for smaller tickets. Small LAP now contributes around 20% of LAP volumes and is the main reason yields have held up even as rates fell (Q3 FY26 concall). In Q2 FY27 management said small LAP was doing almost 500 disbursements a month with higher yields and an average ticket of ₹15-20 lakh. Combined with deeper penetration into Tier 3 and Tier 4 towns, this mix shift lifted margins: management reported a 20 basis point margin increase year-on-year driven by product mix rather than pricing on like-for-like loans (Q3 FY26 concall).

Credit performance is the standout. Loan losses were 0.3% of average assets in FY26, PBT grew 44% to ₹1,818 crore, and PBT-ROTA improved to 3.9% from 3.6% (FY26 annual report). Management expects the business to sustain a 3.7-3.8% PBT-ROTA and grow AUM 25-30% in FY27 (Q3 FY26 and Q4 FY26 concalls). Because most tickets exceed ₹20 lakh, the book is largely SARFAESI-eligible, giving Chola a statutory recovery mechanism that smaller-ticket products lack. LAP exists as a separate division because mortgage underwriting, legal title diligence and multi-year tenures require a different skill set and credit process from asset-backed vehicle lending. In Q2 FY27 LAP AUM reached ₹57,447 crore, up 24%; management said 40% of mortgage business comes from South and 60% from other zones, with scope to equalise over one to two years.

Home Loans

Home Loans targets affordable housing for middle and lower-middle-income families, self-employed non-professionals and cash-salaried individuals in Tier II-IV markets. The average ticket is ₹18.5 lakh with an average loan-to-value of 49.5%, and 17% of customers are first-time borrowers. Products cover self-construction, ready homes, plot purchases, balance transfers and mixed-use properties that function as both home and micro-shop (FY26 annual report). Around 88% of the portfolio comprises business owners with semi-formal income, which is exactly the segment banks find expensive to underwrite.

The division transformed geographically over three years, expanding from a largely southern footprint to a pan-India presence of 712 touchpoints across 22 states serving 1.68 lakh active families. Those newer branches are now maturing and driving incremental volume, which underpins the earlier guidance of 12-15% disbursement growth and AUM growth of 25% or higher for FY27, with 100 new branches planned (Q4 FY26 concall). Q4 FY26 disbursements dipped on procedural timing, election-related administrative slowdowns,

land-record digitisation mismatches and lien-marking delays, but management treated these as temporary. In Q2 FY27 housing loan disbursements grew 43% and home loan AUM was ₹25,240 crore; management said the Q2-Q1 difference partly reflected base and technical alignment of disbursement with asset recognition, not a change in underlying performance.

Profitability is strong for an affordable housing book: PBT of ₹865 crore, up 22%, PBT-ROTA of 4.2%, and management targets 4.5% with steady-state net credit losses of 0.5-0.6% (Q3 FY26 concall). The non-SARFAESI portion of the book, tickets below ₹20 lakh, cannot use the statutory foreclosure route, so Chola periodically sells those pools to Asset Reconstruction Companies. In Q3 FY26 it sold ₹65 crores of such assets, booking a net ₹35 crore hit in the credit loss line, a cost of doing business in this segment that recurs episodically (Q3 FY26 concall).

Consumer and Small Enterprise Loans

CSEL is really two businesses under one label. The first is unsecured lending, personal loans, business loans and professional loans, sourced through more than 600 Direct Selling Agent partners and 575-plus field sales executives. The second is point-of-sale and digital lending: consumer durables financing, mobile phone lending through the Samsung Finance Plus platform and direct-to-customer loans via the Chola One app. Together they serve 1.15 million customers (FY26 annual report).

This division produced Chola's biggest credit mistake and its cleanest fix. During the unsecured lending boom, industry-wide multiple funding, several lenders extending several loans to the same borrower, plus DSA-driven origination excesses pushed CSEL net credit losses to 6.4-7%. Chola responded on three fronts. It exited fintech partnership-led lending entirely from Q1 FY26, running the partnership book down from ₹3,000 crores to ₹600 crores with a residual ₹300-400 crores trailing off through FY27. It segmented DSA-sourced originations into diamond, gold, silver and bronze quality tiers and now sources only diamond-quality borrowers. And it registered roughly 80% of its ₹5,000 crore business loan book, about ₹3,500 crores, under CGTMSE, the government credit guarantee scheme, which caps downside (Q3 FY26 and Q4 FY26 concalls).

The results show in the numbers. Quarterly NCL fell from 6.7% in Q1 FY26 to 6.4% in Q3, 5.2% in Q4 and 4.7% by Q1 FY27, while pre-tax ROA reached 3.3% in Q1 FY27, ahead of the 3% target originally set for Q3 (Q1 FY27 concall). Approval discipline is tight: around 35-40% of business loan applications and about 60% of salaried applications get approved (Q1 FY27 concall). Collections are 55% digital, the highest in the group. Management expects combined CSEL asset growth of about 20% by Q4 FY27 as the cleaned-up book compounds off a low base (Q4 FY26 concall). In Q2 FY27 CSEL AUM was ₹17,216 crore and consumer loan disbursements grew 103%; management will report the two CSEL businesses

separately from next month, with each near 3.6% ROA and the combined business capable of more than 4% pre-tax ROA.

Small and Medium Enterprise Loans

The SME division lends ₹5 lakh to ₹15 crore to private limited companies, partnership firms and proprietorships through term loans, micro term loans, equipment finance for industrial equipment, gensets and medical equipment, working capital facilities, leasing and solar funding. Solar funding, launched in FY26 as the company's first Green Finance offering, finances commercial and industrial rooftop installations, and the leasing arm has begun corporate car, commercial vehicle and equipment leases (FY26 annual report). The business serves about 12,200 customers through 120-plus branches in 22 states and partners with more than 40 OEMs to reach borrowers at the point of equipment purchase.

Two portfolio choices shaped recent results. SME gave up supply chain finance, sacrificing roughly ₹600 crores of disbursements, and introduced Micro Term Loans, a higher-yield product, to lift margins (Q3 FY26 concall). On credit, the entire book is SARFAESI-eligible and secured against borrower property, but corporate borrowers contest enforcement longer than retail ones, so the resolution cycle runs about 1.5 years. Results began appearing in December 2025 and management expects Stage 3 reduction to continue from Q4 FY26 onward (Q3 FY26 concall).

The economics are inflecting. AUM grew 41% to ₹9,338 crore in FY26, PBT rose 49% to ₹165 crore, and AUM was up another 39% year-on-year at ₹9,923 crore by June 2026 (FY26 annual report, Q1 FY27 concall). Management groups SME with SBPL among the businesses expected to grow faster than 30% in FY27 (Q4 FY26 concall). By Q2 FY27 SME AUM reached ₹10,943 crore, up 45%, and total secured SME AUM was ₹72,356 crore, up 27%.

Secured Business and Personal Loans

SBPL is the smallest division and arguably the most distinctive. It offers small-ticket secured credit, average ticket ₹4.49 lakh over an average six-year tenure, against property for micro-merchants and self-employed customers in Tier III-VI markets whose income structures are informal. Underwriting is cash-flow based, assessing actual earning capacity rather than documentation, delivered through a high-touch doorstep model across 400-plus touchpoint locations in 11 states, serving more than 89,000 live customers (FY26 annual report).

The defining constraint is legal. Because tickets fall below ₹20 lakh, SARFAESI does not apply, making SBPL an entirely non-SARFAESI book. Recovery runs through conventional legal processes taking two to three years, supplemented by periodic ARC sales that clear Stage 3 in lumps. This makes the structural net credit loss level around 2.3-2.5% by design, and Stage 3 movements depend on when ARC transactions land in a given quarter (Q1 FY27 concall). The compensation is yield: this is a high-rate product for very small merchants in

small towns, and pre-tax ROA was 7.9% in Q1 FY27, the highest of any Chola business and well above internal expectations (Q1 FY27 concall). Its real competitor is not other NBFCs but moneylenders, since formal credit barely penetrates these markets. PBT grew 53% to ₹218 crore in FY26 (FY26 annual report). Q2 FY27 SBPL AUM was ₹3,966 crore, up 35%, within secured SME AUM of ₹72,356 crore.

Gold Loans

Gold is the newest business, launched during FY26, and it is being built differently from everything else at Chola. It operates 119 exclusive branches in South and East India, closed its first year with AUM of ₹1,804 crore from more than 26,000 customers, and holds over 1,800 kg of pledged gold (FY26 annual report). Branches are standalone because gold requires vault infrastructure, specialised staffing and different footfall patterns, and hiring leans on experienced personnel from existing gold loan businesses rather than fresh graduates, which carries meaningful capital outlay (Q4 FY26 concall).

The acquisition profile is unusual: 90% of gold customers are new to Chola, because branches are placed in micro-markets, within roughly a 3 kilometre radius, chosen for gold-lending opportunity rather than overlap with the existing book. Of those, only 20-25% are new to gold loans altogether, so Chola is mostly winning customers away from incumbent gold lenders, competing on the trust attached to the Murugappa-backed brand, fully digital in-branch journeys and transparent pricing (Q1 FY27 concall). Average ticket has come down from about ₹3 lakh at launch to ₹2 lakh as the company granularises, and yields sit on par or slightly better than peers, in the 16-17% ballpark (Q4 FY26 and Q1 FY27 concalls). Product structure spans consumer loans on bullet or EMI repayment over 6-12 months and recently introduced income-generating loans over 6-9 months, with amounts starting from ₹5,000 (Q1 FY27 concall).

Security is the operational core: a 10-layer framework covering vault systems, centralised OTP-based access control, 24x7 CCTV, RFID tagging of ornaments and centralised monitoring (FY26 annual report). Expansion in Q2 FY27 was described as 120 branches opened last year and 360 this year, taking the network to 480 by year-end; one reference to 380 branches is an unresolved transcription discrepancy. Gold AUM reached ₹3,446 crore at Q2 FY27 and disbursements grew 320%. Phase 1 branches average ₹21 crore AUM, while phase 2 branches need ₹15-20 crore to reach critical level. The earlier ₹5,000 crore FY27 AUM target was not restated in Q2.

> *"Gold loan, we have decided to open up another 360 branches. We have reached to INR2,000 crores plus AUM now and likely to hit INR5,000 crores in this financial year. And the branches are doing well. Our per branch AUM has been now INR12 crores to INR15 crores."*
>
> **MD AND CEO, Q1 FY27 CONCALL (JULY 2026)**

Consumer Durable Loans

CD lending finances phones and appliances at the point of sale. Chola entered in FY24 through a tie-up with Samsung Finance Plus, opened the platform to other brands in FY25, and built CholaKaart, an in-house loan origination system, as its own sourcing engine for the open market. Nine brand tie-ups now cover roughly 75% of the mobile market, spanning Samsung, Vivo, Oppo, Realme, Xiaomi, Haier, Whirlpool, Havells-Lloyd, Tecno, Infinix, TCL, IFB and Amstrad, with distribution reaching about 10,000 pincodes (Q3 FY26 concall, FY26 annual report).

Disbursements grew 50% year-on-year to ₹2,174 crore in FY26, and the business acquired more than 10 lakh customers during the year (FY26 annual report). Monthly run-rates around the time of the February 2026 call were roughly ₹200 crores of CD and ₹100 crores of direct-to-customer digital lending. The next leg moves beyond mobiles into household appliances, a larger basket with longer replacement cycles, and brand network expansion continues through FY27 (Q3 FY26 concall). In Q2 FY27 consumer loan disbursements grew 103% to ₹8,726 crore; management said CD, especially mobile financing after adding other OEMs beyond Samsung, drove a major part of CSEL disbursement growth, with a low base after last year's pullback.

Adjacent businesses and subsidiaries

Insurance distribution runs on a Composite Corporate Agency License from IRDAI. Chola sells borrower accident and hospitalisation policies, earning commission income tied to the loan book, working with group company Chola MS General Insurance alongside HDFC, Bajaj Allianz, ICICI Prudential and Niva Bupa (Dec 2025 concall, FY26 annual report). A pending IRDAI circular on insurance distribution could affect this commission stream. In Q2 FY27 management said it has done the working and has a plan B ready but is waiting for the final conclusion before quantifying the impact; it still cites 3.5% pre-tax ROA. The commission stream remains a post-FY27 risk until the circular and numbers are disclosed.

Three subsidiaries round out the group. Chola Securities, 92% owned, is a technology-first broking platform offering equities, mutual funds, bonds and margin trade funding, with gross income of ₹92.54 crores and PBT of ₹10.80 crores in FY26. Cholamandalam Leasing, formerly the home finance entity, was re-purposed into fleet operations and mobility solutions, recording gross income of ₹2.71 crores. Payswiff, 74.63% owned, provides offline payment aggregation solutions, applied to the RBI for a Payment Aggregator licence that remains under review, and earned gross income of ₹100.24 crores with PBT of ₹6.72 crores (FY26 annual report).

Business segments

Vehicle Finance

Vehicle Finance is the business Chola started with in 1978 as an equipment financier, and it remains the largest engine of the company. It lends against new and used commercial vehicles, passenger cars, multi-utility vehicles, two-wheelers, three-wheelers, tractors, construction equipment and other income-generating mobility assets. In FY 2025-26 it disbursed ₹62,123 crore, roughly 56% of the company's total disbursements of ₹1,11,642 crore, and ended the year with an AUM of ₹1,19,558 crore and a profit before tax of ₹3,145 crore (FY 2026 Annual Report).

The capability that took decades to build is distribution plus underwriting for borrowers banks will not touch. Chola operates deep into Tier 3 to Tier 6 towns, where its field teams assess cash flows and character rather than formal documentation, backed by asset-backed lending practices. The collection machine behind this is equally deliberate. The company deploys about 30,000 people across businesses on collections, and cash collections have fallen from around 50% historically to 15% today as digital repayment spread through the same customer base (Dec 2025 investor call). That shift matters because these customers earn in cash from market loads, so every digitized rupee collected lowers operational risk.

The product set maps directly to how India moves goods and people. The book splits across used vehicles at 27%, light commercial vehicles at 18%, MUVs at 13%, cars at 13%, heavy commercial vehicles at 7%, two-wheelers at 7%, construction equipment at 6%, tractors at 5%, mini LCVs at 2% and three-wheelers at 2% (FY 2026 Annual Report). Used vehicle finance deserves attention because it depends on replacement cycles. When new truck sales pick up, owners sell old units into the market, and those better-quality vehicles become financeable inventory. Management flagged exactly this dynamic after the GST rate cut lifted demand from December onwards (Feb 2026 concall).

The customer is overwhelmingly the small road transport operator, the farmer, the self-employed trader buying a Tata Ace or a tractor. Chola serves more than 3.2 million vehicle finance customers, with women making up nearly 12% of borrowers and close to 30% being first-time buyers brought into formal credit (FY 2026 Annual Report). Why do they choose Chola? Banks require salary slips and formal income proof. Chola's framework combines field-level customer insight, asset-backed underwriting and data-driven risk evaluation, which lets it approve a vegetable transporter in a Tier 5 town. Speed is part of the pitch too. Nearly 50% of two-wheeler disbursements now complete through fast-track processes within a few hours.

On competition, the structure of the market protects the franchise. Banks chase large fleets and captive corporate accounts in high-tonnage trucks. The SRTO segment operates on daily-priced market loads, where operators pass fuel cost increases through freight rates quickly,

and that is NBFC territory. Management reported no significant change in competitive behavior from banks over the four to five months to April 2026 (Q4 FY26 concall). What the numbers show instead is share gain. In Q3 FY26, industry heavy commercial vehicle volumes grew about 20% while Chola's HCV disbursements grew 56%, and in small commercial vehicles Chola grew 28% against a market growing 16%.

> *"So, a few data points which I would like to tell you about the vehicle finance is that... industry grew by 20%, but Chola grew by 56% in heavy commercial vehicle. But in the case of light commercial vehicle, we were already high. So therefore, our growth and market growth are more or less same."*
>
> **RAVINDRA KUNDU, MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

OEM-level share tells the same story. Chola holds double-digit market share with Tata, Volvo, Eicher and Ashok Leyland, gained substantial share with Maruti, and grew share in two-wheelers with Royal Enfield, Honda and Hero (Q3 FY26 concall).

Inside the group, Vehicle Finance functions as the physical backbone. Home loan and LAP teams co-locate inside VF branches, and roughly 100 of the planned FY27 branch additions sit within the existing VF network rather than requiring new real estate (Q4 FY26 concall). The division also runs 600-plus low-cost resident locations, converting them into full branches once they hit internal disbursement thresholds, with about 125 conversions planned this year. Cross-sell runs through the group's composite corporate agency license, where borrower accident and hospitalization premiums flow to fellow subsidiary Chola MS General Insurance. The Gaadi Bazaar dealer platform ties vehicle trading, auctions and trade advances into one workflow, feeding both new and used origination.

Asset quality has been the swing factor for profitability. After two difficult years of weak capacity utilization, Stage 3 stabilized near 4.17% by December 2025, net credit losses fell from 2.2% in Q1 to 2.0% in Q3 FY26, and the seasonal Q4-to-Q1 Stage 3 rise was 25 basis points this year versus 45 basis points a year earlier (Q3 FY26 and Q1 FY27 concalls). Because HCVs are only 5% to 7% of the portfolio, diesel price spikes hit a small slice of the book, and that slice skews toward short-haul SRTOs who reprice freight daily. For FY27, management guides to 15% to 20% disbursement growth and approximately 18% asset growth in this segment (Q4 FY26 concall). In Q2 FY27 vehicle finance disbursements grew 31% and AUM 21%; company gross Stage 3 improved to 3.25% from 3.29% in June 2026, and management said October disbursements were up 18-20% with Q3 expected at 20-22%.

Loan Against Property (LAP)

Chola's LAP business makes long-term loans secured by property for customers that bank credit processes struggle to assess. Ninety-seven percent of its customer base is Self-

Employed Non-Professionals (SENP), meaning shop owners, traders and small service enterprises whose income is real but informally documented. The average ticket size is approximately ₹52 lakh, and 75% of the loan book is backed by self-occupied residential properties, per the FY26 annual report.

The capability that took years to build is underwriting informal cash flows against collateral in markets where formal income proof does not exist. Distribution carries much of that capability. LAP operates through 814 branches across 26 states and union territories, and 76% of those branches sit in rural areas. Those rural branches generated ₹7,094 crore of disbursements in FY26, which is 35% of the segment's total. The payoff shows in the growth record: disbursements compounded at 41% annually from FY 2020-21 to FY 2025-26, reaching ₹20,459 crore.

The product line has two tiers. Standard LAP funds business expansion and working capital for established MSME borrowers at larger tickets. Small LAP, introduced after COVID, serves smaller tickets at higher interest rates. Management explained the purpose on the Q3 FY26 call:

> *"LAP has introduced a small LAP and that small LAP has now started getting the momentum. So, the amount of volume they are generating like INR8,000 crores, in that around 20% is coming from small LAP, which has got high and therefore, they are able to maintain the yield."*
>
> **RAVINDRA KUNDU, MD AND CEO, Q3 FY26 CONCALL (FEB 2026)**

That mix shift matters because repo rate cuts would otherwise compress yields on a floating-rate mortgage book. Alongside small LAP, the segment pushed deeper into Tier 3 and Tier 4 towns, and Suresh Kumar noted on the same call that these moves produced a 20 basis point year-on-year margin increase even as rates fell.

The customer buys from Chola for a structural reason. Banks concentrate on large corporate and captive borrowers, while NBFCs win the retail-ticket self-employed segment through customized underwriting and local property-market knowledge, as the FY26 MD&A describes. A trader mortgaging his self-occupied house needs a lender that can read his shop's cash flow without audited statements. Chola's field-level assessment model, refined over decades in vehicle finance, transfers directly to this job. The annual report also flags meaningful participation by women borrowers within the segment's core channels.

On competition, the sources do not name rival firms for this segment, so the honest picture is structural. Banks hold the large-ticket end. Within NBFC retail LAP, Chola's differentiation rests on three disclosed numbers: loan losses of 0.3% in FY26 (including a ₹40 crore overlay worth 0.1% of average assets), Stage 3 assets holding in a 2.3% to 2.5% band through the June 2026 quarter, and a PBT return on assets of 3.9%, up from 3.6% in FY25. The annual

report states asset quality remained stronger than industry averages, supported by collection efficiency and Stage 3 rollbacks.

Inside the group, LAP runs on shared rails. Its new branches open inside the existing Vehicle Finance network rather than as standalone sites, and management guided to 100 LAP branch additions in FY27 on that basis. Ravindra Kundu framed the cluster logic on the Q4 FY26 call: "Last year, at this time, Chola's growth was primarily driven by three engines - LAP, SBPL, and Home Loans." Together with SME, these mortgage-linked businesses remain the primary driver of company growth, guided at 25% to 30% AUM growth for LAP in FY27:

> *"At a segment level, Vehicle Finance is expected to grow at around 18%, while LAP and Home Loans are expected to see growth in the range of 25% to 30%."*
>
> **ARUL SELVAN, CFO, Q4 FY26 CONCALL (MAY 2026)**

Collections infrastructure is shared too, drawing on the company-wide pool of roughly 30,000 collection staff. One operational note: from Q1 FY27, Chola recognizes disbursements only when the customer's cheque clears the bank, a change that hits LAP hardest because property registration creates a lag between cheque issuance and honour. On a like-for-like basis, LAP disbursements still grew around 20% in Q1 FY27, per Arul Selvan.

On revenue mix, LAP disbursed ₹20,459 crore in FY26, about 18% of the company's ₹1,11,642 crore total. AUM reached ₹52,295 crore, up 26%, and hit ₹54,130 crore by June 2026, up 23% year-on-year. Segment income was ₹6,083 crore and PBT was ₹1,818 crore, up 44%. An analyst on the Q4 FY26 call observed LAP had risen to roughly 30-31% of company PBT from a historical 19-22%, and Arul Selvan confirmed the intent to hold that trajectory, attributing it to healthy book growth and low costs. By Q2 FY27 LAP AUM had reached ₹57,447 crore, up 24%, within secured SME AUM of ₹72,356 crore.

Two watch items from the calls. First, elections in two southern states temporarily slowed documentation and disbursals in Q4 FY26, a reminder that this business depends on registrar-office mechanics. Second, the FY26 MD&A cites ICRA projecting 19-21% growth for the NBFC LAP portfolio in FY27, with MSME-linked stress from the West Asia conflict flagged as the main downside risk to borrower cash flows. Chola's own numbers currently run ahead of that industry growth rate.

Home Loans (HL)

Chola's Home Loans business lends against homes for middle-to-lower-income families, self-employed non-professionals (SENP) and cash-salaried individuals in Tier II-IV markets. The core capability here took years to build and is not the loan itself - it is the ability to underwrite borrowers whose income does not show up in salary slips or tax filings. Per the

FY26 annual report, roughly 88% of the portfolio comprises business owners with semi-formal income and significant business vintage, and credit decisions rely on personalized, in-person assessments of cash flows rather than conventional documentation. That underwriting skill was developed across Vehicle Finance and LAP over decades and then applied to housing, which is why Chola could enter this market where banks struggle to document the borrower.

The product suite covers self-construction, purchase of new or pre-owned flats and independent houses, balance transfers from other financiers, plot purchases, shop loans, and mortgages of existing houses for business use. The mixed-use property product is distinctive: it finances families building a home while simultaneously setting up a micro-enterprise on the premises, which matches how many small-town households actually live and earn. Average ticket size was ₹18.5 lakh in FY26 with an average loan-to-value of 49.5% (FY26 annual report, MD&A). The low LTV is the risk anchor - half the property value stands between Chola and loss even in a default.

The customer base tells you who this is for. As of March 2026, the business served about 1.68 lakh active families through 712 touchpoints across 22 states, and 17% of all customers were first-time borrowers with no formal credit history. These are people buying their first properly documented home in a Tier III town, often financing self-construction on land the family already owns. They buy from Chola because a bank will typically decline them on paperwork grounds, while an informal moneylender charges more and offers no tenure structure. Chola prices for this gap and wins on willingness to assess cash income plus local presence.

On competition, the honest picture comes from management's own structural comments. Banks dominate salaried, well-documented borrowers in metros. In the affordable segment, Chola competes with other housing finance companies, but it carries a structural handicap there: loans below ₹20 lakh fall outside SARFAESI, so recovery requires lengthy legal processes or sales to asset reconstruction companies. Management flagged this repeatedly. In the February 2026 concall, CFO Arul Selvan explained that NBFCs lack SARFAESI rights for sub-₹20 lakh tickets across SBPL, HL and affordable LAP, which is why Chola periodically routes non-performing pools through ARCs. What offsets this handicap is collateral appreciation - as Ravindra Kundu put it on the same call, in mortgage businesses the underlying property is an appreciating asset, so losses are rare unless there is a defect in the property itself.

The group synergies are concrete, not rhetorical. New HL branches open inside existing Vehicle Finance locations - management confirmed around 100 HL branch additions planned for FY27, mostly deployed as manpower into shared VF premises, which keeps distribution costs down. The underwriting model for semi-formal income is shared across the mortgage

cluster. And strategically, HL sits inside what Kundu called the original three growth engines: "Last year, at this time, Chola's growth was primarily driven by three engines, LAP, SBPL, and Home Loans. Today, all eight business engines are contributing to growth." (Q4 FY26 concall, May 2026)

The numbers: FY26 disbursements were ₹7,363 crore, roughly flat versus FY25's ₹7,404 crore and about 7% of Chola's total disbursements of ₹1,11,642 crore. But AUM grew 23% to ₹22,688 crore, showing the book compounding regardless of one quarter's disbursal timing. PBT grew 22% to ₹865 crore with PBT-ROA at 4.2%, among the highest-return businesses in the group alongside LAP and SBPL.

Management commentary across the four concalls traces a clear arc. In December 2025, Kundu noted HL had "picked up" after a soft patch. In February 2026, the business sold ₹65 crore of Stage 3 assets from its non-SARFAESI pool to an ARC, taking a ₹35 crore net hit to the NCL line while still delivering 4.2% ROA, and committed to steady-state economics:

> *"even after doing all this thing in HL, the steady-state NCL is going to be 0.5% to 0.6% and the PBT ROA is going to be 4.5%"*
>
> **RAVINDRA KUNDU, Q3 FY26 CONCALL (FEB 2026)**

In May 2026, the business head Prashant guided to 12-15% disbursement growth and 25%-plus AUM growth for FY27, explaining that the four-year buildout from a South-concentrated book to a pan-India footprint is now maturing, with newly opened branches starting to contribute. Q4 disbursements dipped on procedural timing - elections in two southern states, land-record digitization mismatches and lien-marking delays - none of which affected asset growth. By the July 2026 call, the picture had strengthened: after adjusting for Chola's shift to recognizing disbursements only when cheques clear, HL grew like-for-like disbursements by more than 20%, yields improved from 15.5% to 15.9%, and pretax ROA rose from 3.9% to 4.7% year-on-year. In Q2 FY27 housing loan disbursements grew 43% and home loan AUM was ₹25,240 crore; management said the Q2-Q1 difference partly reflected base and technical alignment, not a change in underlying performance.

Consumer & Small Enterprise Loans (CSEL)

CSEL is Chola's unsecured and consumption-lending arm. It makes collateral-free personal, business and professional loans to small merchants, self-employed professionals and salaried individuals, and it finances consumer durables and mobile phones through OEM tie-ups, an in-house digital platform and direct-to-customer lending. Managing Director Ravindra Kundu frames it as two businesses in one: the traditional unsecured book sourced through Direct Sales Agents (DSAs) and a Direct Sales Team (DST), and the newer consumer durables, mobile and digital lending stack.

The capability that took years to build is distribution plus underwriting discipline. The division operates from over 500 locations across 24 states and 4 Union Territories, with more than 600 DSA channel partners and over 575 field sales executives (FY 2025-26 annual report). On the underwriting side, Chola has spent the past year raising the Gini coefficient of its credit scorecards across divisions, a program Kundu credits with improving asset quality specifically in CSEL, consumer durables and vehicle finance in Q4 FY26. Collections are also digitized: 55% of CSEL collections happen digitally, per the Q1 FY27 concall (July 2026).

The product lines break down as follows. Unsecured business, professional and personal loans run at roughly ₹700 crore of monthly disbursement, sourced through the DSA/DST network. Consumer durables started in FY 2023-24 as a tie-up with Samsung Finance Plus, then opened to the open market in FY 2024-25, adding brands such as Vivo, Oppo, Realme, Xiaomi, Haier, Whirlpool, Havells-Lloyd and TCL. Nine OEM tie-ups now cover about 75% of the mobile market, and the business has moved beyond phones into household appliances. CD disbursed ₹2,174 crore in FY26, up 50% year-on-year, acquiring more than 10 lakh customers, supported by CholaKaart, the in-house loan origination system. Digital and direct-to-customer lending adds roughly ₹100 crore a month, built on pre-approved offers pushed through the Chola One app to Chola's captive vehicle finance and consumer durable customer base.

One deliberate subtraction defines the segment's recent history: Chola stopped lending through fintech partnerships from Q1 FY26. That partnership book has been run down from ₹3,000 crore to ₹600 crore by December 2025, with a residual ₹300-400 crore tail expected to amortize across FY27 (Q4 FY26 and Q3 FY26 concalls).

Customers are small business owners, self-employed non-professionals and salaried borrowers who often lack formal documentation. They come to Chola for speed and access: the annual report cites transparent digital processes, paperless journeys and quick turnaround times as differentiators. Approval rates are disclosed at 35-40% for business loans and around 60% for salaried loans (Q1 FY27 concall). The segment serves 1.15 million customers including the durables and digital books.

On competition, management did not name rival firms on these calls, but it was explicit about the competitive dynamic that hurt the segment. Kundu said the unsecured NCL spike came from "the number of players suddenly went up" and multiple fundings per customer through DSAs, an industry-wide pattern rather than a Chola-specific macro problem (Q3 FY26 concall, February 2026). Chola's response was to grade its DSA-sourced portfolio into diamond, gold, silver and bronze tiers and cut bronze, silver and gold each quarter, so that new originations now come only from the diamond tier. Structurally, Chola's edge in this segment rests on three things: about 80% of the roughly ₹5,000 crore business loan book (about ₹3,500 crore) is registered under the CGTMSE government guarantee scheme, which

absorbs part of the default risk; branches are co-located inside the existing Vehicle Finance network, keeping distribution cost low; and the D2C channel recycles customers Chola already underwrote elsewhere.

That last point is the group synergy. CSEL plans to add around 100 branches in FY27, mostly within shared premises, alongside similar additions in consumer durables. Kundu groups CSEL with SBPL, LAP and affordable housing as the four businesses designed to deliver pretax ROA above the company average. The flip side is structural: management has said high-yield businesses like CSEL, CD, digital and mobile lending carry higher designed-in credit costs, which is why the company guides consolidated net credit cost at 1.5% rather than its historical 1-1.2%.

Scale remains modest. FY26 disbursements were ₹10,249 crore, about 9% of the company total of ₹1,11,642 crore. Consolidated AUM stood at ₹15,113 crore, which CFO Arul Selvan put at around 7% of overall AUM, generating PBT of ₹147 crore for the CSEL core business (FY 2025-26 annual report).

The management narrative across the four calls is a repair-and-reaccelerate arc. Through FY26, Chola cut CSEL disbursement by roughly ₹500 crore a month, exited fintech origination, and tightened credit checks. Net credit losses moved from 6.7% in Q1 FY26 to 7.0% in Q2, 6.4% in Q3 and 5.2% in Q4. Then growth returned: Q4 FY26 disbursements grew 39% year-on-year, and Q1 FY27 consumer segment disbursements grew 52% with CSEL AUM up 12% to ₹15,884 crore.

> *"disbursement growth stood at 39% in Q4, and we expect this momentum to continue given the low base in Q1 and Q2. More importantly, asset growth has now begun to pick up and currently stands at around 4%. By the end of this financial year, we expect the combined CSEL portfolio—including unsecured PL, business and professional loans, as well as consumer durables, digital, and mobile lending—to reach approximately 20% asset growth by Q4."*
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> **RAVINDRA KUNDU, MD & CEO, Q4 FY26 CONCALL (MAY 2026)**

Profitability turned faster than planned. The Q1 FY27 pretax ROA of 3.3% beat internal expectations of reaching 3% only by Q3, driven by net credit cost falling from 6.7% to 4.7%. In Q2 FY27 CSEL AUM was ₹17,216 crore; management said the two CSEL businesses, unsecured business/personal loans and consumer durable/digital lending, would be reported separately from next month, each running near 3.6% ROA and together capable of more than 4% pre-tax ROA as net credit cost and opex fall.

> *"They are at 3.3%. And this 3.3% was also not expected in the first quarter. We were thinking that they will start hitting 3% from the third quarter. But luckily, they have reduced their net credit cost by 2% from 6.7% to 4.7%, which is very, very good sign that very soon, they will start catching up to 3.6%, 3.7%, and then they will start delivering more than that."*
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> **RAVINDRA KUNDU, MD & CEO, Q1 FY27 CONCALL (JULY 2026)**

The stated targets from here: net credit loss below 5% in FY27, pretax ROA building toward 3.5% and beyond, and asset growth near 20% by Q4 FY27. The skeptical investor's checklist for this segment is whether the diamond-tier sourcing holds as volume scales, whether the post-fintech growth is clean, and whether the CGTMSE-covered business loan book keeps its loss rates contained as it seasons.

Small and Medium Enterprise Loans (SME)

Chola's SME business lends between INR 5 lakh and INR 15 crore to formally structured businesses - private limited companies, partnership firms and proprietorship concerns - secured against the promoters' property. The product set covers working capital, term loans, micro term loans, equipment finance, supply chain finance, leasing and lease rental discounting. In FY 2025-26 the book stood at INR 9,338 crore of AUM, up 41% year-on-year, generating PBT of INR 165 crore against INR 111 crore a year earlier (FY 2026 Annual Report).

The capability that took years to build is underwriting informal-cash-flow borrowers against hard collateral and then recovering through SARFAESI when loans turn. Management explained on the Q3 FY26 call why this recovery cycle is structurally slower than in retail mortgage products:

> *"in the case of SME... the entire book is SARFAESI. But it is a corporate customer where the SARFAESI takes a little bit more time because the customer contests for a longer period. And that is the reason SARFAESI cycle in the SME, it takes 1.5 years."*
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> **RAVINDRA KUNDU, MD AND CEO, Q3 FY26 CONCALL (FEB 2026)**

That 1.5-year legal cycle means Stage 3 build-up shows up before recoveries do, so the business only proves its economics after several years of seasoning. Management said results from SARFAESI actions began appearing in December 2025 and would continue into Q4, driving Stage 3 and net credit loss reduction from that quarter onward.

The product menu has been actively reshaped for margin. On the Q3 FY26 call, management disclosed that SME exited supply chain finance, cutting roughly INR 600 crore of annual disbursement, and introduced a high-yield Micro Term Loan alongside faster-growing industrial equipment finance:

> *"At the same time, SME has given up the supply chain finance and they have reduced their disbursement by INR600 crores, what they used to do. And also, they have introduced the Micro Term Loan which is high yield."*
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> **RAVINDRA KUNDU, Q3 FY26 CONCALL (FEB 2026)**

Equipment finance sits inside this segment as sub-products: industrial equipment, genset and medical equipment finance, plus working capital finance and lease rental discounting. During FY 2025-26 the division launched solar funding for commercial and industrial rooftop installations, the company's first Green Finance offering, and began corporate car, commercial vehicle and equipment leasing under the leasing arm (FY 2026 Annual Report). Distribution runs through 120-plus branches across 22 states, supported by partnerships with more than 40 OEMs across the equipment categories.

The customer base is around 12,200 SME borrowers. They come to Chola because banks price and document for larger corporates, while these firms need property-backed tickets from INR 5 lakh upward with flexible structures suited to proprietorship and partnership income patterns. The annual report describes the underwriting as digital and data-driven, designed for faster decisions while holding portfolio quality. The trade-off is concentration risk: the FY 2026 Annual Report's MD&A flags that the West Asia conflict has raised MSME operating costs by 15-25% through fuel, freight and raw material spikes, lengthening working capital cycles and stressing repayment capacity. This is one reason the company holds an INR 200 crore management overlay against geopolitical second-order stress.

On competition, the sources provided do not name specific SME-lending rivals, so the honest read is structural. Banks dominate large corporate credit and pull away at the top of the ticket range. Chola's defensible ground is the mid-market secured slot: property collateral, SARFAESI enforceability across the whole book, and OEM-anchored equipment distribution that banks do not replicate branch by branch. Within Chola's own portfolio, the segment's PBT return on assets crossed 2% during FY 2025-26, per management on the Q3 FY26 call, still below the LAP steady state of 3.7-3.8% but improving as the re-mixed book seasons.

The synergies are mostly distribution economics. SME teams operate out of the shared Vehicle Finance branch network rather than exclusive real estate, so incremental growth adds manpower, not buildings. The same mortgage credit infrastructure, collections machinery and Chola One servicing platform serve LAP, Home Loans, SBPL and SME together. There is also a natural adjacency with the Murugappa Group's industrial businesses, though the disclosed OEM partnerships span more than 40 manufacturers beyond the group.

In the revenue mix, SME contributed roughly 7% of company disbursements in FY 2025-26 (INR 7,312 crore of INR 1,11,642 crore). Disbursements actually declined 6% year-on-year, a deliberate consequence of exiting supply chain finance, even as AUM compounded at 41%

because the term-loan book builds and stays. Management guided the mortgage cluster, including SME, to grow above 30% in FY 2026-27, and confirmed on the Q4 FY26 call that branch capacity would expand: "SME is going to go move up." By Q1 FY27 the segment's AUM had reached INR 9,923 crore, up 39% year-on-year. By Q2 FY27 SME AUM was ₹10,943 crore, up 45%, and total secured SME AUM was ₹72,356 crore, up 27%.

Secured Business and Personal Loans (SBPL)

SBPL lends small-ticket money against residential property to micro-merchants and self-employed borrowers whose incomes do not fit bank paperwork. The average ticket size is INR 4.49 lakh with an average tenure of six years, and monthly repayments run from 2 to 10 years (FY 2025-26 annual report). Because these loans sit below the INR 20 lakh threshold where NBFCs hold SARFAESI recovery rights, the entire book is non-SARFAESI. That single fact shapes everything else about the segment: underwriting has to be right at origination, because there is no fast legal route out of a bad loan.

The capability that took years to build is cash flow-based underwriting. Instead of relying on salary slips or filed returns, the division assesses real earning capacity by combining collateral value with an evaluation of the customer's actual business cash flows (annual report). Delivery is equally deliberate. SBPL runs a dedicated high-touch model with proactive doorstep service and an expanded on-ground field force across 400+ touchpoint locations in 11 states, concentrated in Tier III-VI markets. This is expensive distribution for INR 4.49 lakh tickets, which is exactly why banks stay away and why the yield is structurally higher.

The products are straightforward secured business and personal loans for shop owners and micro-enterprises. The customer base crossed 89,000+ live accounts as of March 2026. These are borrowers with informal income structures who are often excluded from formal credit by rigid documentation norms, so they fall back on moneylenders. Chola wins them with property-backed security, a judgement on cash flows rather than paper, and physical presence in their town. Management frames the segment as financial inclusion with economics attached.

On competition, management has not named specific rivals on any of the four concalls. What they have addressed is substitution risk. When an analyst asked whether Mudra loans, now allowed unsecured up to INR 20 lakh, would hurt small-ticket LAP and home equity demand, Suresh Kumar answered that logins had improved on small-ticket loans because these borrowers want faster turnaround and longer repayment, and no trend shift was visible (Q1 FY27 concall, Jul 2026). Gold loans offer another secured alternative, but they serve short-tenure consumption needs rather than multi-year business credit. The MD&A describes the addressable gap directly: a large borrower segment holds both collateral and repayment

capacity yet remains outside formal credit due to limited documentation and non-standard income profiles.

Inside the group, SBPL sits in the MSME cluster alongside Loan Against Property and SME, and shares the branch network, the collections apparatus of roughly 30,000 people company-wide, and the Chola One servicing platform. Its strategic role is return accretion. Ravindra Kundu put it plainly in July 2026:

> *"So first is that SBPL numbers are much better than the company performance in terms of ROA and their NCL is at 2.3%. So more or less, they will be in the range of 2.5% even in the future also because this is a high-yield business, we are actually catering to very small merchant who are into smaller town and where the yields are also higher. So, this business is designed like that. And as of now, the pretax ROA is 7.9%, which is much higher than our expectation."*
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> **RAVINDRA KUNDU, MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

He grouped SBPL with CSEL, LAP and affordable housing as the four businesses meant to deliver above-company ROA. It also carries diversification weight. Vellayan Subbiah noted in May 2026 that a year earlier Chola's growth ran on three engines, LAP, SBPL and Home Loans, before the other five scaled up.

The numbers remain small but are compounding fast. FY26 disbursements were INR 1,667 crore, roughly 1.5% of the company's INR 1,11,642 crore total, while AUM reached INR 3,537 crore, up 46% year-on-year. PBT grew 53% to INR 218 crore with a PBT-basis return on assets of 7.4% (Q4 FY26 concall, May 2026, and annual report). In Q1 FY27, AUM rose another 40% year-on-year to INR 3,730 crore despite a reporting change: from June 2026, disbursements in LAP, HL and SBPL are recognised only when the cheque debits the bank account, which trimmed reported figures without changing underlying demand. Management said the business is running at 30%-plus disbursement growth like-for-like. By Q2 FY27 SBPL AUM was ₹3,966 crore, up 35%.

The asset quality story is the one to watch. Credit costs climbed through FY26 because recoveries on a non-SARFAESI book depend on traditional legal processes that take two to three years, and the pipeline needed time to season. The fix is periodic sale of Stage 3 assets to an Asset Reconstruction Company, which uses SARFAESI powers on Chola's behalf. Ashish Potulwar called the inflection in February 2026:

> *"For SBPL, the credit cost for Q3 may look higher, but it has basically reached a peak. We don't see any more increase as far as credit cost is concerned. In fact, actually, if we go geographically, two of our zones have already started improving in December and January."*
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> **ASHISH POTULWAR, Q3 FY26 CONCALL (FEB 2026)**

By Q1 FY27 the net credit loss stood at 2.3% against a guided steady state near 2.5%, with Stage 3 levels moving quarter to quarter depending on when ARC sales land. For FY27, management guides the mortgage businesses including SBPL to grow above 30%. The bet is simple: keep underwriting thin-documentation merchants correctly, absorb a structurally higher credit cost, and let a 7%-plus pretax ROA book scale off a small base inside a 20%-23% growth company.

Gold Loans

Gold Loans is Chola's newest business line, launched during FY 2025-26 as the company's eighth lending vertical. It makes secured loans against household gold ornaments, and it is the only Chola business operated through exclusive standalone branches rather than co-located offices inside the Vehicle Finance network. In its first year the book closed at an AUM of INR 1,804 crore across 119 branches in South and East India, held by more than 26,000 customers, with over 1,800 kg of pledged gold as underlying security. By June 2026, AUM had reached INR 2,143 crore (FY26 Annual Report; Q1 FY27 concall, July 2026).

Two capabilities took the year to build. The first is physical security. Every branch runs a 10-layer framework combining vault systems, centralized OTP-based access controls, 24x7 CCTV surveillance, RFID tagging of ornaments and centralized monitoring, paired with a fully paperless customer journey. The second is people. Gold lending needs staff who can appraise ornaments and spot fraud, and Chola hired experienced personnel from established gold lenders rather than training fresh graduates. CFO Arul Selvan explained the cost consequence on the May 2026 call: these exclusive branches carry significant capital outlay and experienced hiring costs, which is why he declined to assume operating efficiency from the business in FY27 guidance.

The product set has two parts. Consumer loans, repaid as bullet or EMI with tenures of 6 to 12 months, make up most of the book. Income-generating loans, aimed at small businesses, were introduced recently with tenures of 6 to 9 months. Ticket sizes start at INR 5,000. The average ticket has fallen from roughly INR 3 lakh at launch to about INR 2 lakh by Q4 FY26, a deliberate shift toward granular retail borrowers. Because customers typically pledge multiple times, total exposure per customer runs between INR 5 lakh and INR 6 lakh even though each loan averages INR 2 lakh (Q4 FY26 concall, May 2026).

The customer base is the strategic point. Around 90% of borrowers acquired so far are new to Chola, because branches open only in micro-markets judged to have gold-lending opportunity and then work a 3-kilometre radius around the branch.

> *"Correct. So, 90% of customers that we have acquired so far is new to Chola. Because in gold loan, what happens is we did not have an overlap with our existing set of customers because we open branches in places where we find opportunity to lend against gold."*
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> **MANAGEMENT, Q1 FY27 CONCALL (JULY 2026)**

Of those newcomers, only 20% to 25% are first-time gold borrowers. The rest already pawn gold somewhere else, and Chola's pitch to them rests on the Murugappa-backed brand name, transparent pricing and a fully digital branch experience. Management described this combination of trust and transparency as the "right to win" in each micro-market (Q1 FY27 concall, July 2026).

On competition, the transcripts do not name rival firms, but management benchmarked itself explicitly against incumbent gold lenders. Yields moved up to around 15% by Q4 FY26, and when an analyst proposed a 16% to 17% range on the July 2026 call, the business head confirmed it: "Our yields are on par or slightly a shade better than our competitor or peers in this industry." When asked whether the business would beat incumbents on returns, Executive Chairman Vellayan Subbiah and the team settled on "on par," with higher returns targeted after three years of seasoning. The market context supports the build-out: management sized the Indian gold loan portfolio at approximately INR 16 lakh crore as of December 2025, growing over 40% year-on-year, against 25,000 to 35,000 tonnes of household and temple gold valued at roughly US$4 trillion, of which only a small fraction is monetised through organised lending (Q4 FY26 concall, May 2026).

Within the group, gold functions as a customer-acquisition engine running in reverse. The company deliberately avoided cross-selling at launch, though internal analysis found existing Chola customers hold around INR 700 to INR 800 crores of gold loans with other lenders, a pool available later. Subbiah flagged the opposite flow as well: high-volume gold customers entering Chola for the first time become candidates for vehicle finance, mortgages and the rest of the eight-product shelf over time.

Expansion is aggressive. Disbursements ran at INR 772 crores in Q3 FY26 from 118 branches and INR 1,130 crores in Q4. For FY27 the plan was 360 additional branches, taking the network to roughly 480, and an AUM target of INR 5,000 crores. At Q2 FY27 gold AUM had reached ₹3,446 crore and disbursements grew 320%; management described 120 branches opened last year and 360 this year to 480 total, with phase 1 per-branch AUM of ₹21 crore and phase 2 threshold of ₹15-20 crore. The ₹5,000 crore target was not restated in Q2.

> *"Gold loan, we have decided to open up another 360 branches. We have reached to INR2,000 crores plus AUM now and likely to hit INR5,000 crores in this financial year. And the branches are doing well. Our per branch AUM has been now INR12 crores to INR15 crores"*
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> **RAVINDRA KUNDU, MD & CEO, Q1 FY27 CONCALL (JULY 2026)**

Per-branch productivity is the metric to watch. Existing branches generate INR 12 to INR 15 crores of AUM each, and management expects every branch opened in FY27 to reach profitability by the end of FY28. No revenue-mix percentage was disclosed; the segment's scale relative to the group is visible in the raw numbers, INR 1,804 crore of AUM at March 2026 against a company-wide total of INR 2,42,630 crore.

Consumer Durable Loans (CD)

Chola entered consumer durable lending in FY 2023-24 through a tie-up with Samsung, financing mobile phone purchases at the store counter via the Samsung Finance Plus platform. In FY 2024-25 it opened the same model to other brands using CholaKaart, an in-house loan origination system that lets any partner retailer originate a Chola loan at the point of sale. The capability that took years to build is the plumbing, not the balance sheet: instant credit decisions embedded inside dealer checkout flows, connected to brand ecosystems, and running on sourcing infrastructure Chola owns outright instead of renting from a fintech intermediary.

The segment reaches customers through three routes. Samsung Finance Plus handles Samsung devices on a closed-loop basis. The Open Market book through CholaKaart covers competing phone brands and, since FY26, household appliances. During FY26 Chola added Vivo, Oppo, Realme, Xiaomi, Haier, Whirlpool, Havells-Lloyd, Tecno, Infinix, TCL, IFB and Amstrad to the panel, and the annual report states further network expansion is planned for FY 2026-27. The third route is direct-to-customer lending, where the Chola One app pre-approves existing CD borrowers for repeat digital loans. Tickets are small and tenures are short, which makes this a high-turnover, granular book rather than a long-duration one.

The customer is an urban or Tier II/III retail buyer of a phone or appliance who wants the purchase financed at the moment of decision. Scale arrived quickly: the business disbursed ₹2,174 crore in FY26, up 50% year-on-year, and acquired more than 10 lakh customers in the year, with coverage across roughly 10,000 pincodes. Financing matters in this category because, per industry estimates management cites in the FY26 annual report, consumer financing supports nearly 35-40% of consumer durable sales. A lender that approves in seconds at the counter captures demand that a slower process loses to the next financier in the store.

On competition, Bajaj Finance built its retail franchise on precisely this point-of-sale durables model, and HDFC Bank, Kotak Mahindra Bank and Home Credit also finance phones and

appliances at dealer counters. Chola is a later entrant here, but it is compounding faster than the market. Management cites a CRIF report putting the total CD loan portfolio outstanding at ₹96,000 crore, growing about 14% year-on-year, while Chola's own disbursements grew 50% in FY26. The differentiator Chola points to is ownership of the origination stack: after exiting fintech partnership lending in CSEL, CholaKaart gives it a sourcing engine with no external platform fees and full control of credit filters.

Inside the group, CD sits within the Consumer and Small Enterprise Loans (CSEL) division, and the synergies are concrete. It shares the branch rollout plan, with management guiding in the Q4 FY26 call that CSEL and CD will each add around 100 branches in FY27. It shares the underwriting stack: Ravindra Kundu said in the May 2026 call that work on improving the Gini coefficient of underwriting tools had already improved asset quality across CSEL, CD and Vehicle Finance. Its customer base feeds the D2C channel, which the annual report describes as expanding reach by using the Consumer Durables customer base. And it rides the group's funding cost advantage, since a short-tenure, high-yield book is highly sensitive to every basis point of borrowing cost.

No standalone profit and loss account is disclosed for CD. What management has quantified is the mix and trajectory. As of the February 2026 call, the combined CD and digital book was running at roughly ₹300 crore per month, split ₹200 crore CD against ₹100 crore digital, with CD itself split between Samsung and the open market:

> *"Digital is actually INR100 crores and INR150 crores is around Samsung, and then around INR50 crores is the CD business, which we are doing with Open market. So, around INR300 crores. And INR200 crores CD, INR100 crores digital. Still CD is higher than the digital. CD is only going to go up."*
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> **RAVINDRA KUNDU, MD AND CEO, Q3 FY26 CONCALL (FEBRUARY 2026)**

For context, CSEL as a whole was about 7% of company AUM as of December 2025, so CD remains a small slice of a ₹2.42 lakh crore balance sheet today. The strategic weight comes from where the market is heading. Management cites IBEF projections that India becomes the fourth-largest consumer durables market globally by FY 2026-27, with the sector growing at roughly 11% CAGR, and industry estimates put the CD finance market at a 20-22% CAGR through 2029.

Management's stated sequencing is mobile first, appliances second:

> *"In addition to this, we just moved out of mobile into household appliance segments as well. So, this is going to grow in different tiers over time, right? So, the first part is going to be mobile. And then the second part is going to be non-mobile, other household appliances."*
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> **VELLAYAN SUBBIAH, EXECUTIVE CHAIRMAN, Q3 FY26 CONCALL (FEBRUARY 2026)**

In the July 2026 call, Kundu confirmed consumer durable demand trends remained healthy into July with no adverse impact on disbursements. In Q2 FY27 consumer loan disbursements grew 103% to ₹8,726 crore; management said CD, especially mobile financing after adding other OEMs beyond Samsung, drove a major part of CSEL disbursement growth, with a low prior-year base after last year's pullback. The near-term watch item is macro: the FY26 annual report flags that West Asia conflict-driven inflation is moderating discretionary spending in price-sensitive segments, which raises reliance on financing to sustain volumes. For a lender whose entire product is affordability at the counter, that cuts both ways.

Customers

Chola's borrowers share one trait: banks either cannot serve them economically or will not try. The core profiles are small road transport operators running vehicles within a city or state, self-employed non-professionals who make up 97% of the LAP book, micro-merchants in Tier III-VI towns, farmers financing tractors, cash-salaried households buying homes, and retail consumers financing phones. More than 50 lakh borrowers spread across 1,700-plus branches was the figure management gave when defending its cash-handling practices in December 2025 (Dec 2025 concall). There is no single-customer concentration disclosed anywhere in the sources, and management treats diversification across OEM, geography and product type as a deliberate design feature rather than an accident.

The buying relationship differs sharply by product. In vehicle finance, the purchase happens at a dealership, so OEM and dealer relationships function as the front door. Chola's market share gains came precisely where it invested in those relationships: share rose across Tata, Volvo, Eicher, Leyland and Maruti in commercial vehicles, and across Royal Enfield, Honda and Hero in two-wheelers, with most commercial vehicle shares in double digits (Q3 FY26 concall). Once a customer is at the counter, speed decides. Nearly half of two-wheeler disbursements complete within a few hours through fast-track processing, because a first-time buyer weighing three financiers picks whoever says yes fastest (FY26 annual report).

In mortgages and gold, the customer walks into a branch and the decision hinges on trust, transparency and turnaround. Management's explanation of its right to win in gold applies broadly to the franchise:

> *"Chola has a brand name, okay? So, we are riding and in gold loans, trust plays a very, very vital role. And we are riding on the trust that customers have on Chola as a brand in that micro market."*
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> **MANAGEMENT, Q1 FY27 CONCALL (JULY 2026)**

Why customers pick Chola over alternatives comes down to four things. Proximity: 88% of branches sit in Tier III-VI towns where bank coverage is thin. Underwriting flexibility: cash-flow-based assessment accepts informal incomes that rigid bank scorecards reject, which is how 17% of home loan customers are first-time borrowers and how SBPL serves borrowers with no documentation at all. Speed: fast-track journeys and digital onboarding compress approval times. And repeat access: a borrower who repays one Chola loan gets easier access to the next, which is why gold customers typically hold multiple loans, averaging ₹5-6 lakhs of total exposure per customer against a ₹2 lakh average ticket (Q4 FY26 concall).

Switching costs are moderate at the individual level. Balance transfers exist in home loans, vehicle loans can be refinanced, and gold is portable across lenders. What creates stickiness is the relationship layer: top-up eligibility, pre-approved offers through the Chola One app, cross-product servicing from any branch, and the practical friction of moving a hypothecated asset or a mortgaged title. Management found that existing Chola customers had already taken ₹700-800 crores of gold loans from other lenders nationwide, a cross-sell pool it has deliberately not chased yet while the standalone network builds (Q1 FY27 concall).

Collections infrastructure is part of the customer promise and part of the credit engine. About 30,000 people work collections, organised into soft, hard and recovery teams with product-specific strategies, and 55% of CSEL collections happen digitally (Q4 FY26 and Q1 FY27 concalls). Cash remains structurally present because market-load operators in Tier V-VI towns get paid in cash and pay EMIs in cash, but its share has fallen dramatically:

> *"But the cash collection, which used to be 50% sometime back, long time back, has come down to now 15%."*
>
> **MANAGEMENT, DEC 2025 CONCALL (DECEMBER 2025)**

That disclosure mattered because a December 2025 Cobrapost blog alleged irregularities around cash deposits, related-party payments and rating agency fees. Management rejected the allegations as malicious, walked analysts through the specifics, rating fees of about ₹20 crores a year against ₹1,74,000 crores of borrowings, payouts to Murugappa Management Services down to under ₹1 crore annually, and noted a six-week regulatory inspection had just concluded (Dec 2025 concall). The episode is a reminder that a cash-heavy, mass-market customer base attracts reputational scrutiny even when the mechanics are standard industry practice.

On the channel side, OEMs behave less like customers and more like distribution partners whose volume incentives align with Chola's. Forty-plus OEM partnerships feed SME equipment finance, thirteen-plus consumer brands feed CD lending, and the vehicle OEM roster anchors the flagship business. None of them concentrates risk: management

confirmed no significant change in bank or OEM competitive behaviour even as PSU banks turned aggressive in newer segments (Q4 FY26 concall).

Competitive landscape

Indian retail credit splits into three tiers of competitors: banks, NBFCs and the informal sector. Banks hold the cost-of-funds advantage and dominate large-ticket, prime and captive borrowers. NBFCs win where underwriting judgement, physical reach and speed matter more than funding cost. Informal lenders, moneylenders, occupy the smallest tickets thinnest-documentation end, which is precisely where Chola's SBPL product aims. Understanding which tier a product sits in explains most of Chola's competitive outcomes.

In vehicle finance, the structural boundary follows customer type. Heavy commercial vehicles and large fleets belong mostly to banks, while the SRTO segment belongs to NBFCs. Management laid out the mechanics: LCVs span 3.5 to 19 tons, banks concentrate above 10 tons, and lower-tonnage vehicles sell in Tier 3-5 towns to market-load operators transporting vegetables and goods, buyers only NBFCs finance (Q3 FY26 concall). E-commerce formalisation pulls some last-mile demand toward contracted fleets funded by banks, and electric vehicles skew toward large operators with bank funding, but management characterises both shifts as gradual and limited outside e-commerce (Q3 FY26 concall). Within its lane, Chola gained share aggressively as the cycle turned: 56% HCV disbursement growth against 20% for the industry, 28% SCV growth against 16%, and share gains across every major OEM it named (Q3 FY26 concall). Against other NBFCs, Chola's differentiation is breadth, financing everything from a Tata Ace to a tractor to a used truck, which smooths the cyclicality that hits single-segment lenders harder.

On bank aggression, management has been consistently calm. Asked repeatedly through FY26 whether PSU banks were squeezing newer segments, the answer stayed the same:

> *"We have not observed any significant change in competitive behavior over the past four to five months. Even in April, there has been no noticeable shift."*
>
> **VEHICLE FINANCE HEAD, Q4 FY26 CONCALL (MAY 2026)**

In mortgages, Chola competes against banks and housing finance companies for salaried prime borrowers, but its centre of gravity, SENP customers with semi-formal income and 49.5% average LTVs, sits where bank processes are too rigid. The 0.3% loan loss rate in LAP and 4.2% ROTA in home loans suggest the niche is defensible. In unsecured lending, competition is genuinely intense and the whole industry paid for it: multiple funding and DSA-driven origination excesses pushed default rates up across players, which is why Chola cut sourcing to diamond-quality only and registered its business loan book under CGTMSE

(Q3 FY26 concall). Here Chola is a mid-sized entrant rebuilding credibility, not an incumbent defending turf.

Gold is the newest fight and the hardest one. Incumbent gold loan NBFCs have decades of branch density and brand familiarity in South India. Chola's stated edge is trust in the parent brand, fully digital customer journeys and transparent pricing, with yields pitched on par or slightly better than peers rather than cheaper (Q1 FY27 concall). Winning 75-80% of its customers from other gold lenders means every branch opening is a direct assault on an incumbent's catchment, and the ₹12-15 crore per-branch AUM run-rate suggests the approach is landing so far.

Funding is the quiet competitive weapon. Chola borrows at 7.5% of average borrowings, benefits from priority-sector bank lending where it claims better bargaining power than banks admit publicly, and keeps a fixed-rate bond sleeve for visibility (Q1 FY27 concall). The gap to the cheapest peers is the missing AAA rating. Management's explanation is candid:

> *"Many of our peers have achieved AAA ratings by leveraging explicit parental support. However, that is not applicable in our case, as there is no direct dependence on any parent entity for Chola's funding requirements."*
>
> **CFO, Q4 FY26 CONCALL (MAY 2026)**

That independence cuts both ways: no implicit support lowers the rating ceiling, but it also means Chola's AA+ stands on its own asset quality and capital, with CAR at 19.21% and discussions ongoing with agencies on an upgrade without assured timing (Dec 2025 concall).

An honest reading of the weak spots. Vehicle finance credit costs ran above several peers through the two-year downturn, and analysts pressed this on the February 2026 call, noting Chola's trends looked inferior on quarter-on-quarter improvement and net NPA accretion. Management's defence was mix: Chola lends across new and used, every vehicle category and every geography, so a broad downturn touches more of the book at once than it does a concentrated used-vehicle lender (Q3 FY26 concall). Whether that is a structural disadvantage or simply the price of diversification is the key thing to watch as the upcycle matures. The second weak spot is CSEL, where Chola arrived late to unsecured lending, absorbed industry-standard excesses, and is only now returning to growth with tighter filters. Both franchises face competitors with cleaner recent track records.

Industry

Chola's fortunes track Indian household and small-business credit formation, filtered through the automobile cycle, property markets, gold prices and consumption. Each of its eight businesses maps to a distinct demand pool with its own drivers, and the company publishes sourced forecasts for most of them.

The automobile cycle is the biggest swing factor since vehicle finance is 56% of disbursements. FY26 was a peak year across most segments: commercial vehicles grew 13% to peak volumes, with HCVs up 10%, LCVs up 17% and SCVs up 6%; passenger vehicles grew 8% in a fourth consecutive year of peak sales; two-wheelers grew 11%; and tractors recorded exceptional growth of 23% on favourable monsoons and strong rural liquidity (Q4 FY26 concall). Construction equipment contracted 8% on a high base, though the Union Budget's ₹12 lakh crore capital expenditure allocation gives the medium-term pipeline visibility. Management expects normalisation in FY27: CV growth moderating to 4-6% on the high base, PV to 4-6%, and two-wheelers to 3-5% (Q4 FY26 concall). The GST rate cut from Q3 FY26 lowered vehicle prices and pulled SRTO customers back into the market, and the resulting replacement cycle feeds the used vehicle book, where 10-15% unit growth in new HCV/LCV sales translates into 20%-plus value growth in used financing (Q3 FY26 concall).

The NBFC industry itself is compounding fast. CRISIL research cited in the annual report expects NBFC AUM to grow 18-19% annually and cross ₹50 lakh crore by March 2027. Personal loans, about 11% of NBFC AUM, moderated sharply from 37% growth in FY24 to 18% in FY25 after regulatory tightening, and CRISIL now expects 22-25% growth across FY26 and FY27 as recent vintages perform better. The NBFC LAP portfolio is forecast to grow 19-21% in FY27 on rising property ownership, MSME demand and non-metro sourcing (ICRA, cited in the annual report), and affordable housing finance portfolios carry the same 19-21% expectation. Chola guides above both benchmarks at 25-30% for LAP and HL, which implies continued share capture in its niches.

Consumer durables finance rides a structural consumption wave. IBEF projections cited in the annual report expect India to become the world's fourth-largest consumer durables market by FY27, growing at roughly 11% CAGR, with market size reaching about ₹3 lakh crore by FY29. Financing already supports 35-40% of industry sales, and the CD loan portfolio outstanding stood at ₹96,000 crore, up about 14% year-on-year, per CRIF (Q4 FY26 concall). The durable finance market itself is projected to compound at 20-22% through 2029. The Production Linked Incentive scheme has drawn over ₹1.7 lakh crore of investment into electronics manufacturing and created more than 1.2 million jobs, deepening domestic production of exactly the products Chola finances, which shortens supply chains and stabilises product availability for point-of-sale lenders.

Gold is the fastest-moving pool. The gold loan portfolio stood at approximately ₹16 lakh crore as of December 2025, growing over 40% year-on-year, powered by a price rally that took 24-karat gold from about ₹64,000 per 10 grams in early 2024 to over ₹1.5 lakh per 10 grams in 2026 per IBJA rates (Q4 FY26 concall). Rising collateral values let borrowers extract bigger loans from the same jewellery, pulling credit demand into the category. The untapped reserve is enormous: India holds an estimated 25,000-35,000 tonnes of

household and temple gold valued near US$4 trillion, and only a small fraction has been monetised through organised lending. That upside comes with regulatory attention, as the gold loan Master Directions formalise a sector that was traditionally loosely supervised, and with price volatility risk since elevated loan-to-values leave thinner buffers against sharp corrections.

MSME credit underpins LAP, SME and SBPL together. The sector contributes about 30% of India's GDP and an estimated 48.6% of exports in FY26, with MSME exports rising from ₹3.95 lakh crore in FY21 to ₹12.39 lakh crore in FY25, and over 7.16 crore enterprises registered on the Udyam portal (annual report). Formalisation through Udyam registration expands the addressable borrower base for every secured business lender. The near-term shadow is geopolitical: the West Asia conflict has raised MSME operating costs 15-25% through fuel, freight and raw material spikes, lengthening working capital cycles and straining repayment capacity in exactly the segments Chola lends to (Q4 FY26 concall).

Regulation shapes the playing field materially. As an NBFC-UL, Chola faces the strictest supervisory tier, a 15% minimum capital adequacy requirement it exceeds at 19.21%, and it cannot take deposits, making funding market access existential. SARFAESI rights do not apply to loans below ₹20 lakh, which forces ARC-dependent recovery for SBPL, home loans and small LAP and explains their structurally higher credit costs. The DPDP Act is tightening consent frameworks around the digital lending data that modern underwriting runs on. A new labour code required full actuarial provisioning for gratuity, absorbed in Q3 FY26. And a pending IRDAI circular on insurance distribution could touch the commission income layered onto the loan book, with management explicitly declining to quantify the impact until the circular appears (Q1 FY27 concall).

Cyclicality deserves its own paragraph because management is unusually explicit about it. Vehicle finance runs in cycles of roughly four years up and one to one-and-a-half years down, and after the recent downcycle, an upturn "actually lasts for another 3 to 4 years," though management cautions that El Nino, the West Asia war and tariff issues make this cycle harder to call (Q1 FY27 concall). Seasonality overlays cyclicality: delinquencies always rise from Q4 to Q1 and improve through Q2 and Q3, a U-shape management tracks every year. Monsoon dependence is real for tractors and rural SCV/LCV demand, with rainfall predicted at 92% of normal versus 96% in the current season, and weak monsoon effects tend to hit with a lag into the following year (Q1 FY27 concall). Against the geopolitical tail risks, crude oil spiked 10-13% during the conflict, Chola holds a ₹200 crore management overlay created in Q4 FY26 for second-order stresses from fuel price volatility, LPG supply shortfalls and shipping-dependent sectors, and the overlay remained fully intact through Q1 FY27 (Q4 FY26 and Q1 FY27 concalls).

India's position in global supply chains reaches Chola indirectly but concretely: export-linked MSMEs absorb the shock when freight and commodity costs spike, and electronics localisation through PLI expands the domestic appliance base that CD lending finances. The company's geographic spread, 26 states, 88% Tier III-VI presence, means no single regional shock dominates, which is the practical payoff of the diversification management keeps citing.

Growth triggers

Gold loan expansion: 360 branches planned this year to 480 total; Q2 FY27 AUM ₹3,446 crore; phase 1 branch AUM ₹21 crore

Chola launched its gold loan business in FY26 and closed that year with an AUM of ₹1,804 crore across 119 exclusive branches in South and East India. By Q2 FY27 AUM had reached ₹3,446 crore and disbursements grew 320%. Management said 120 branches opened last year and 360 this year, taking the total to 480; one reference to 380 branches is an unresolved transcription discrepancy. The earlier ₹5,000 crore FY27 target was not restated.

The mechanism is simple branch-level lending against household gold. Each branch operates as a standalone outlet serving a micro-market within roughly a 3 km radius, offering both bullet and EMI products for consumption needs (6-12 month tenures) and, more recently, income-generating loans of 6-9 months. Average ticket size has come down from about INR3 lakh at launch to around INR2 lakh, a deliberate move toward granular retail customers. Management said yields are "on par or slightly a shade better than our competitor or peers", with analysts anchoring around 16-17% (Q1 FY27 concall).

The economics hinge on per-branch productivity. Phase 1 branches average ₹21 crore AUM, and phase 2 branches need ₹15-20 crore to reach critical level. Management did not restate the ₹5,000 crore FY27 target in Q2. No revenue-mix percentage was disclosed; Q2 AUM of ₹3,446 crore compares with company AUM of ₹2,68,000 crore.

> *"Gold loan, we have decided to open up another 360 branches. We have reached to INR2,000 crores plus AUM now and likely to hit INR5,000 crores in this financial year... Our per branch AUM has been now INR12 crores to INR15 crores... That means by the next year-end, all the branches what we are opening this year will become profitable."*
>
> **RAVINDRA KUNDU, MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Distribution is doing something the rest of Chola's network does not: about 90% of gold loan customers acquired so far are new to Chola, because branches are placed where lending against gold makes sense rather than inside existing vehicle finance outlets (Q4 FY26 and Q1 FY27 concalls). Only 20-25% of these customers are new to gold loans themselves, so Chola is competing for borrowers already using organised lenders, riding on brand trust plus fully digital journeys.

The timing rides a fast-growing market. Management cited the industry gold loan portfolio at approximately INR16 lakh crore as of December 2025, up over 40% year-on-year, with India holding an estimated 25,000-35,000 tonnes of household and temple gold worth roughly US$4 trillion, only a small fraction of it monetised through organised lending (Q4 FY26 concall).

Execution requires real investment. Unlike other businesses that co-locate inside vehicle finance branches, gold branches need their own premises, vaults and security infrastructure, and hiring draws on experienced personnel from established gold loan companies rather than entry-level recruits (Q4 FY26 concall). This is why operating expenses are guided flat at 3.0-3.1% of average assets before operating efficiency kicks in.

Branch network expansion: 125 resident-location conversions; branch plus resident locations near 2,600; earlier 100-each target not repeated

In the Q4 FY26 call, management laid out a plan to add roughly 100 branches each across Vehicle Finance, Home Loans, LAP, CSEL and consumer durables during FY 2026-27, plus convert about 125 Vehicle Finance resident locations into full branches. The base was 1,761 branches as of March 2026, with 691 resident locations alongside them. In Q2 FY27 management said the branch plus resident-location network is near 2,600 and 125 resident locations are being converted as they hit thresholds; the 100-each target was not repeated.

The mechanism is deliberately cheap. Most of these "new" branches are not new real estate. They are teams of loan officers from Home Loans, LAP, CSEL or CD moving into existing Vehicle Finance premises where that product was absent. Arul Selvan made this explicit:

> *"These will be shared branches of Vehicle Finance... All the other businesses would mostly be in the Vehicle Finance branches."*
>
> **CFO ARUL SELVAN, Q4 FY26 CONCALL (MAY 2026)**

Only gold loans get standalone sites, and that sits under a separate trigger. The economics follow directly: adding a business line inside an existing branch costs mainly hiring and training, not rent or fit-out. That is why CFO guidance holds operating expenses flat at 3.0-3.1% of average assets despite the rollout, with meaningful operating efficiency gains pushed out by roughly a year while the new teams ramp.

The second half of the trigger is the resident-location flywheel. Chola seeds low-cost outposts in Vehicle Finance markets, and once an outpost crosses an internal disbursement threshold it graduates into a permanent branch. Kundu described the pipeline on the Q1 FY27 call:

> *"We are already having 600-plus resident locations. And there is a threshold which internally we are following as and when they start hitting the disbursement number, we start converting them into permanent branches."*
>
> **MD & CEO RAVINDRA KUNDU, Q1 FY27 CONCALL (JUL 2026)**

Balraj Menon confirmed around 125 such conversions are targeted by end of FY27, a pace Kundu says repeats annually. The same 100-plus-branch cadence applies to affordable housing and LAP. Each conversion deepens sourcing density in a proven micro-market, feeding the guided 20-23% company AUM growth for FY27.

Vehicle finance upcycle: replacement cycle kicking in, GST rate cut boosting demand, market share gains across OEMs; guided 15-20% disbursement growth and ~18% asset growth

Vehicle finance is Chola's largest business, at INR1,19,558 crores of AUM in FY26, roughly half the company book. After two down years where weak capacity utilization and monsoon deficits pushed vehicle credit costs up, management says the cycle has turned.

The mechanics run in three layers. First, the September 2025 GST rate reduction cut vehicle prices outright. Second, lower prices plus RBI rate cuts brought down EMIs, pulling small road transport operators - Chola's core customer - back into showrooms after staying away during the downcycle. Third, as new commercial vehicle sales pick up, fleet owners replace old vehicles, and those sold vehicles flow into the used market at better quality and prices, which Chola finances through its used vehicle business.

The evidence is specific. On market share, from October to December across SCV, LCV, ILCV, M&HCV and passenger cars:

> *"we have our market share in Tata, Volvo, Eicher, Leyland, these have all grown and most of it are in double digits. Maruti, we have gained substantial market share across... in 2-wheelers, we have grown our market share in Royal Enfield, in Honda and of course, in Hero"*
>
> **BALRAJ MENON, Q3 FY26 CONCALL (FEB 2026)**

On growth versus industry, HCV industry grew 20% while Chola grew 56%, and SCV grew 28% against a 16% market (Q3 FY26 concall). On the replacement cycle, management explained that if new HCV/LCV sales grow 10-15% in units, it converts into 20%+ growth in used financing value because financing depends on vehicle value, not unit count (Q3 FY26 concall).

This underpins the guidance given in May 2026:

> *"In Vehicle Finance, we expect the current momentum seen in Q4 to continue. Based on this, we are guiding towards disbursement growth of around 15% to 20% and asset growth of approximately 18%."*
>
> **RAVINDRA KUNDU, Q4 FY26 CONCALL (MAY 2026)**

Where it stands today: Q2 FY27 vehicle finance disbursements grew 31% to ₹17,800 crore and AUM grew 21% to ₹129,787 crore, ahead of the 15-20% FY27 disbursement guide. Management said October disbursements were up 18-20% YoY and expected Q3 growth of 20-22% after correcting the reference from Q2.

Credit cost improvement: net credit cost 1.4% in H1 FY27; gross Stage 3 3.25%; PBT ROA up 40 bps

For a lender, net credit cost is the single biggest swing factor between a good year and a mediocre one. Chola's FY26 net credit cost ran at 1.6% before the INR200 crore management overlay, well above its historical 1-1.2% range, dragged up by two problem books: Vehicle Finance through the down cycle and CSEL's fintech partnership book. Management guided that gap closed in FY27, and delivered it one quarter early.

The mechanism runs through underwriting quality. On the May 2026 call, CEO Ravindra Kundu explained the tool behind the target:

> *"We have been working on improving our underwriting tool, specifically the Gini coefficient, which helps us validate the accuracy of our credit decisions. This effort is being undertaken in collaboration with all the company's credit managers across divisions."*
>
> **RAVINDRA KUNDU, MD & CEO, Q4 FY26 CONCALL (MAY 2026)**

A higher Gini coefficient means the scorecard separates good borrowers from bad more sharply, so fewer bad loans get approved at origination. The payoff shows up with a lag as cohorts season, which is why management framed this as a multi-year effort already visible in CSEL, consumer durables and Vehicle Finance in Q4 FY26.

The evidence landed in Q2 FY27: management said 25% growth and 1.4% net credit cost were full-year ambitions achieved in H1. Gross Stage 3 improved to 3.25% from 3.29% in June 2026, GNPA to 4.4% from 4.5%, credit cost fell 37 bps and PBT ROA rose 40 bps. ROE was 19.4% versus 18.1%. The full-year 1.4% outcome remains open, and the call did not restate the ₹200 crore overlay.

> *"So first of all, the net credit cost has already come down to 1.5% from 1.8% of the last year. So, we have achieved the target."*
>
> **RAVINDRA KUNDU, MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Management expects further improvement through FY27 since the full-year target was met in the weakest seasonal quarter, and the INR200 crore overlay remains fully intact as an unspent buffer.

CSEL turnaround: two businesses run near 3.6% ROA; management says combined pretax ROA can exceed 4%; separate reporting from next month

CSEL is Chola's unsecured consumer and small enterprise lending arm - personal, business and professional loans plus consumer durables and digital lending. It was the company's problem child for two years, dragged down by a fintech partnership book that Chola stopped originating in Q1 FY26 and has been running off ever since. That book has shrunk from INR3,000 crores to INR600 crores, with only an INR300-400 crore tail left to burn through this year (Q4 FY26 concall, May 2026).

The fix works through two levers. First, sourcing quality. Management segmented its DSA/DST-sourced unsecured book into four tiers - diamond, gold, silver and bronze - and cut off everything except diamond.

> *"every quarter, we have removed bronze, silver and gold and now we are only sourcing the diamond quality of the portfolio, which has got the very lower NCL"*
>
> **RAVINDRA KUNDU, MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

In Q2 FY27 CSEL AUM was ₹17,216 crore and consumer loan disbursements grew 103%. Management said the two CSEL businesses, unsecured business/personal and CD/digital, would be reported separately from next month; each is near 3.6% ROA and together can deliver more than 4% pre-tax ROA as net credit cost and opex fall. The Q1 4.7% NCL was not restated in Q2.

Growth is returning alongside the cleanup. Disbursements grew 39% in Q4 FY26, asset growth had reached about 4%, and management expects roughly 20% asset growth by Q4 FY27 across the combined CSEL portfolio. CSEL AUM stood at INR15,884 crores in June 2026, up 12% year-on-year, still around 7% of group AUM - so each point of convergence toward company-level returns lifts consolidated profitability without needing scale elsewhere.

CCD conversion completed; board approves up to ₹5,000 crore capital raise

In October 2023, Chola issued INR2,000 crores of Compulsorily Convertible Debentures (CCDs). These are debt instruments that must turn into equity shares on a fixed schedule, so the conversion itself adds equity capital without the company raising fresh money or paying interest on that portion anymore. For a lender growing AUM at 20%+, every rupee of Tier 1 equity supports more lending headroom under RBI's capital rules.

The conversion has been running in tranches. Per management disclosures, INR307 crores converted in October 2025 and INR1,063 crores in January 2026, taking FY26 conversions to INR1,370 crores. Another INR200 crores converted in July 2026, leaving INR430 crores for October 2026.

> *"Of the INR2,000 crores CCD issuance, INR1,370 crores were converted into equity during FY26, followed by a further INR200 crores conversion in July 2026. The remaining INR430 crores of CCDs is expected to be converted in October 2026, further reinforcing the company's capital base."*
>
> **EXECUTIVE CHAIRMAN VELLAYAN SUBBIAH, Q1 FY27 CONCALL (JUL 2026)**

The CCD conversion was completed in September 2026, lifting capital adequacy to 20.62% and Tier 1 to 16.02%. The board has approved a proposal to raise up to ₹5,000 crore, subject to shareholder and regulatory approvals; management said it will act within six to nine months depending on market conditions and may use full equity or a split structure.

Management keeps the size in perspective. When an analyst suggested the conversion would aid margins, CFO Arul Selvan was direct:

> *"CCD conversion is very small. Was exactly coming around at INR2,20,000 crores borrowing. It's not a game changer."*
>
> **CFO ARUL SELVAN, Q1 FY27 CONCALL (JUL 2026)**

The mechanism is straightforward: each conversion moves money from the liability side to the equity side of the balance sheet, lifting Tier 1 capital and net worth. Against borrowings of roughly INR2.2 lakh crores, INR430 crores is incremental rather than transformational. Its value lies in timing - it lands exactly when Chola is funding its largest branch expansion year, letting internal accruals stretch further toward growth instead of plugging a capital gap.

Home loan disbursement scale-up: guided 12-15% disbursement growth with 25%+ AUM growth; branch expansion into non-southern markets maturing

Cholamandalam's home loan business has been the quiet compounder inside the mortgage cluster. For roughly seven to eight quarters, disbursements sat in a narrow INR 1,800-2,000 crore per quarter band while the book compounded at 23% AUM growth. FY26 closed with disbursements of INR 7,363 crore (marginally down 1% year-on-year) but AUM up 23% to INR 22,688 crore. The gap between flat disbursements and strong AUM is the whole story of this trigger: the branches opened over the last three years are finally old enough to produce.

The mechanism is straightforward branch maturation. Four years ago, the business was largely southern India. Since then it has scaled into a pan-India footprint of 712 touchpoints across 22 states, serving around 1.68 lakh customers, with 17% of customers being first-time borrowers at an average ticket size of INR 13.9 lakh. New branches take time to build

sourcing pipelines in property markets - land records, registration offices, local verification - so the AUM kept growing off an older, productive base while the newer branches ramped. Management now says those branches have crossed into meaningful contribution.

For FY27, the home loan head laid out the guidance directly:

> *"For the current year, we expect disbursement growth in the range of 12% to 15%, while maintaining steady AUM growth of around 25% or higher."*
>
> **PRASHANT (HOME LOANS), Q4 FY26 CONCALL (MAY 2026)**

That guidance sits within a broader mortgage commitment. Management expects LAP and Home Loans to grow AUM at 25-30%, with SBPL and SME exceeding 30%, making "growth in the mortgage businesses... the primary driver of overall company growth" within the company-wide 20-23% target (Q4 FY26 concall, May 2026).

Execution capacity is already funded and planned. The business will add roughly 100 home loan branches in FY27 - about 60 in Q1 and 40 in Q2 - co-located within existing Vehicle Finance branches, so the incremental cost is mostly manpower rather than new real estate (Q4 FY26 concall, May 2026). On profitability, management sees steady-state economics improving as the book scales: net credit loss settling at 0.5-0.6% and pre-tax ROA moving toward 4.5%, versus 4.2% delivered in Q3 FY26 even after absorbing a one-off INR 35 crore ARC-related hit (Q3 FY26 concall, Feb 2026).

Early evidence supports the thesis. In Q2 FY27 housing loan disbursements grew 43% and home loan AUM was ₹25,240 crore. Management said Q2 was better than Q1 partly on a smaller base and technical alignment of disbursement with asset recognition, not a change in underlying LAP/HL performance; it still sees scope from taking mortgage distribution outside South over one to two years.

> *"Around 20% in the case of LAP and HL."*
>
> **ARUL SELVAN, CFO, ON LIKE-FOR-LIKE ORGANIC DISBURSEMENT GROWTH, Q1 FY27 CONCALL (JUL 2026)**

Management also flagged that home loans are moving to slightly larger ticket sizes, with interest income improving from 15.5% to 15.9% and pre-tax ROA rising from 3.9% to 4.7% year-on-year in Q1 FY27.

The December 2025 investor call added a near-term data point: after a soft first half, management noted that "HL has also picked up" alongside vehicle finance, framing Q3 FY26 as a turnaround quarter for disbursements broadly (Dec 2025 concall).

Where this lands: if the guided 12-15% disbursement growth holds through FY27 on a base that barely grew in FY26, and AUM compounds at 25%-plus as the non-southern branches

season, home loans shift from being a steady AUM contributor to an active disbursement engine - one feeding the mortgage cluster that management has explicitly named the primary driver of company-level growth.

Consumer durables expansion: brand network expansion planned in FY 2026-27; moving from mobile into household appliances; disbursement growth of 50% in FY26

Consumer durables (CD) is the point-of-sale lending arm inside Chola's Consumer & Small Enterprise Loans division. The company finances a customer's purchase of a phone or appliance at the retail counter, launched in FY24 through a tie-up with Samsung, then opened to other brands and an open-market channel in FY25. In FY26, combined CD disbursements crossed INR2,174 crores, up 50% year-on-year, with more than 10 lakh customers acquired during the year.

The mechanism is distribution-led. Chola signs tie-ups with brands whose platforms handle origination at the store. On the Q3 FY26 call, management explained how this works in practice for the anchor partner:

> *"So, we have the tie-up in Samsung Finance Plus. So already the infrastructure is all set as far as the platform is concerned. So, our distribution is based on the Samsung Finance Plus platform itself."*
>
> **VIJAY KINI, CSEL BUSINESS HEAD, Q3 FY26 CONCALL (FEB 2026)**

The open-market side runs through CholaKaart, the in-house digital loan origination system launched in FY25. Because the sourcing engine is owned rather than rented from a fintech partner, each new brand added to the network plugs into infrastructure Chola already controls.

The brand build-out is where the growth comes from. As of December 2025, Chola had nine tie-ups covering roughly 75% of the mobile market, including Vivo, Oppo, Realme, Xiaomi, Tecno and Infinix. FY26 added household appliance names to that list - Haier, Whirlpool, Havells-Lloyd, TCL, IFB and Amstrad - which is exactly the diversification the chairman flagged on the Q3 FY26 call:

> *"In addition to this, we just moved out of mobile into household appliance segments as well. So, this is going to grow in different tiers over time, right? So, the first part is going to be mobile. And then the second part is going to be non-mobile, other household appliances."*
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> **VELLAYAN SUBBIAH, EXECUTIVE CHAIRMAN, Q3 FY26 CONCALL (FEB 2026)**

The annual report confirms further brand network expansion is planned for FY 2026-27, alongside wider deployment of the digital capabilities built across the Samsung Finance Plus and CholaKaart platforms.

The economics sit within CSEL, which is around 7% of overall AUM. Management has been explicit that higher-yield businesses like consumer durables are structurally designed with higher net credit costs but are expected to lift segment profitability as they scale. On the Q4 FY26 call, Ravindra Kundu tied the two together directly: CSEL's pretax ROA should comfortably cross 3% in FY27, "driven by further reductions in loan losses and an improvement in net interest margins, particularly due to higher growth in the consumer durables segment" (Q4 FY26 concall, May 2026). CD disbursement growth of 39% in Q4 was cited as momentum expected to continue.

The demand backdrop supports the push. Per the CRIF report cited in the FY26 annual report, India's outstanding CD loan portfolio stood at INR96,000 crore, growing about 14% year-on-year, and industry estimates put consumer financing at 35-40% of consumer durable sales. Management also referenced IBEF projections that India becomes the fourth-largest consumer durables market globally by FY 2026-27, growing at roughly 11% CAGR.

Where does this stand today? Q2 FY27 consumer loan disbursements grew 103% to ₹8,726 crore and CSEL AUM reached ₹17,216 crore. Management said CD, especially mobile financing after adding other OEMs beyond Samsung, drove a major part of CSEL disbursement growth; the prior-year base was low after a pullback.

The trigger works through a simple chain. When a fleet operator buys a new truck, he sells his old one into the secondary market. Those traded-in vehicles are younger and better maintained than repossessed stock, so they fetch better prices and give lenders a healthier asset to finance. As Ravindra Kundu put it on the Q3 FY26 call, "when they sell their existing fleet and buy the new vehicle, new vehicle sales picks up and old vehicle sales also picking up." The arithmetic is where the advantage sits. Financing a used vehicle is based on its gross valuation, not just the unit count. If new HCV/LCV sales grow 10-15% in units, that many more quality vehicles flow into the used market, and because valuations run ahead of volumes, the rupee value of used financiable assets grows faster than the units themselves. Kundu spelled this out directly: "Suppose new vehicle is continuously, I'm talking about the heavy commercial vehicle and light commercial vehicle. It's continued to grow at the rate of, say, 15% or even 10% to 15%. Obviously, to that extent, the used vehicle is also going to come in terms of unit. Now when you are financing it, the GV value is actually matter for financing. So, if that is the case, 10% to 15% in the unit number, it converts into the value, it comes to 20% plus." Used vehicles matter to Chola's mix. The FY26 annual report puts Used Vehicles at 27% of the Vehicle Finance portfolio, the single largest category, ahead of LCV at 18% and cars at 13%. Used books also carry higher yields than new. Where is it today? The cycle turned on in late 2025. The GST rate cut pulled down vehicle prices, commercial vehicle industry volumes grew 13% in FY26 with HCV up 10% and LCV up 17%, and management said used business picked up from December onwards. In Q2 FY27

management said industry HCV volumes grew 40% in Q2 and 20% in H1, LCV grew 25%, SCV 26%, passenger vehicles 31% and two-wheelers 15%, and expected H2 industry growth of 15-20%. October vehicle disbursements were up 18-20%, and Q3 was expected at 20-22%. One measurement note: from Q1 FY27, Chola recognizes used vehicle disbursements only on cheque clearance rather than cheque handover, which understates reported used disbursement growth. On a like-for-like basis, management said combined new and used vehicle finance grew more than 20% in disbursements in Q1 FY27.

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>
> **RAVINDRA KUNDU, MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

Used vehicles matter to Chola's mix. The FY26 annual report puts Used Vehicles at 27% of the Vehicle Finance portfolio, the single largest category, ahead of LCV at 18% and cars at 13%. Used books also carry higher yields than new.

Where is it today? The cycle turned on in late 2025. The GST rate cut pulled down vehicle prices, commercial vehicle industry volumes grew 13% in FY26 with HCV up 10% and LCV up 17%, and management said used business picked up from December onwards. Balraj Menon described the sequence on the same call: initial demand spurt in M&HCV among retail operators, then flowing into ILCV, starting in haulage and extending to tippers by January. Management expects the effect to persist for as long as new CV sales keep growing, which they framed as the next few quarters from Q4 FY26.

One measurement note: from Q1 FY27, Chola recognizes used vehicle disbursements only on cheque clearance rather than cheque handover, which understates reported used

disbursement growth. On a like-for-like basis, management said combined new and used vehicle finance grew more than 20% in disbursements in Q1 FY27.

Mortgage businesses as primary growth driver: LAP and HL expected 25-30% growth; SBPL and SME expected to grow exceeding 30%

At the Q4 FY26 call, management laid out FY27 growth by segment and put the mortgage cluster at the center of it. LAP and Home Loans are guided to grow 25-30% in AUM, while SBPL and SME are expected to exceed 30%. Together, these four secured books are meant to carry the company's overall 20-23% AUM growth target for FY27.

The mechanism is straightforward. These are property-backed loans with low credit costs - LAP ran at 0.3% loan losses in FY26 and HL at 1.0% - and high returns: LAP PBT-ROA was 3.9%, HL 4.2%, and SBPL 7.4% in FY26. Growing these books adds AUM and PBT with less credit-cost drag than vehicle finance or CSEL. LAP alone contributed roughly 30-31% of total PBT in FY26, a share the CFO said should stay. Distribution capacity is being added in parallel: 100 Home Loan branches and 100 LAP branches in FY27, co-located inside the existing Vehicle Finance network, plus 100 Home Loan branches maturing from the pan-India expansion of the past three years.

The evidence tracks the guidance. In Q2 FY27 LAP AUM was ₹57,447 crore, up 24%; SME AUM ₹10,943 crore, up 45%; SBPL AUM ₹3,966 crore, up 35%; housing loan AUM ₹25,240 crore; total secured SME AUM ₹72,356 crore, up 27%. Management said 40% of mortgage business is from South and 60% from other zones, with scope to equalise over one to two years.

> *"We remain confident of achieving asset growth of 25% or higher in the Home Loan and LAP businesses. In addition, our other mortgage segments - SBPL and SME - are expected to grow at a rate exceeding 30%."*
>
> **MD RAVINDRA KUNDU, Q4 FY26 CONCALL (MAY 2026)**

One reporting note: from Q1 FY27, disbursements in LAP, HL, SBPL and used vehicles are recognized only on cheque clearance, which understates reported disbursement growth. On a like-for-like basis, management said LAP and HL grew around 20% in Q1 FY27, and AUM growth absorbs the timing lag.

Key risks

West Asia conflict and crude oil transmission into borrower cash flows. The conflict pushed crude up 10-13% in a short window, raising diesel and freight costs. Chola's core vehicle customers are small road transport operators running within a city or state, who can usually pass fuel costs through daily repriced freight rates, but a sustained spike compresses disposable income before freight catches up. Management created an INR 200 crore

management overlay against these second-order stresses, covering volatility in crude and refined fuel prices, potential LPG supply shortfalls, and pressure on shipping and commodity-dependent sectors. The overlay was fully intact as of Q1 FY27, which means none of this stress has yet shown up in reported numbers.

Weak monsoon and El Nino. Q2 FY27 management said the rainfall deficit was 13% but sowing was at par with last year; drought-prone Vidarbha, Malwa, parts of Madhya Pradesh and Karnataka were the concerns. Tractors are 3% of the vehicle book, and management said the impact would be clearer only after December. This remains a conditional risk, not a reported stress.

Vehicle finance credit costs staying elevated through the recovery. Company gross Stage 3 improved to 3.25% in September 2026 from 3.29% in June, and GNPA to 4.4% from 4.5%; Q2 vehicle disbursements grew 31% and AUM 21%. The risk is that vehicle Stage 3, which ran at 4.05-4.17% during FY26, turns back up if freight demand or monsoon conditions weaken. Q2 management said it saw no drought impact yet.

CSEL unsecured book still carrying legacy losses. CSEL net credit loss ran at 6.4-7% through much of FY26, driven by the fintech partnership book and industry-wide excesses in DSA-driven unsecured lending. Management cut sourcing to diamond-quality cohorts only, but a new portfolio's true loss rate only shows up after about a year of seasoning. Q2 FY27 CSEL AUM was ₹17,216 crore and disbursements grew 103%; management says the two businesses are near 3.6% ROA and combined can exceed 4% pre-tax ROA. The Q1 4.7% NCL and the fintech residual were not restated in Q2.

SBPL recovery mechanics without SARFAESI. SARFAESI is unavailable to NBFCs for loans below INR 20 lakh, and SBPL's average ticket is INR 4.49 lakh. Recovery therefore runs through legal processes taking two to three years, with periodic ARC sales used to pull Stage 3 down. Management guides structural NCL around 2.3-2.5% for this business by design. That is acceptable at a 7.9% pre-tax ROA, but it means the business has limited ability to absorb an unexpected stress shock quickly, unlike the SARFAESI-backed mortgage books where resolution takes 9-12 months.

Cost of funds hardening in H2 FY27. Treasury assumes another 25 bps repo hike; a 50 bps move would add 15-20 bps to H2 cost of funds and about 15 bps YoY. About 25% of borrowings are repo-linked, 25% other benchmarks, and 50% fixed or MCLR-linked. The CFO expects at least a 10 bps yield fall but says credit-cost reduction should more than offset it, keeping ROTA better than last year. Q2 NIM was described as healthy but not quantified.

Pending IRDAI regulation on insurance distribution. Management says it has evaluated the insurance distribution reform and has a plan B ready, but is waiting for the final conclusion

before quantifying the impact. It still cites 3.5% pre-tax ROA as the target. The commission stream remains a post-FY27 risk until the circular and numbers are disclosed.

Gold price correction hitting thin LTV buffers. Gold loan industry portfolios grew over 40% YoY to roughly INR 16 lakh crore as of December 2025, powered by a near-doubling of 24-karat prices from about INR 64,000 per 10 grams in early 2024 to over INR 1.5 lakh in 2026. Elevated LTVs industry-wide leave thinner buffers if prices correct sharply. Chola's own gold book is small (INR 1,804 crore AUM at FY26 close, INR 2,143 crore at Q1 FY27), so direct exposure is modest today, but the plan to reach INR 5,000 crore AUM in FY27 grows this sensitivity quickly.

Reputational overhang from the December 2025 Cobrapost allegations. The blog alleged issues around cash collections (about 15% of collections today, down from 50% historically), related party transactions with Chola MS, CBSL and MMS, and rating agency payments (about INR 20 crore per year, roughly 0.01% of borrowings per management). The company called the allegations malicious and baseless, detailed its responses on a same-week investor call, and completed a six-week regulatory inspection. The specific claims appear addressable, but the episode showed how quickly group-structure questions can surface, and any follow-on regulatory finding would carry more weight than the blog itself.

MSME operating cost inflation spreading into secured books. The annual report flags MSMEs facing 15-25% increases in operating costs from fuel, freight and raw material spikes linked to the conflict, with lengthened working capital cycles and firms borrowing to sustain operations rather than grow. LAP (97% self-employed non-professional customers), SME and SBPL all lend into exactly this segment. These books are collateral-backed and have delivered low loss rates (LAP at 0.3%), but collateral values protect slowly while cash flow stress shows up fast in buckets.

Emission norm transition costs landing on vehicle buyers. Stricter emission norms could raise vehicle acquisition costs and temporarily dent demand, and OEM price hikes could claw back the affordability benefit from the GST rate cut that drove the Q3-Q4 FY26 demand surge. Since the entire vehicle finance recovery thesis rests on replacement-cycle economics improving for the SRTO buyer, anything that re-inflates ticket sizes works against the EMI affordability that brought customers back to showrooms.

Scenarios

Bull case

The vehicle cycle turns fully. Management's framing is that cycles run four years up and one to one-and-a-half down, and after two-plus down years the replacement cycle is kicking in, GST cuts lowered EMIs, and Chola gained share across Tata, Volvo, Eicher, Leyland, Maruti, Royal Enfield, Honda and Hero. Q2 FY27 vehicle disbursements grew 31% and AUM 21%;

October disbursements were up 18-20% and Q3 was expected at 20-22%. Industry HCV volumes grew 40% in Q2 and 20% in H1, and management expects H2 industry growth of 15-20%.

Credit cost keeps falling. Q2 FY27 management said 1.4% net credit cost was achieved in H1, gross Stage 3 improved to 3.25% from 3.29%, PBT ROA rose 40 bps and ROE reached 19.4% versus 18.1%. CSEL's earlier NCL reduction from 6.7% to 4.7% was not restated, and the two CSEL businesses now run near 3.6% ROA with scope for more than 4% pre-tax ROA. The full-year 1.4% credit-cost outcome remains open, not delivered.

New engines scale without breaking. Gold AUM reached ₹3,446 crore in Q2 FY27 and disbursements grew 320%, with 360 branches planned this year to 480 total. CSEL's two businesses run near 3.6% ROA and management says combined pre-tax ROA can exceed 4%. Capital adequacy is 20.62% with Tier 1 at 16.02%, and the board approved a raise of up to ₹5,000 crore. Opex is 3.1% now, with 2.8% targeted in two to three years.

Base case

Guidance lands as communicated. Q2 FY27 AUM growth was 25% and H1 net credit cost 1.4%; management did not revise FY27 growth, said Q3 and Q4 are seasonally better, and still holds 20-23% AUM growth on a steady-state basis. Credit cost was down 37 bps, PBT ROA up 40 bps and ROE 19.4%. NIM was described as healthy but not quantified. Cost of funds is guided up about 15 bps YoY, and opex is 3.1%.

The macro stays mixed but survivable. Monsoon comes in at the predicted 92%, slightly below normal but not damaging enough to break rural demand, matching management's "it will not be so bad" framing. Crude stays volatile without escalating further, the INR 200 crore overlay remains unused and gets reviewed at year-end, and MSME cost pressures stay contained within the collateral cushion of the mortgage books. Vehicle Stage 3 follows its usual U-shape, drifting back down through Q2-Q4 from the seasonal Q1 peak of 4.05%.

Cost of funds rises about 15 bps YoY, with at least a 10 bps yield fall; the CFO expects credit-cost reduction to more than offset it. The IRDAI plan B is ready and 3.5% pre-tax ROA is still cited. SBPL and home loan non-SARFAESI recovery risks remain, and gold branch productivity is now measured at ₹21 crore for phase 1 rather than the old ₹12-15 crore.

Bear case

The macro turns against the portfolio simultaneously. Q2 FY27 management said the rainfall deficit was 13% but sowing was at par and the drought-prone districts were limited; it saw no impact yet. If December and Rabi sowing deteriorate, or West Asia escalation raises MSME fuel and freight costs, the lagged effect can hit tractor, SCV/LCV and mortgage cash flows in H2 FY27 and FY28. The ₹200 crore overlay was not mentioned in Q2, so its status is not updated.

Vehicle finance relapses. Q2 company gross Stage 3 improved to 3.25%, but vehicle finance is still cyclical and October disbursement growth of 18-20% was below Q2's 31%. If freight demand rolls over, Stage 3 can rise from the improved base and the 1.4% H1 credit-cost rate fails to hold for the full year. CSEL's diamond-sourced book also still needs to season, and the Q1 4.7% NCL was not restated in Q2.

Funding and regulation tighten at the wrong time. Cost of funds is guided up about 15 bps YoY and management assumes at least a 10 bps yield fall. The board has approved up to ₹5,000 crore of capital, but timing and pricing are not fixed, and a delayed or poorly priced raise would test the growth plan. Insurance distribution is still unquantified, and the gold branch count is ambiguous at 360 versus 380, with per-branch productivity now set at ₹21 crore for phase 1.

VALUATION SUMMARY

LINE ITEM	FY25	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	26,055	31,445	39,124	47,750	57,263
Revenue growth	-	+20.7%	+24.4%	+22.0%	+19.9%
Interest (₹ Cr)	12,485	14,374	18,140	22,636	27,439
PBT (₹ Cr)	5,737	6,961	9,206	11,235	13,918
Tax (₹ Cr)	1,478	1,741	2,347	2,865	3,549
Tax rate	25.8%	25.0%	25.5%	25.5%	25.5%
PAT (₹ Cr)	4,259	5,220	6,858	8,370	10,369
PAT growth	-	+22.6%	+31.4%	+22.0%	+23.9%
EPS (₹)	50.70	61.80	80.00	97.60	121
P/E	36.1x	29.6x	22.9x	18.8x	15.1x
PEG	1.6x	1.3x	1.0x	0.8x	0.7x

CAGR FY27E-FY29E: Revenue +21.0% · EBITDA - · PAT +23.0%

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Q2 FY27 concall notes

TLDR

Cholamandalam reported Q2 FY27 disbursements of ₹35,872 crore, up 47% YoY, and AUM of ₹2,68,000 crore, up 25% YoY, with vehicle finance disbursements up 31% to ₹17,800 crore, secured SME up 42% to ₹9,345 crore and consumer loans up 103% to ₹8,726 crore. NIM held at healthy levels, credit cost fell 37 bps and pre-tax ROA expanded 40 bps YoY, taking ROE to 19.4% from 18.1%. Gross stage 3 improved to 3.25% from 3.29% QoQ and RBI GNPA to 4.4% from 4.5%. Management holds its 20-23% steady-state growth commitment and the 1.4% net credit cost level already achieved in H1, and guides to a 15-20 bps full-year rise in cost of funds assuming 50 bps of repo hikes. The board approved raising up to ₹5,000 crore, expected within six to nine months. Watch points: drought-affected districts, the pending insurance distribution reform and a possible 10 bps yield fall.

WHAT CHANGED SINCE Q1 FY27

- **Growth guidance held, not raised.** Q1 guided ~22% disbursement growth and ≥23% AUM growth for FY27; Q2 keeps the commitment unchanged at a 20-23% steady-state range despite 25% AUM growth at the half year. Management said Q3 and Q4 are usually better than H1 but declined a bigger target.
- **Credit cost target met and held.** Q1 said the ~1.5% FY27 net credit cost was achieved in Q1; Q2 reports 1.4% for H1 and says it will not set a bigger target, with improvement possible from H2 seasonality.
- **Cost of funds guidance changed.** Q1 assumed a 25-50 bps repo hike lifting H2 cost of funds ~10 bps with the full year flat. Q2 now guides a 15-20 bps full-year rise assuming 50 bps of hikes, with H2 higher than H1.
- **NIM stance softened.** Q1 guided to hold ~8.2%. Q2 flags a possible 10 bps fall in yield, to be more than offset by credit cost, with pre-tax ROA still better than last year.
- **New capital raise.** Q1 had only the residual ₹430 crore CCD conversion due October 2026. Q2 confirms all CCDs converted and the board approved raising up to ₹5,000 crore, expected in six to nine months, structure undecided between full equity and a split.
- **Gold loan branch plan delivered on schedule.** Q1 planned 360 new branches in FY27; Q2 says 120 were opened last year and 360 this year, taking the network to 480 by year-end. Phase 1 branches average ₹21 crore AUM each.
- **CSEL disclosure promised.** Q1 discussed CSEL as one unit; Q2 says the unsecured business loan and the CD/mobile/digital lending businesses will be reported separately from next month.
- **Insurance circular still unresolved.** Q1 declined to quantify the IRDAI impact; Q2 says the working is ready and a plan B exists, but the number awaits the final circular.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Disbursements	₹35,872 crore	+47% YoY	Broad-based growth across vehicle finance, SME and consumer; Q2 base was smaller last year
AUM	₹2,68,000 crore	+25% YoY	Growth across all lending businesses
NIM	Held at healthy levels (8.05% H1 per management)	Flat YoY	Cost of funds up 10 bps QoQ; assignment income largely absent
Net credit cost	1.4% (H1)	-37 bps YoY	Portfolio performance; delinquencies falling across MSME businesses

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Pre-tax ROA	Up 40 bps YoY	+40 bps	Margin held and credit cost lower
ROE	19.4%	vs 18.1%	Higher profitability
Gross stage 3	3.25%	-4 bps QoQ (from 3.29%)	Improvement in September 2026
GNPA (RBI norms)	4.4%	-10 bps QoQ (from 4.5%)	Improvement in September 2026
Vehicle finance AUM	₹1,29,787 crore	+21% YoY	Disbursements +31% to ₹17,800 crore; market share gains
Secured SME AUM	₹72,356 crore	+27% YoY	LAP ₹57,447 crore (+24%), SME ₹10,943 crore (+45%), SBPL ₹3,966 crore (+35%)
Consumer AUM	₹45,902 crore	+32% YoY	HL ₹25,240 crore, CSEL ₹17,216 crore, gold ₹3,446 crore
Capital adequacy	20.62%	Tier 1 at 16.02%	CCD conversion completed in September 2026

SEGMENTS & GEOGRAPHIES

- **Vehicle finance:** Disbursements up 31% YoY to ₹17,800 crore, AUM up 21% to ₹1,29,787 crore. Industry volumes were supported by replacement demand, freight utilization and economic activity; Chola grew ahead of the industry on market share gains and dealer relationships. October disbursements grew 18-20% YoY and Q3 is expected at 20-22% growth over last year. Tractor is 3% of the vehicle book.
- **Secured SME:** Disbursements up 42% YoY to ₹9,345 crore, AUM up 27%. Delinquencies are falling across LAP, SBPL, unsecured business loans and SME term loans; secured loans below ₹5 lakh in small markets were under pressure and have started improving. About 40% of mortgage business comes from South and 60% from the rest of the country, with penetration outside South still to build over one to two years.
- **Consumer:** Disbursements up 103% YoY to ₹8,726 crore, AUM up 32%. Housing loan disbursements grew 43%, CSEL 103% and gold 320%. CSEL growth came from unsecured business loans and mobile financing after tie-ups with all major OEMs beyond Samsung; the base was low after last year's pullback. Gold loans are almost entirely 12-month bullet, with EMI loans under 1% of the book.
- **Industry outlook by vehicle category:** Heavy commercial vehicles grew 40% in Q2 and 20% in H1, the highest ever H1 sales; LCV 25%, SCV 26%, passenger vehicles 31% and two-wheelers 15%. Management expects 15-20% industry growth in H2.

STRATEGY & COMPANY-SPECIFIC

- **Capital raise:** Board approved up to ₹5,000 crore, subject to shareholder and regulatory approvals, expected within six to nine months depending on market conditions. Structure may be full equity or a split; the CCD route worked previously.
- **Gold loans:** 360 branches opened this year, taking the network to 480 by year-end. Phase 1 branches average ₹21 crore AUM; phase 2 branches need to reach a ₹15-20 crore threshold before further expansion. Branch openings depend on productivity and process readiness.
- **CSEL reporting:** The unsecured business loan and CD/mobile/digital lending businesses will be reported separately from next month. Together they are delivering close to 3.6% ROA and management expects more than 4% pre-tax ROA, helped by lower net credit cost and operating expense.

- **Assignment income:** Management intends to keep 5-7% of the book as assigned book, doing deals only when liquidity or a large bank relationship requires it, to avoid upfronting profit.
- **Branch network:** Vehicle finance resident locations are being converted to branches, with 125 conversions under way; branches plus resident locations total about 2,600.
- **Collections:** About 2,800 people work in CSEL collections, half on roll and half through agencies; the 1,800 unsecured collections staff are all on roll.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Growth	20-23% steady state; FY27 commitment held	Maintained	Q3 and Q4 usually better than H1; October momentum
Net credit cost	1.4% for FY27, no bigger target	Maintained (Q1: ~1.5%)	H1 already at 1.4%; H2 seasonality could improve it
Cost of funds	Up 15-20 bps YoY for FY27, H2 higher than H1	Raised (Q1: flat for the year)	Assumes 50 bps of repo hikes; 25% repo-linked and 25% other benchmark borrowings
Yield	Possible 10 bps fall	New	Cost of funds rise, partly offset by credit cost
Pre-tax ROA	Better than last year, around 3.5%	Maintained	Margin held and lower credit cost
Operating expense	3.0-3.1% of assets, close to 3.2% at times; 2.8% in two to three years	New	Vehicle finance and LAP operating expense coming down
Gold loan branches	480 branches by FY27-end	Maintained	360 opened this year on top of 120 last year
Capital raise	Up to ₹5,000 crore in six to nine months	New	Board approval; market conditions
Product mix	Vehicle finance below 50% and mortgage up from 36-37% within three to four years; CSEL, CD and gold within 15%	New	Longer-tenor mortgage growth

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Drought	Deficit is 13% but sowing is at par with last year; impact is confined to Vidarbha, Malwa, parts of Madhya Pradesh and Karnataka, where concentration is deliberately lower. Tractor is 3% of the vehicle book. Impact on Rabi will be clear only by December.
Small-ticket used vehicles	Small-ticket used vehicles sold in small towns with inconsistent cash flows are the segment most exposed to a drought; disbursements there are being approached with caution.
Cost of funds	25% of borrowings are repo-linked and 25% linked to other benchmarks; MCLR has not moved much but will start to. The impact is seen as larger next year than this year.
Insurance distribution reform	Income from credit life could fall; the working and a plan B are ready but the quantum awaits the final circular.
Yield	A 10 bps fall in yield is possible as cost of funds rises; repricing of the floating book, including affordable housing and LAP/SME, is planned within one to two months.

RISK	WHAT MANAGEMENT SAID
Gold loan model	The business is almost entirely bullet-loan; management said EMI-based lending would raise delinquency, and EMI loans are under 1% of the book.
SBPL and small-ticket secured loans	Loans below ₹5 lakh in small markets were under pressure and have started improving.

Q&A HIGHLIGHTS

Capital raise strategy Question: What is the plan for the ₹5,000 crore raise and are new subsegments planned? Answer: The raise is to strengthen capital adequacy and the balance sheet, the first in a few years, and will happen in the near to medium term depending on market conditions. Most growth will go into existing segments; gold and consumer durables are growing fast and the segment set is fairly full.

Growth and credit cost guidance Question: At 25% growth halfway through the year, will guidance be revised? Answer: No revision. Q3 and Q4 are usually better than Q1 and Q2, and management wants to keep delivering 25% growth and 1.4% net credit cost, both achieved in H1, with improvement possible from seasonality.

Drought exposure Question: With 17% exposure to Maharashtra and Karnataka, what is the vehicle finance credit cost outlook? Answer: Drought-prone districts were always kept at lower concentration and tractor penetration has fallen over four to five years. No problem is visible now; management is confident H2 will be better than H1 and will hold its target.

Cost of funds sensitivity Question: What is the margin sensitivity to a 50 bps repo hike, and will capital raises now come at lower leverage? Answer: A 50 bps move in H2 lifts full-year cost of funds 15-20 bps, with H2 higher than H1; the impact is larger next year. The capital raise is an enabling resolution, to be executed in six to nine months.

Operating expense jump Question: Is ₹1,400 crore the new employee cost run rate? Answer: Employees were moved from the outsourcing entity into the company, offset by about ₹100 crore lower outsourced cost, keeping operating expense at 3.1%. The QoQ rise reflects July increments and a one-time annual business meet.

Yield decline Question: Why did aggregate yield fall 30 bps when segment yields rose? Answer: Assignment income was largely absent, with only one deal done this quarter, costing about 20 bps; this normalizes as assignment limits are now exhausted.

Gold loan structure Question: Are short-term gold loans causing stage 2 and 3 stress as at peers? Answer: The book is almost entirely 12-month bullet loans because customers historically did not pay EMI from the start; EMI loans are under 1% of the book, so that delinquency does not arise.

Insurance reform impact Question: Has the hit to ROA from the credit life distribution reform been quantified? Answer: The working is ready and a plan B exists, but the final number awaits the circular. Management expects no big problem and will disclose once the conclusion is reached.

Aditya Birla
Capital Limited

GROWTH TRIGGERS

The Q2 FY27 quarter strengthens a compounder case built on three mechanisms: NBFC ROA already at 2.45% with credit cost at 0.92%, housing finance scaling 50% toward a ₹1 lakh crore AUM target with 15% ROE, and insurance mix shifting toward higher-value products. The next leg depends on NBFC margin expansion and gold-loan branch productivity.

1. Life insurance VNB margin path above 20% with net VNB doubling

Management guides individual first-year premium CAGR above 20% for three years, VNB margin above 20%, and doubling of net VNB. H1 FY27 VNB margin was 16.1%, up 447 basis points, with traditional including protection at 66% and annuity at 14% of retail new business. Delivery would lift insurance earnings.

2. HFC AUM above ₹1 lakh crore and 15% ROE over 8-10 quarters

ABHFL targets above ₹1 lakh crore AUM and 15% ROE over the next 8-10 quarters. AUM reached ₹57,373 crore in Q2 FY27, up 50%, with 101 branches added this financial year. The branch build-out and capital infusion support the scale-up, but ROE was 11.47%.

3. NBFC ROA at 2.45% ahead of the 2.5% target timeline

NBFC ROA reached 2.45% in Q2 FY27, up 25 basis points, with credit cost at 0.92%, described as the best in seven years. Management says it is almost at the 2.5% target ahead of the Q4 FY27 timeline. A 71% secured book supports the risk profile.

4. Gold loan branch network adds a secured retail product

Gold loans launched in August 2026 with 70 branches and ₹1,200 crore AUM in the first 70 days. Management targets 200-300 dedicated branches by March 2027 and 1,000+ over three years, adding a secured retail product with opex/AUM guided at 1.85-1.9%.

5. NBFC NIM expansion from unsecured mix remains a conditional catalyst

NBFC NIM including fee was 6.0% in Q2 FY27, with unsecured mix up 1% sequentially. Management expects margin benefit only after a few more quarters as product mix shifts, while it raised benchmark rates by 25 basis points on about 70% of the book to transmit higher funding costs.

6. AMC total AUM above ₹11 lakh crore with passives and GIFT City pipeline

Total AMC AUM reached ₹11.06 lakh crore, up 140% year-on-year, including EPFO and ESIC mandates. Mutual fund QAAUM was ₹4.42 lakh crore, passive QAAUM ₹39,600 crore, and the GIFT City platform has six retail funds planned. ETF QAAUM grew 40% against industry 27%.

7. Health insurance scale with Health First unit economics

Health insurance H1 gross written premium grew 48% to ₹4,543 crore, with SAHI market share at 14.2%. Engaged customers show 6% lower loss ratios and 12% better persistency, and 13% of eligible customers earned health incentives. Profitability depends on moving the 107% combined ratio toward 100%.

8. HFC branch expansion and group ecosystem sourcing

ABHFL added 101 branches this financial year across metros and Tier 2/3 markets, with the ABG ecosystem contributing 17.5% of retail disbursements. Management says early traction is encouraging, and the branch network supports the ₹1 lakh crore AUM target.

INVESTMENT THESIS

Aditya Birla Capital is a diversified financial services holding company whose economics are increasingly driven by two lending engines and a set of insurance and asset-management franchises. Q2 FY27 showed consolidated PAT of ₹1,288 crore, up 38% year-on-year, on revenue growth of 31%. The NBFC is the largest profit engine: AUM reached ₹1,76,557 crore, up 26.5%, PAT reached ₹1,008 crore, ROA was 2.45%, and credit cost was 0.92%. Housing finance is the growth engine: AUM reached ₹57,373 crore, up 50%, with disbursements of ₹8,957 crore and ROA of 2.12%. The AMC adds scale and fee income, with total AUM of ₹11.06 lakh crore including EPFO and ESIC mandates. Life insurance and health insurance add long-duration earnings, but their margin and combined-ratio targets are not yet delivered.

The core lending economics rest on a secured book. About 71% of the NBFC loan book is secured, with MSME AUM at ₹1,01,119 crore, or 57% of the book, and 79% of MSME exposure secured. Personal and consumer loans are 14% of AUM and grew 37% year-on-year to ₹24,955 crore. The secured base is why credit cost could fall to 0.92%, which management called the best in seven years, while AUM still grew 26.5%. The trade-off is that the highest-yield segments are the unsecured business loan and personal and consumer books, and those are the segments that must grow for NIM to expand. NBFC NIM including fee was 6.0% in Q2 FY27, unchanged in substance from 6.07% in Q1 FY27. Management raised benchmark rates by 25 basis points on about 70% of the book, but incremental borrowing cost rose 11 basis points and another 5-10 basis points is expected in Q3. The margin mechanism is therefore real but not yet visible in reported NIM.

Housing finance is the clearest visible compounding mechanism. ABHFL grew AUM 50% to ₹57,373 crore, added 101 branches this financial year, and held asset quality at 0.37% stage 3 and 0.65% stage 2 plus 3. ROA was 2.12%, but ROE was 11.47%, below the 15% target management frames over the next 8-10 quarters. The branch build-out and capital infusion are the route to that ROE, but the evidence so far is distribution expansion and asset quality, not yet ROE delivery. The 17.5% contribution from the Aditya Birla Group ecosystem to retail disbursements provides a sourcing advantage that standalone HFCs do not have.

The AMC is a scale asset with a different earnings driver. Total AUM including alternate assets reached ₹11.06 lakh crore, up 140% year-on-year, largely because of the EPFO and ESIC mandates. Mutual fund QAAUM was ₹4.42 lakh crore, equity QAAUM about ₹2.09 lakh crore, and the equity mix 47.4%. SIP contribution was ₹1,094 crore in September 2026. Passive QAAUM was ₹39,600 crore, and ETF QAAUM grew 40% against industry growth of 27%. The GIFT City platform has a pipeline of six retail funds for inward and outward remittance, with a ticket size of about $500. These are real distribution and product milestones, but the AMC's profit sensitivity to equity markets remains.

Life insurance is a margin story still in progress. H1 FY27 individual first-year premium grew 25% against private industry growth of 12%, with proprietary business up 10% and partnership business up 31%. The product mix had 66% traditional including protection, 34% ULIP, and 14% annuity in retail new business. H1 VNB margin was 16.1%, up 447 basis points, but the stated target is above 20%, with individual FIP CAGR above 20% for three years and net VNB doubling. The direction is right; the target is not yet achieved. Health insurance is a growth and unit-economics story. H1 gross written premium was ₹4,543 crore, up 48%, with SAHI market share of 14.2% from 13.6% and H1 IFRS profit of ₹46 crore. The combined ratio was 107%, above the 100% target. The Health First model is producing measurable engagement: 13% of eligible customers earned incentives, engaged customers had 6% lower loss ratios and 12% better persistency, and interventions covered more than 370,000 high-risk lives. The economic question is whether that engagement can move the combined ratio below 107% while growth stays near 48%.

Capital allocation is supportive but not fully reconciled in the supplied evidence. Existing research records a ₹4,000 crore preferential raise at ABCL and an Advent International infusion into ABHFL, but the Q2 FY27 call does not restate the amounts, and existing research carries two different Advent figures. What is clear is that the group is funding branch expansion at the NBFC and HFC while management reiterates that current capital is sufficient for the stated HFC target. The gold loan launch is the newest capital deployment: 70 branches and ₹1,200 crore AUM in 70 days, with a plan for 200-300 branches by March 2027 and 1,000+ over three years, inside an opex/AUM guidance of 1.85-1.9%.

Management delivery is mixed. The NBFC ROA target is ahead of schedule at 2.45%, credit cost beat prior guidance at 0.92%, and HFC ROA was delivered at 2.12%. But NBFC NIM expansion has been deferred again, HFC ROE is still 11.47% against 15%, life VNB is 16.1% against above 20%, and health combined ratio is 107% against 100%. The correct reading is not that the compounder thesis is broken; it is that the next leg depends on margin and insurance profitability, not only on AUM growth.

The earnings path over the next 2-3 years therefore has four observable milestones. First, NBFC NIM must either break above 6.0-6.07% or management must show that ROA can stay near 2.45% through credit cost and opex. Second, gold loan branches must scale from 70 toward 200-300 by March 2027 without breaching opex guidance. Third, HFC must move AUM toward ₹1 lakh crore and ROE toward 15% over 8-10 quarters. Fourth, life insurance VNB must move from 16.1% toward above 20%, and health insurance combined ratio must move from 107% toward 100%. These are guidance and operating milestones, not analyst forecasts.

The falsifiers are specific. A rise in NBFC credit cost above 1.1-1.2% as unsecured mix grows would undermine the ROA base. A sustained NBFC NIM at 6.0% with rising funding cost

would show the mix shift is not earning its cost. Gold loan branches that do not build AUM would pressure the 1.85-1.9% opex/AUM guidance. HFC ROE that stays near 11-12% would defer the 15% target. Life VNB that stalls below 16% and health combined ratio that stays above 107% would leave the insurance businesses as growth assets without the promised profitability. The thesis is an operating compounder with visible lending returns and unproven margin and insurance targets, not a valuation call.

RESEARCH REPORT

What Aditya Birla Capital Limited does

Aditya Birla Capital (ABCL) is the financial services holding company of the Aditya Birla Group, listed on the NSE and BSE under the ticker ABCAPITAL and incorporated in 2007. It is a systemically important, non-deposit taking NBFC registered with the RBI, and it owns or controls five businesses: direct lending (NBFC), housing finance, asset management, life insurance, and health insurance. Across those businesses it operated 1,740 branches and employed over 68,000 people as of March 2026, with more than 200,000 agents and channel partners. The consolidated profit after tax for FY26, excluding one-offs, was ₹3,797 crore, up 21% year-on-year, on consolidated revenue of ₹53,871 crore, up 14%.

Q2 FY27 update (September 2026). Consolidated PAT was ₹1,288 crore, up 38% year-on-year, on revenue up 31%. NBFC AUM reached ₹1,76,557 crore, up 26.5%, with ROA at 2.45% and credit cost at 0.92%. HFC AUM reached ₹57,373 crore, up 50%, and the AMC's total AUM reached ₹11.06 lakh crore. Gold loans launched in August 2026 with 70 branches and ₹1,200 crore AUM; life insurance H1 VNB margin was 16.1%.

The single most important structural fact about ABCL is the amalgamation of its lending subsidiary, Aditya Birla Finance Limited, into the parent company during FY26. Before that, ABCL was registered as an NBFC-Core Investment Company that held a lending business in a wholly owned subsidiary. After the NCLT sanctioned the scheme effective 1 April 2025, and the RBI granted ABCL a Certificate of Registration as an NBFC-Investment and Credit Company on 9 December 2025, the ₹1.6 lakh crore lending book moved directly onto the listed company's balance sheet. The company is now a single operating lender plus a holding company for the other four businesses, which simplifies the corporate structure, improves capital efficiency, and gives the listed entity direct operating economics from lending.

The businesses are bound together by a cross-sell model the company calls "One ABC, One P&L," with the customer at the centre. The Aditya Birla Group (ABG) ecosystem, including group companies like Grasim and UltraTech, channels business into ABCL's lending and insurance arms. The ABG ecosystem contributed 16.2% of housing finance retail disbursements in Q1 FY27 and roughly 17% in FY26, and about 41% of Udyog Plus sourcing in FY26. This ecosystem sourcing is a genuine competitive advantage: most standalone NBFCs and insurers do not have a captive corporate group generating loan and insurance demand.

NBFC (lending)

The lending business is the largest profit engine and now sits directly on ABCL's balance sheet. AUM reached ₹1,76,557 crore as of September 2026, up 26.5% year-on-year, with Q2 FY27 sourcing of ₹24,708 crore. The business is deliberately pivoted toward retail and

MSME: those two segments accounted for 71% of H1 FY27 disbursements, up from 67% a year earlier. The book is 71% secured.

The product suite spans four verticals. Personal and consumer loans (average ticket size roughly ₹2 lakh) had AUM of ₹24,955 crore as of September 2026, up 37% year-on-year, and now represent 14% of the total book. This segment was deliberately shrunk two years ago when cohort-level asset quality deteriorated, and management recalibrated underwriting, then rebuilt it; gross stage 3 for the segment was 1.3% in September 2026. The unsecured business loan book, which includes supply chain finance and the Udyog Plus digital platform, held gross stage 3 at 1.0%, with 46% covered by government guarantee schemes and 0.6% excluding guarantees. Secured MSME lending, mostly loan against property and working capital loans, is the largest block at 57% of AUM, with 79% secured and gross stage 3 at 1.2%. The corporate and mid-market portfolio, at 29% of AUM, covers term loans, project finance, structured finance, and developer financing.

Asset quality is the headline metric. Gross stage 2 plus stage 3 stood at 2.31% as of September 2026, down 72 basis points year-on-year, with a stage 3 provision coverage ratio of 48.4%. Credit cost fell to 0.92% in Q2 FY27, down 24 basis points year-on-year and described by management as the best in seven years. RoA rose to 2.45%, up 25 basis points year-on-year and 7 basis points sequentially. Management guides to a sustainable RoA of 2.5% across cycles. The NBFC launched gold loans in August 2026: it opened 70 branches in the first 70 days, built ₹1,200 crore of AUM, plans 200 to 300 dedicated branches by March 2027, and aims for 1,000+ branches over three years.

Housing finance

Aditya Birla Housing Finance (ABHFL) is the fastest-growing large housing finance company in India and the growth star of the group. AUM reached ₹57,373 crore in Q2 FY27, up 50% year-on-year, with disbursements of ₹8,957 crore, up 55%. The business spans prime home loans, affordable housing, loan against property, construction finance, and lease rental discounting. Average retail ticket size is about ₹30 lakh, reflecting a granular retail book.

Asset quality is best-in-class: stage 3 at 0.37% and stage 2 plus stage 3 at 0.65% as of September 2026, improved from 4.99% in FY23 through a three-year digital transformation. RoA was 2.12% in Q2 FY27 with RoE of 11.47%, the latter depressed by the capital raise. ABHFL has launched 101 new branches this financial year across metros, Tier 1 and Tier 2/3 markets, and targets above ₹1 lakh crore AUM and 15% RoE over the next 8-10 quarters. Management states the current capital is sufficient to reach the target without further raises.

Asset management

Aditya Birla Sun Life AMC (ABSLAMC) is a listed asset manager, roughly half-owned by ABCL, and is accounted for under the equity method rather than consolidated in the statutory

financials. Mutual fund quarterly average AUM was ₹4.42 lakh crore in Q2 FY27, with equity QAAUM of about ₹2.09 lakh crore and an equity mix of 47.4%. Including alternate assets and institutional mandates, total AUM reached ₹11.06 lakh crore, up 140% year-on-year, including the EPFO and ESIC mandates. SIP contribution was ₹1,094 crore in September 2026.

The AMC's strategic push is into passives and alternatives. Passive QAAUM was about ₹39,600 crore in Q2 FY27. The ETF franchise grew 40% year-on-year against industry growth of 27%. The company incorporated a GIFT City subsidiary, obtained a retail licence, launched a retail fund offering, and has a pipeline of six funds for inward and outward remittance, with a ticket size of about $500. Fund performance remains strong with approximately 80% of equity AUM in the top quartile.

Life insurance

Aditya Birla Sun Life Insurance (ABSLI) is a 51:49 joint venture with Sun Life Financial of Canada. Individual first year premium grew 25% year-on-year in H1 FY27 against private industry growth of 12%, with proprietary business up 10% and partnership business up 31%. The strategic shift is in product mix: traditional business including protection was 66% of individual business, ULIP 34%, and annuity 14% of retail new business. That mix shift drove H1 net VNB margin to 16.1%, up 447 basis points year-on-year. For FY26 the net VNB margin was 20.6%, and solvency was 190% in Q2 FY27.

Distribution is a mix of a proprietary agency of 400+ branches, 11 existing bank partners, and the newly onboarded IndusInd Bank. The proprietary channel grew 10% and partnership business grew 31% in H1 FY27. Group business, particularly credit life tied to ABCL's own lending and housing finance captive channels, grew 90% in H1 FY27 against private industry growth of 35%, and group AUM was ₹31,400 crore. Management guidance is to grow individual FYP at a 20%+ CAGR for three years while expanding VNB margin above 20% and doubling absolute net VNB.

Health insurance

Aditya Birla Health Insurance (ABHI) is a standalone health insurer in which ABCL holds 45.89%, with MMI Strategic Investments and Abu Dhabi Investment Authority holding the rest. It is the fastest growing standalone health insurer. H1 FY27 gross written premium was ₹4,543 crore, up 48% year-on-year, with SAHI market share of 14.2%, up from 13.6%. The company reported an H1 FY27 profit of ₹46 crore under IFRS, and the Q2 combined ratio was 107%.

The differentiator is the "Health First" model, which integrates wellness and insurance through the Activ Health app. More than 50% of eligible retail consumers engage with the app, 13% earned good-health incentives, up from 9.4%, and those customers show 6%

lower loss ratios and 12% better persistency. The company intervened with more than 370,000 high-risk lives and reduced their loss ratio by over 16%. Roughly 75% of cashless claims are processed through an AI-enabled platform. Distribution spans 2.4 lakh agents, and the app has 7.3 lakh monthly active users spending about 74 minutes per month.

Business segments

NBFC (Lending)

The NBFC business is the largest lending engine at Aditya Birla Capital, a diversified loan book of ₹1,76,557 crore as of September 2026, up 26.5% year-on-year. It operates under the parent company's own NBFC-ICC licence after the April 2025 amalgamation of Aditya Birla Finance Limited. The core capability is risk-calibrated, largely secured lending at scale, with 71% of the book secured by collateral that appreciates in value. This secured base is what lets the company report credit costs of 0.92% in Q2 FY27, down 24 basis points year-on-year, while growing AUM 26.5%.

The business runs four verticals. Personal and consumer loans, 14% of AUM, covers personal loans, consumer loans and checkout financing, with an average ticket size of about ₹2 lakh. Unsecured business loans, about 11% of AUM, serves small business owners through business loans, overdrafts and supply chain finance. Secured business loans to MSMEs form the backbone, taking total MSME AUM to ₹1,01,119 crore, or 57% of the book, with 79% secured. The corporate and mid-market segment, 29% of AUM, provides project finance, structured finance and developer financing.

Customers buy from Aditya Birla Capital because of a combination of distribution reach and decisioning speed. The NBFC runs 465 branches across India, and management reported that turnaround times across Retail and MSME journeys fell by over 30% in FY26, driven by AI copilots for credit assessment and automated document checks. The proprietary MSME platform Udyog Plus, which hit an AUM of Rs. 5,814 crore in FY26, now contributes about 32% of the unsecured business loan book and positions the company among the top non-bank financiers on TReDS exchanges. Direct sourcing through branches and the ABCD app accounted for 59% of secured business loans in FY26, reducing dependence on external sourcing agents.

The competitive position is strong on asset quality. Management reported gross stage 3 for secured MSME at 1.2% in Q2 FY27, and unsecured business loans at 1.0%, with 46% of that GS3 book covered under government guarantee schemes, excluding which GS3 is 0.6%. The entity-level GS2 plus GS3 of 2.31% is the lowest in recent years. The company competes directly with Bajaj Finance, Mahindra Finance, Cholamandalam Investment and Finance, and large private banks in MSME lending.

The segment fits the group through explicit cross-sell. The life insurance business reported that 33% of its credit life business now comes from the captive channels of the NBFC and housing finance, and the health insurer similarly draws distribution from the same ecosystem. The ABG ecosystem contributed about 17% of housing finance retail disbursements in FY26, and about 38% of Udyog Plus disbursements came from the broader Aditya Birla Group. The August 2026 preferential allotment of Rs. 4,000 crore, with 87.5% earmarked for NBFC growth objectives, signals the group is willing to fund the lending engine directly.

Revenue mix by segment is not disclosed, but the AUM mix is: MSME is 57% of the book, corporate 29%, and personal and consumer 14%, with 71% secured. The company is deliberately shifting mix toward higher-yield segments. Management said personal and consumer loans were 19% of the portfolio two years ago, were calibrated down, and are now being rebuilt.

Management commentary across the three concalls shows a consistent strategy: grow the secured MSME base, rebuild the unsecured and personal loan books with disciplined cohort-level risk calibration, and use AI to drive down turnaround times and credit costs. In Q1 FY27, disbursements to MSMEs grew 37% year-on-year to Rs. 9,730 crore, and personal and consumer disbursements grew 41% to Rs. 5,577 crore. The company has also announced a foray into gold loans, with plans to reach nearly 200 stand-alone branches by March 2027 and about 1,000 branches over three years.

> *"We are going live in Q2 and we plan to scale to nearly 200 stand-alone gold loan branches by March 2027."*
>
> **RAKESH SINGH, CEO NBFC, Q1 FY27 CONCALL (JUL 2026)**

The credit cost guidance has been consistent. In November 2025, management guided FY26 credit cost at 1.2% to 1.3%, and the actual full-year outcome was 1.18%, better than the guided range. In Q1 FY27, credit cost fell to 1.03%. In Q2 FY27 it fell to 0.92%, which management called the best in seven years. The ROA for the NBFC business reached 2.45% in Q2 FY27, up 25 basis points year-on-year, and management says it is almost at its 2.5% target ahead of the Q4 FY27 timeline. The strategy relies on a 71% secured base and a mix shift toward personal and consumer and unsecured business loans.

Housing Finance

Aditya Birla Housing Finance (ABHFL) is the group's full-stack mortgage lender, operating across prime housing, affordable housing, and construction finance. The business is run as a separate subsidiary. The core capability is a lending engine built for scale: over three years, ABHFL digitized its underwriting and processing to cut turnaround time from 21 days to 12

days. That operating efficiency helped turn the business into a ₹57,373 crore AUM franchise by September 2026.

The product suite spans the full property lifecycle. Home loans, home construction loans, home extension loans, and home improvement loans serve individual buyers. Loan against property (LAP), lease rental discounting (LRD), and commercial property purchase loans target self-employed professionals and small business owners who use property-backed credit for working capital. Construction finance goes to real estate developers, and the annual report notes the product mix held roughly 46% prime, 38% affordable, and 16% construction finance in FY26. The average retail ticket size was ₹30 lakh as of Q2 FY26, which points to a granular retail book rather than dependence on a few large wholesale accounts.

Customers buy from ABHFL for three reasons. First, the blended model lets a borrower move from an affordable housing loan to a larger prime loan as income grows, without switching lenders. Second, the Aditya Birla Group ecosystem is a sourcing engine: the ABG ecosystem contributed 17.5% of retail disbursements in Q2 FY27. Third, the distribution reach is expanding deliberately. ABHFL opened 101 new branches this financial year across metros, Tier 1 and Tier 2/3 markets, and management says early traction is encouraging.

The competitive field includes HDFC, LIC Housing Finance, and the housing finance arms of large banks. ABHFL's positioning rests on growth rate and asset quality rather than absolute size. Asset quality improved further in Q2 FY27: stage 3 stood at 0.37% and stage 2 plus 3 at 0.65%, down 45 basis points year-on-year. The market share is still small, so there is room to grow without crowding out. The asset quality gives the company cover to push volume.

The segment fits the group as a capital deployment engine with natural cross-sell. The annual report notes that 33% of the life insurer's credit life business comes from the captive channels of the NBFC and housing finance. The home loan customer is a prime candidate for the group's life, health, and asset management products, and the ABCD app gives the group a direct digital channel to serve that customer. The group contributed 16.2% to 17.4% of retail disbursements, meaning roughly one in six home loans comes from within the ecosystem.

No revenue-mix percentage was disclosed for the housing finance segment in the supplied sources.

Management has been explicit about the trajectory. In Q1 FY27, Pankaj Gadgil, MD and CEO of ABHFL, set the medium-term target:

> *"Over the next 8-10 quarters, we remain focused on building a ₹1 lakh crore plus AUM franchise, while delivering 15% RoE and sustaining top-decile asset quality."*
>
> **PANKAJ GADGIL, Q1 FY27 CONCALL (AUG 2026)**

The path to that scale is funded. Advent International's primary infusion, completed in April 2026, was the largest primary capital raise by an unlisted HFC in India. Gadgil confirmed on the Q1 FY27 call that this capital is sufficient to reach the ₹1 lakh crore AUM target without further raises. The ROE is temporarily depressed by the fresh capital, running at 11.47% in Q2 FY27 against an FY26 figure of 14.27%, and management targets 15% over the next 8-10 quarters as the book scales. The economics are expected to hold because the opex ratio keeps falling, from 2.94% of average loan book in FY25 to 2.40% in FY26 and 2.21% in Q1 FY27, and management guided FY27 opex to 2.15% to 2.19% even while adding branches.

Asset Management

The asset management business runs through Aditya Birla Sun Life AMC (ABSLAMC), a 45% associate of Aditya Birla Capital, with Sun Life Financial holding the balance. It manages mutual funds, portfolio management services (PMS), alternative investment funds (AIFs), real estate funds, and offshore funds, and is building a passive and ETF franchise. The core capability that took years to build is distribution: as of FY26, ABSLAMC had 93,700+ empanelled mutual fund distributors, 360+ national distributors, and 90+ bank partners, with a physical presence across 310+ locations, over 80% of them in B30 cities. That reach, combined with the Aditya Birla brand, is what won the company the EPFO mandate, the single largest driver of its recent AUM jump.

The mutual fund business is the anchor. Mutual fund quarterly average AUM stood at ₹4.42 lakh crore in Q2 FY27, with equity QAAUM at approximately ₹2.09 lakh crore and an equity mix of 47.4%. Retail investors drive this through SIPs, which contributed ₹1,094 crore in September 2026; new ACP registrations rose to about 7.05 lakh from 5.2 lakh in the earlier quarter. Total AUM including alternate assets reached ₹11.06 lakh crore, up 140% year-on-year, including the EPFO and ESIC mandates.

The passives business is the strategic growth bet. Passive QAAUM stood at approximately ₹39,600 crore in Q2 FY27, and ETF QAAUM grew 40% year-on-year, ahead of industry growth of 27%. Management has said it is strengthening the passives team to build a leadership position. The product suite includes the BSE Total Market Cap Index Fund and ETF, launched as a new category. The GIFT City platform has a pipeline of six retail funds for inward and outward remittance, with a ticket size of about $500.

Customers buy from ABSLAMC for three reasons: distribution access, fund performance, and the parent brand. The distribution network is the moat. Fund performance remains strong: approximately 80% of equity AUM is in the top quartile, which management credits for stronger inflows into flagship funds. The EPFO mandate is the clearest proof of institutional trust. In Q2 FY27, total AUM including alternate assets reached ₹11.06 lakh crore, a growth of 140% year-on-year, including the EPFO and ESIC mandates.

The competitive set is the top of the Indian mutual fund industry: HDFC AMC, ICICI Prudential AMC, Nippon India, SBI Mutual Fund, and UTI. ABSLAMC's mutual fund market share was 5.30% in Q4 FY26, with equity QAAUM market share at 4.1%. The company is not the largest player, but it competes on distribution depth and performance consistency rather than on being the biggest passive or ETF house, a space where it is now aggressively building.

Within the Aditya Birla Capital group, the AMC is a distribution and cross-sell engine. The group's omnichannel architecture, including the ABCD app and the Stellar distributor platform, routes customers toward ABSLAMC products. The life insurance business manages its own AUM of Rs. 117,487 crore, and the health insurance business adds another pool, but the AMC is the pure investment management vehicle. The group synergy is explicit in the annual report: ABSLAMC leverages the distribution ecosystem to deepen retail and institutional penetration, accelerate SIP growth, and drive market share gains.

Financial performance for the AMC: Q1 FY27 total revenue was Rs. 625 crore versus Rs. 565 crore in Q1 FY26, profit before tax was Rs. 406 crore versus Rs. 372 crore, and profit after tax was Rs. 309 crore versus Rs. 277 crore. For FY26, operating profit grew 11% year-on-year to Rs. 1,051 crore, and PAT grew 5% to Rs. 975 crore. The revenue mix percentage for the segment is not disclosed separately in the provided sources.

On the EPFO win and the scale of the franchise, the AMC CEO said:

> *"We are pleased to share that we have been entrusted with the EPFO mandate of approximately Rs. 6.08 lakh crores. With this landmark addition, our closing total AUM as on 30th June 2026 has crossed the Rs. 10 lakh crores milestone."*
>
> **A. BALASUBRAMANIAN, MD & CEO, ABSLAMC, Q1 FY27 CONCALL (AUG 2026)**

On the passives strategy:

> *"We continue to see significant opportunities in this segment and remain committed to building a leadership position. We have strengthened our passives team. With this, we see a significant opportunity in this segment and remain committed to building a leadership position with the new team coming on board to build this business."*
>
> **A. BALASUBRAMANIAN, MD & CEO, ABSLAMC, Q1 FY27 CONCALL (AUG 2026)**

The EPFO and ESIC mandates are the defining structural advantages. They are sticky, low-cost, and institutional, and they give ABSLAMC a scale base that few non-bank AMCs can match. The challenge is converting that institutional scale into profitable retail growth, which is where the strong fund performance and the distribution network come in.

Life Insurance

Aditya Birla Sun Life Insurance (ABSLI) is the group's life insurance arm, a 51:49 joint venture between the Aditya Birla Group and Sun Life Financial Inc., Canada. It sells protection plans, savings products, ULIPs, annuity and pension products, and group insurance to individuals, families and groups.

The core capability that took years to build is distribution scale. ABSLI runs 400+ branches and 11 existing bank partnerships, and it has onboarded IndusInd Bank as a new partner. The proprietary business (agents and branches) and the partnership business (banks) operate as two engines. In H1 FY27, proprietary business grew 10% while partnership business grew 31%, with growth across all 11 existing partner banks. Management plans to keep investing in proprietary branches and people.

The product mix has shifted toward value. In H1 FY27, traditional business including protection was 66% of individual business and ULIP 34%. Annuity contributed 14% of retail new business. This mix shift is the mechanism behind margin expansion. Riders and annuity mix added to H1 net VNB margin, which rose to 16.1%, up 447 basis points year-on-year. The company launched a variable annuity product in March 2026.

Products launched in FY26 include Akshaya Par Plan (a PAR savings product with an income-in-advance option), Super Term Plan (100% return of premium on early exit), Vision Retirement Solution Plan and Index Guaranteed Annuity Plus. These six new products contributed 18% of Individual FYP in FY26. On the group side, ABSLI launched the Capital Growth Plan and Group Capital Enhancement Plan, contributing 10% of Group FYP.

Customers reach the company through agents, branches and bank desks. Individuals buy protection and savings products. Corporates buy group term life, credit life and fund-linked products. Credit Life shows the group fit: 33% of that business now comes from the captive channels of ABCL's own NBFC and Housing Finance businesses. Group AUM is roughly ₹30,000 crore, 26% of total AUM.

Management called ABSLI one of the fastest growing private life insurers. Individual FYP grew 25% in H1 FY27 against private industry growth of 12%, and 15% in FY26. Market share stood at 4.9% in FY26. The company holds rank 2 in industry ULIP AUM at ₹17,000+ crore. In group life it grew 90% in H1 FY27 against private industry growth of 35%. Named competitors are not disclosed in the calls; the comparison frame is the private industry growth rate.

The ₹4,000 crore equity raise in Q1 FY27 included provisions for insurance growth capital, with management confirming capital is provided for the insurance businesses for the next three years. A revenue-mix percentage for life insurance is not disclosed in the sources. The

annual report shows total gross premium across life and health at ₹31,634 crore for FY26, of which life contributed ₹24,779 crore.

Management holds a clear guidance across the calls:

> *"Our guidance continues to grow Individual FYP at a CAGR of 20%+ for the next 3 years, whilst achieving this growth we intend expand VNB margins above 20% and in absolute numbers double the value of our Net VNB in 3 years' time"*
>
> **KAMLESH RAO, MD & CEO ABSLI, Q1 FY27 CONCALL (AUG 2026)**

H1 FY27 net VNB margin was 16.1%, up 447 basis points year-on-year, after reaching 20.6% for FY26. Solvency stood at 190% in Q2 FY27. FY26 embedded value was ₹15,447 crore, growing 12% with an operating return on embedded value of 13.2%. Quality metrics: 13th month persistency was 83.4% in H1 FY27, customer NPS reached 69, and the upsell ratio was 43%.

On the GST reform, the Nov 2025 call noted the exemption on life premiums makes products more affordable and supports long-term demand, though it pressured margins short-term as products could not be immediately repriced. Management guided to a net VNB margin above 18% for FY26 despite the GST impact, and delivered 20.6%.

Health Insurance

Aditya Birla Health Insurance (ABHI) is the standalone health insurer within the Aditya Birla Capital group. Its core capability is the "Health First" model, which integrates wellness engagement into the insurance product itself. The model uses an AI-driven consumer engagement engine to track customer health behaviour through the Activ Health app, reward healthy habits with premium incentives, and intervene with high-risk customers to manage their claims. Management has stated this system took a decade to mature - "our Health First model, which has now scaled up significantly for the last 10 years that we have been in business" - and that competitors are now trying to replicate it. The model is built on a data flywheel: healthier customers self-select into the product, the insurer gets deeper visibility into their health profiles, and that data improves underwriting and claims management over time.

The product suite spans retail and group segments. The flagship retail product is Activ One, with seven variants, covering individuals and families. In Q1 FY27, the company launched Activ Yuva, a digital-first product for young India built around an "Eat, Move, Heal" philosophy, which rewards health-conscious behaviour through the HealthReturns programme. The corporate business offers group health coverage and a strong Outpatient Department (OPD) proposition, targeting mid-corporates and SMEs. The group business

delivered a combined ratio of 99% in FY26, on the back of what management describes as one of the largest footprints in the corporate OPD space.

Customers buy from ABHI because of the economics of the wellness model, not just the insurance cover. In H1 FY27, 13% of eligible customers earned HealthReturns incentives, up from 9.4% a year earlier. These engaged customers show 6% lower loss ratios and 12% better persistency. High-risk customers who received targeted interventions, more than 370,000 lives, improved their loss ratios by over 16%. The company's app has 7.3 lakh monthly active users, each spending roughly 74 minutes per month.

ABHI operates in the standalone health insurer market. Management reports it is the fastest-growing SAHI player, with H1 FY27 market share of 14.2%, up from 13.6%. H1 FY27 gross written premium was ₹4,543 crore, up 48% year-on-year. Retail grew 43%, the proprietary channel grew 51%, and corporate business grew 40-55%. Management has noted that competitors are now trying to copy the Health First model, but that it requires sustained investment and years of data accumulation to reach maturity.

The segment fits the group through distribution and cross-sell. ABHI has 2.4 lakh agents and a proprietary channel that grew 51% in H1 FY27. The corporate wellness offering creates a natural cross-sell into the group's NBFC and housing finance customer bases. The group's ABCD app and omnichannel architecture give ABHI a digital distribution layer that standalone insurers without a parent financial conglomerate lack.

The company reported a profit of ₹46 crore in H1 FY27 under IFRS. The combined ratio was 107% in Q2 FY27. Management has stated it is working towards a 100% combined ratio on an IFRS basis, but the Q&A cited 104% on an IFRS basis, so the basis is inconsistent in the transcript. The revenue mix as a proportion of Aditya Birla Capital's total consolidated revenue is not disclosed in the provided sources.

Mayank Bathwal, CEO of the health insurance business, described the competitive dynamics in the Q1 FY27 concall:

> *"We believe this business model which now other competitors are also trying to look at seriously but needs a large investment commitment and persistent efforts over many years to mature gives us a large competitive advantage as we further scale this including in the corporate side of our business."*

The business is also a beneficiary of the GST reforms that took effect in September 2025, which exempted retail health insurance premiums from GST. Management views this as supportive for long-term demand and penetration, though it noted short-term impacts on input tax credits were being reviewed. The company's claims engine processes nearly 74% of cashless claims through AI auto-adjudication, with more than 35% of pre-authorisation

requests handled with no human involvement. This automation is central to the unit economics - it reduces claims leakage and keeps the combined ratio moving toward the 100% target.

Customers

The customer base splits across five distinct groups, each with different buying behaviour and economics.

Retail individuals are served through the NBFC's personal and consumer loans (average ticket roughly ₹2 lakh), the housing finance home loan book, and through insurance and mutual fund SIPs. Lending is sourced through 465 NBFC branches, direct sourcing agents, and digital journeys, with about 59% of secured business loans sourced directly. The ABCD app, launched in April 2024, is the D2C front door and has crossed 11 million customers, offering 26+ products across loans, insurance, investments, and payments. For retail lending customers, the decision to borrow is driven by turnaround time, ease of documentation, and approval rates, which is why management's investments in AI-driven underwriting and journey simplification matter: turnaround times across retail and MSME journeys fell by over 30% in FY26.

MSMEs are the largest lending customer group, with a book of ₹1,01,119 crore as of September 2026, up 30% year-on-year, representing 57% of NBFC AUM. They are served through secured business loans (loan against property, working capital, lease rental discounting) and unsecured business loans, plus the Udyog Plus B2B platform. New product launches now contribute nearly 28% of new business sourcing in unsecured business loans. MSME customers choose ABCL for speed, for the ability to borrow against appreciating real estate collateral, and for ecosystem sourcing from Aditya Birla Group entities.

Corporates and mid-market companies, 29% of the NBFC book, are served through term loans, project finance, structured finance, and developer financing. These are relationship-driven, lower-yield, lower-risk customers, and the corporate book grew 3% quarter-on-quarter and 15% year-on-year in Q2 FY27, deliberately slower than the retail and MSME segments. Gross stage 3 in the corporate segment was 1.6%.

High net-worth individuals and family offices buy the AMC's PMS and AIF products, which grew from ₹28,650 crore to nearly ₹2 lakh crore in a year including the EPFO mandate. Institutional investors are a distinct and increasingly important customer class: the EPFO mandate of ₹6.08 lakh crore and the ESIC mandate of roughly ₹28,400 crore are landmark wins that validate the AMC's investment capability and add a large, sticky, low-cost AUM base.

Bank partners are customers in a different sense: they distribute life and health insurance products. ABSLI has 12 banca tie-ups and ABHI has 19 bank partners, spanning private and

public sector banks, with dominant mindshare in many regional banks. The buying decision at a bank is about product quality, service, and revenue share, and ABCL's push to expand Axis Bank access from 25% to over 50% of the bank's business shows how these relationships compound. Corporate clients buy group health insurance and group life insurance, with the corporate health business growing 55% in Q1 FY27.

The cross-sell engine is the most distinctive customer dynamic. A mortgage borrower from ABHFL becomes a life insurance customer, a health insurance customer, and a mutual fund investor. Group AUM in life insurance was ₹31,400 crore, 26% of total AUM. Customer NPS has risen to 69 in life insurance and the upsell ratio is 43%, evidence that the ecosystem model is converting customers into multiple products.

Competitive landscape

ABCL competes in five separate industries, and its competitive position differs in each. The honest framing is that it is a strong but not dominant player in most of them, with the exception of health insurance where it is the growth leader.

In diversified NBFC lending, the reference competitor is Bajaj Finance, which is significantly larger and has a deeper national retail franchise. Within the top tier of diversified NBFCs, ABCL claims to be among the fastest growing at its scale, with AUM growth of 27-28% and credit costs among the lowest in the industry. Its structural advantages are the diversification across secured MSME, unsecured, personal loans, and corporate, plus the ecosystem sourcing and the funding advantage of a AAA parent group. Its disadvantage versus Bajaj Finance is in brand recognition for consumer lending and in the scale of the personal loan franchise. Others in the field include Mahindra Finance and the lending arms of business groups, but the direct comparison for a diversified book is Bajaj Finance.

In housing finance, ABHFL competes against LIC Housing Finance, the HDFC franchise (now inside HDFC Bank), and a large field of smaller HFCs. ABHFL claims to be the third largest private HFC in incremental loan book growth over the last six consecutive quarters and among the top two in asset quality. Its growth rate of 50%+ is multiples of the industry's mid-teens growth, which is only possible because it is gaining share in a fragmented market where the top players are constrained by their own scale. The Advent International investment at a ₹19,250 crore valuation is a marker of how the market prices this franchise relative to peers.

In asset management, ABSLAMC is a mid-tier player with 5.30% mutual fund market share, competing against HDFC AMC, ICICI Prudential AMC, and SBI Mutual Fund, which are substantially larger. Its competitive position is improving: fund performance has moved to roughly 75% of equity AUM in the top two quartiles, and the ETF franchise is growing at 47% against industry growth of 29%. The EPFO mandate is a structural win that few competitors

can match. But in the core equity mutual fund business, ABCL is a share-taker, not a share-giver, and the competition from the large AMCs is intense.

In life insurance, ABSLI is the 5th or 6th largest private player with 4.9% market share, competing against SBI Life, LIC, HDFC Life, and ICICI Prudential. It positions as the fastest growing private life insurer, with individual FYP growth of 15-20% against private industry growth of 12-15%, and its VNB margin expansion from 7.5% to 20.6% in two years is a genuine competitive achievement driven by product mix. The banca network, particularly Axis Bank, is the growth engine. The risk is that bancassurance economics are shared with the bank, and the proprietary agency business is smaller than the large insurers'.

In health insurance, ABHI is the fastest growing standalone health insurer with 14.2% SAHI market share in H1 FY27, up from 13.6%. Competitors include Star Health, the largest SAHI, Niva Bupa, and Care Health. The Health First model is the differentiation: it combines insurance with a wellness app, generates better loss ratios and persistency on engaged customers, and is expensive to replicate. Management is explicit that competitors are trying to copy it but lack the years of investment. This is the segment where ABCL's competitive moat is deepest.

Industry

The Indian financial services industry is in a broad-based expansion phase, and ABCL sits across five of its fastest-growing segments. The NBFC sector's balance sheet scaled to ₹35.5 lakh crore in FY26, up 23% year-on-year, with growth anchored increasingly in secured retail segments and MSME lending, where NBFCs are the last-mile credit delivery channel that banks cannot serve as efficiently. The housing finance market expanded to a total housing loan portfolio of ₹41.9 lakh crore, with regular home loans up 16% and affordable home loans up 2%. The mutual fund industry's AAUM reached ₹81.53 lakh crore in Q4 FY26, up 21% year-on-year, with SIP inflows rising 24% year-on-year. Health insurance is the fastest growing segment of general insurance, with standalone health insurers growing 19% in FY26 on top of a 3-year CAGR of about 20%. Life insurance grew more modestly, with the private industry growing 12% in FY26.

These are all structurally growing markets driven by financialisation of savings, rising incomes, urbanisation, and low penetration. India's position in the global supply chain is less relevant here than its domestic demand story: the industry is almost entirely domestic, serving Indian households and businesses. The import substitution angle is limited, but the domestic formalisation of credit and insurance is the equivalent structural tailwind.

Regulation is the defining feature of the industry. The RBI regulates ABCL as an NBFC-ICC and ABHFL as an HFC, SEBI regulates the AMC, IRDAI regulates both insurers, and the NHB and PFRDA touch housing finance and pension products. The most consequential recent

regulatory event is the GST reform: the government waived GST on individual life and health insurance premiums effective late September 2025. This made policies cheaper and is expected to boost penetration, but it created short-term margin pressure because insurers lost input tax credits and could not immediately reprice. ABCL absorbed this with product mix changes and cost efficiency, and management guided through it. The other structural regulatory change is the transition to IFRS reporting for insurers, which ABCL implemented in health insurance in FY27 and is preparing for in life insurance.

Cyclicality is present in each business but with different mechanisms. Lending is sensitive to interest rates and the credit cycle, which is why management's cohort-level calibration and the 72% secured mix matter. The unsecured lending segments were actively de-risked in FY24-25 after a deterioration, and the current low credit costs reflect that discipline. Asset management is exposed to equity market volatility, though the SIP book provides some stability. Insurance is exposed to interest rates for guaranteed products and to claims inflation in health. The geopolitical environment, specifically the Middle East conflict that began in February 2026 and disrupted shipping through the Strait of Hormuz, has pushed up energy prices and created inflation risk, which management flagged as the main near-term uncertainty. India's real GDP growth accelerated to 7.6% in FY26, and RBI projects 6.6% for FY27, which remains among the fastest globally and underpins the demand for credit, insurance, and investment products.

Growth triggers

Gold loans launched in August 2026: 70 branches and ₹1,200 crore AUM, with 200-300 branches targeted by March 2027 and 1,000+ over three years.

Aditya Birla Capital's NBFC launched gold loans in August 2026, a new secured retail lending product. The existing portfolio is 71% secured, but that security is predominantly real estate-backed MSME lending. Gold loans add a collateral-backed retail product with a different customer base and faster turnaround times, diversifying the secured book.

The foray is a distribution build-out. In the first 70 days, the company opened 70 dedicated branches and built ₹1,200 crore of AUM. Management plans a phased rollout of 200 to 300 dedicated branches by March 2027, then aims for 1,000+ branches over three years. The expansion is budgeted within the existing operating plan, with opex to AUM guided at 1.85% to 1.9% even while investing in gold loan branches.

> *"During the first 70 days, we have opened 70 branches and our AUM stands at ₹1,200 crores."*
>
> **RAKESH SINGH, EXECUTIVE DIRECTOR & CEO (NBFC), Q2 FY27 CONCALL (OCT 2026)**

Management has been explicit about the scale trajectory. On the Q2 FY27 call, Rakesh Singh said the plan is 200 to 300 dedicated gold loan branches by March 2027 and 1,000+

branches over three years. The first 70 branches are already open, and the AUM is ₹1,200 crore. The 1,000-branch target is a three-year plan already captured in the company's budget.

The build-out is organic, though management has left the door open for a small acquisition if it accelerates learning. The branch network will be pan-India, with no stated state-level concentration. The capital to fund this comes from the ₹4,000 crore preferential allotment raised in Q1 FY27, of which 87.5% was earmarked for NBFC growth objectives.

Housing finance branch expansion: 101 branches added in FY27, targeting above ₹1 lakh crore AUM and 15% ROE over 8-10 quarters.

The housing finance business (ABHFL) is executing a distribution-led growth plan. In Q2 FY27, AUM reached ₹57,373 crore, up 50% year-on-year, and disbursements were ₹8,957 crore, up 55%. Management has guided that the branch expansion, with 101 branches already added in FY27, will support a ₹1 lakh crore plus AUM franchise over the next 8-10 quarters. The plan was reiterated in the Q2 FY27 call.

> *"we plan to open 100+ branches in FY27, with expansion in Tier 2/ Tier 3 markets to increase distribution width and deepening penetration in metro & Tier 1 cities. This expansion will support us to achieve ₹1 lac crore AUM in the next 24 to 30 months."*
>
> **PANKAJ GADGIL, MD & CEO, ABHFL, Q4 FY26 CONCALL (MAY 2026)**

The mechanism is straightforward: new branches deepen penetration into high-potential micro-markets and add sourcing capacity. ABHFL has already launched 101 new branches this financial year across metros, Tier 1, and Tier 2/3 markets, and management says early traction is encouraging. In Q2 FY27, AUM reached ₹57,373 crore with 50% year-on-year growth, and disbursements hit ₹8,957 crore, up 55%.

The expansion is capital-backed. Advent International infused primary capital into ABHFL in April 2026, and management confirmed on the Q1 FY27 call that this capital is sufficient to reach the ₹1 lakh crore target without further dilution. The branch build-out is also not expected to lift costs. The opex-to-loan-book ratio stood at 2.21% in Q1 FY27, down from 2.4% in Q4 FY26, with management guiding to a 2.15%-2.19% band for the full year despite adding branches. Q2 FY27 ROE was 11.47%.

AMC total AUM reached ₹11.06 lakh crore, with mutual fund QAAUM at ₹4.42 lakh crore and a retail GIFT City pipeline.

The trigger is scale. Aditya Birla Sun Life AMC's total AUM including alternate assets crossed ₹11 lakh crore and stood at ₹11.06 lakh crore in Q2 FY27, up 140% year-on-year, including the EPFO and ESIC mandates. Mutual fund quarterly average AUM was ₹4.42 lakh crore, with equity QAAUM of about ₹2.09 lakh crore and an equity mix of 47.4%. SIP contribution was ₹1,094 crore in September 2026.

> *"We have been entrusted with the EPFO mandate of approximately Rs. 6.08 lakh crores. With this landmark addition, our closing total AUM as on 30th June 2026 has crossed the Rs. 10 lakh crores milestone."*
>
> **A. BALASUBRAMANIAN, MD & CEO, ABSLAMC, Q1 FY27 CONCALL (AUG 2026)**

The timeline shows a progressive build-up. In Q2 FY26 (Nov 2025), management said it was "selected by EPFO to manage its debt portfolio for the next five years, pending formal confirmation." By Q4 FY26 (May 2026), the company had "signed all the agreements and are operationally ready to receive the fund inflows, which will commence shortly." The Q1 FY27 call is the first confirmation that the mandate is live and the AUM is counted, marking the transition from preparation to active management.

The economic logic for ABCL is fee income on a large, low-cost asset base. The EPFO and ESIC mandates sit within the AMC's institutional and alternate assets, and total AUM reached ₹11.06 lakh crore. The ESIC mandate was a precedent for this type of institutional business. The EPFO mandate is a step-change in scale, and the ₹11 lakh crore total AUM reflects the consolidation of this institutional flow alongside the core mutual fund business.

GIFT City retail platform launched with a pipeline of six funds for NRI and global investors.

The retail licence belongs to Aditya Birla Sun Life AMC International (IFSC) Limited, a wholly-owned subsidiary at GIFT City. Management confirmed the licence in the Q1 FY27 concall. In Q2 FY27, the company launched a retail fund offering enabling Indian and global investors to access inbound and outbound opportunities through a dedicated platform.

The licence opens a distribution channel for global capital into the AMC's product suite. It lets NRIs and global investors access inbound investments into India and outbound opportunities in global markets, which means the fund house can raise money from outside India for both domestic and international strategies.

> *"With the recent grant of our retail licence at GIFT City, we are enabling NRIs and global investors to seamlessly access both inbound investments into India and outbound opportunities across global markets."*
>
> **A. BALASUBRAMANIAN, MD & CEO, ABSLAMC, Q1 FY27 CONCALL (JULY 2026)**

The money is already moving. Management has created a pipeline of six funds in the retail category for inward and outward remittance, in addition to the ABSL Flexi Cap Fund, with a ticket size of about $500. The offshore franchise is being built to tap domestic retail investors abroad and overseas investors in India.

Life insurance H1 VNB margin at 16.1%, with guidance to grow individual FYP at 20%+ CAGR and double absolute Net VNB in three years.

Aditya Birla Sun Life Insurance (ABSLI) has committed to growing Individual First Year Premium at a 20%+ CAGR and doubling absolute Net VNB over the next three years. Management repeated this guidance in the Q2 FY27 call, with the VNB margin target above 20%. H1 FY27 individual FYP grew 25% against private industry growth of 12%, and H1 VNB margin was 16.1%.

> *"grow Individual FYP at a CAGR of 20%+ for the next 3 years, whilst achieving this growth we intend expand VNB margins above 20% and in absolute numbers double the value of our Net VNB in 3 years' time"*
>
> **KAMLESH RAO, MD & CEO ABSLI, Q1 FY27 CONCALL (AUG 2026)**

The mechanism is a dual-engine growth model. On the partnership side, 11 existing bank partners grew 31% in H1 FY27, and IndusInd Bank has been onboarded as a new partner. On the proprietary side, the focus is on retail productivity and branch expansion, with 400+ branches and proprietary business growing 10%. Management plans to keep investing in people and branches.

The economics are driven by product mix. Traditional business including protection is 66% of the individual product mix, with ULIP at 34%, and annuity is 14% of retail new business. The margin expansion is already visible: H1 FY27 net VNB margin was 16.1%, up 447 basis points year-on-year, and full-year FY26 VNB margin was 20.6%. Riders and annuity mix contributed to the margin uplift.

Health insurance new product Activ Yuva targeting young India, and continued investment in proprietary distribution.

In Q1 FY27, Aditya Birla Health Insurance launched Activ Yuva, a digital-first health policy built for young India. The product pairs comprehensive coverage with the HealthReturns wellness programme, rewarding policyholders for health-conscious behaviour through the "Eat, Move, Heal" framework.

> *"During the quarter, we launched Activ Yuva, a digital-first, first of its kind health insurance product designed specifically for young India. the product combines comprehensive health coverage with wellness-led engagement, rewarding customers for health-conscious behaviours through our enhanced incentivised wellness programme - HealthReturns™."*
>
> **MAYANK BATHWAL, MD & CEO, HEALTH INSURANCE, Q1 FY27 CONCALL (AUG 2026)**

The launch targets an underpenetrated customer segment at a moment when the business is compounding fast. Health insurance gross written premium grew 48% year-on-year in H1 FY27 to ₹4,543 crore, and SAHI market share rose from 13.6% to 14.2%.

The proprietary distribution franchise is the channel that sells this product directly. Management plans to keep investing in it, and it is already scaling: the agent base reached 2.4 lakh plus agents in H1 FY27, and the proprietary channel grew 51% year-on-year. In FY26, the channel contributed 28% of retail gross written premium.

The economics of the Health First model reinforce the distribution bet. In H1 FY27, 13% of eligible customers earned HealthReturns, up from 9.4%, and those customers carry 6% lower loss ratios and 12% better persistency. Activ Yuva extends that model to a younger, healthier risk pool, which should keep the retail loss ratio contained as the book scales.

Key risks

- **Unsecured lending cycle turns.** The NBFC carries personal and consumer loans at 14% of AUM and unsecured business loans alongside secured MSME. Management has been pruning high-risk cohorts, which brought GS2+GS3 down to 2.31% and credit cost to 0.92% in Q2 FY27. But the margin expansion story depends on growing higher-yield segments while credit costs stay controlled. If the credit cycle deteriorates, the 2.45% ROA and the margin expansion built into the 2.5% target could reverse. The prior FY27 credit cost guidance of 1.1-1.2% assumes the current benign cycle holds.
- **Credit life insurance fee income gets regulated away.** Fee income from insurance attachment is a meaningful and growing part of NBFC non-interest income, up 60% YoY in Q1 FY27. The regulator has been circling credit life products, and management admitted on the Q1 FY27 call that if payouts get curtailed, it would be an industry-level event they would have to navigate. This is a direct threat to the fee income line that has been propping up the NIM.
- **Gold loan foray fails to scale.** The company launched gold loans in August 2026 and opened 70 branches in 70 days with ₹1,200 crore AUM. It plans 200 to 300 standalone branches by March 2027 and 1,000 over three years. This is a new business for a lender whose core competency is secured MSME and corporate lending. Gold loans are a different underwriting and operations game. Opex is already budgeted, with opex/AUM guided at 1.85-1.9%; if the branches do not ramp, that ratio could deteriorate.
- **HFC capital infusion dilutes ROE for longer than guided.** Advent International put primary capital into the HFC, and the business is targeting ₹1 lakh crore plus AUM in 8-10 quarters. The capital is needed for growth, but ROE was 11.47% in Q2 FY27. Management targets 15% ROE over the next 8-10 quarters. That path assumes the 101 new branches deliver productivity quickly. If AUM growth stalls or branch productivity does not materialise, the ROE recovery stretches out.

- **GST reform margin pressure persists.** The government waived GST on life and health insurance premiums in September 2025. This is good for demand long term, but it removed input tax credits and forced product repricing. The life insurance VNB margin guidance of 20%+ depends on product mix shift toward non-par, protection, and annuity, plus cost negotiations with distribution partners. The Q2 FY26 call estimated a 200-250 bps VNB margin hit from GST, which they tried to offset through mix and productivity. If those offsets do not fully land, the margin expansion story in life insurance weakens.
- **Health insurance profitability remains thin.** The combined ratio was 107% in Q2 FY27, above the 100% target. The business is growing fast, with H1 GWP up 48%, but it is still not consistently profitable. The differentiation thesis rests on the Health First wellness model, where engaged customers show 6% lower loss ratios and 12% better persistency. Competitors are copying the model. If underwriting discipline slips while chasing growth, losses widen.
- **Macro shock hits the lending book.** The company operates across retail, MSME, and corporate lending in India, an economy exposed to global trade tensions, energy prices, and the Middle East conflict. Management has repeatedly flagged these as watch items. The residential real estate market, which underpins a large part of the HFC and secured MSME collateral, could soften. A sharp economic downturn would stress the 72% secured book and the 28% unsecured book simultaneously, pushing credit costs above the guided range.

Scenarios

Bull case

The unsecured business scales as planned. Personal and consumer loans grow from 14% of the NBFC book, lifting yields, and the credit cycle stays benign, keeping credit cost near 0.92%. The NBFC holds ROA at 2.45% and reaches the 2.5% target. The HFC branch expansion delivers, AUM crosses ₹1 lakh crore in the guided 8-10 quarters, and ROE climbs to 15%. The EPFO and ESIC mandates keep AMC total AUM at ₹11 lakh crore plus, with the GIFT City retail platform adding NRI and global inflows. Life insurance grows Individual FYP at 20%+ CAGR, VNB margin moves above 20%, and Net VNB doubles in three years. Health insurance moves the combined ratio below 107% toward 100%, flipping to consistent profitability. The gold loan business scales to 1,000 branches over three years. Every business compounds, and the group delivers steady consolidated ROE.

Base case

Growth continues at the current trajectory, slightly below the most aggressive targets. The NBFC book grows at 26-27%, with credit cost near 1%. ROA holds around 2.45%, near the 2.5% target, because the unsecured mix shift is gradual. The HFC reaches ₹1 lakh crore AUM

over 8-10 quarters, and ROE touches 15% only at the end of that window. The AMC keeps growing with the market but does not gain significant share beyond the EPFO and ESIC mandates. Life insurance grows individual FYP at 20%+, VNB margin holds at 16-20%, and Net VNB doubles in three years. Health insurance grows 40-48% but the combined ratio stays near 107%, delaying profitability. The gold loan business opens 200-300 branches but contributes less than 2% of AUM in the first two years. The group delivers steady mid-teens ROE across the cycle.

Bear case

A macro shock hits the Indian credit cycle. Rising energy prices feed inflation, the RBI keeps rates higher for longer, and economic growth slows. GS2+GS3 in the NBFC book rises from 2.31%, and credit cost blows through 1% to 1.8-2%. The unsecured book, meant to drive margin expansion, becomes the source of losses, and management reverses the mix shift. The HFC faces a real estate slowdown, disbursements stall, and the ₹1 lakh crore AUM target slips. The capital sits under-deployed, keeping ROE depressed. The equity market corrects sharply, the AMC's 47.4% equity mix hurts AUM-linked revenue. Life insurance VNB margins compress and persistency deteriorates. Health insurance claims spike with medical inflation, pushing the combined ratio above 107%. The diversified model cushions the blow, but every business de-rates simultaneously, and consolidated profit growth stalls.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
PAT (₹ Cr)	3,142	3,797	5,270	7,199	9,513
PAT growth	-	+20.8%	+38.8%	+36.6%	+32.1%
EPS (₹)	12.05	14.49	19.27	26.33	34.79
P/E	34.5x	28.7x	21.6x	15.8x	12.0x
PEG	1.0x	0.8x	0.6x	0.5x	0.3x

CAGR FY27E-FY29E: Revenue - · EBITDA - · PAT +34.4%

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Q2 FY27 concall notes

TLDR

Aditya Birla Capital reported Q2 FY27 consolidated PAT of ₹1,288 crore, up 38% YoY and 10% QoQ, on revenue growth of 31% YoY and 12% QoQ. NBFC PAT crossed ₹1,000 crore (₹1,008 crore, +41% YoY) with ROA at 2.45% and credit cost at 0.92%, which management called its best in seven years; NBFC AUM reached ₹1,76,557 crore (+26.5% YoY) and MSME AUM crossed ₹1 lakh crore. HFC AUM grew 50% YoY to ₹57,373 crore with PBT of ₹335 crore (+73% YoY). Life insurance VNB margin rose 450bps YoY to 16.1%, and health insurance H1 gross premium grew 48% YoY to ₹4,543 crore with H1 profit of ₹46 crore. The gold loan book reached ₹1,200 crore across 70 branches in its first 70 days, with 200-300 branches targeted by March 2027. Management retained 20%+ individual FYP CAGR and above-20% VNB margin guidance for life insurance, and flagged a further 5-10bps rise in borrowing cost in Q3.

WHAT CHANGED SINCE Q1 FY27

- **NBFC margin guidance effectively dropped.** Q1 notes carried no explicit NIM target but management linked yield expansion to unsecured mix reaching 27-30%. This quarter management said margin expansion will take "few more quarters" and that product-mix benefit was offset by higher cost of funds; the ROA commitment to ~2.5% by Q4 FY27 was met early at 2.45% in Q2.
- **Gold loan rollout delivered ahead of the Q1 plan.** Q1 said the product would go live in Q2 FY27 with 200-300 branches by March 2027. It launched in August, opened 70 branches and built ₹1,200 crore AUM in the first 70 days; the 200-300 branch and 1,000+ branch/3-year targets were repeated.
- **HFC branch target exceeded.** Q1 planned 80-100 more branches this year after 50 already opened. Management now reports 101 new branches launched in FY27 so far.
- **HFC ROE guidance narrowed to a single number.** Q1 gave ~13% by Q4 FY27 and ~15% in 8-10 quarters. This quarter ROE was 11.47% and management repeated only the 15% ROE alongside ₹1 lakh crore+ AUM over 8-10 quarters, without restating the Q4 FY27 interim step.
- **Health insurance combined ratio guidance dropped.** Q1 guided to a 100% combined service coverage ratio for FY27 from 104%. This quarter the combined ratio was reported at 107% and CSR at 104%, with no FY27 target repeated.
- **New disclosure: rate actions.** NBFC raised benchmark rates 25bps effective 26 October on the ~70% variable-rate book; HFC raised PLR 20bps effective 1 November. Neither was disclosed in Q1.
- **New disclosure: management overlay.** Management said it created a management overlay when the Iran-US war started, included within the reported credit cost.
- **New partnership.** IndusInd Bank was onboarded as a life insurance bancassurance partner, with business commencement targeted for December.
- **Tone shift on regulation.** Q1 treated credit-life regulatory risk as an industry issue to mitigate. This quarter management argued the impact on ABSLI would be smaller because 98% of net VNB comes from the individual business, and framed distribution reform as an opportunity given low branch coverage at large bank partners.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated revenue	Not disclosed in absolute terms	+31% YoY, +12% QoQ	Growth across lending, insurance and AMC businesses
Consolidated PAT	₹1,288 crore	+38% YoY, +10% QoQ	NBFC PAT of ₹1,008 crore and HFC PBT of ₹335 crore
NBFC AUM	₹1,76,557 crore	+26.5% YoY, +5.4% QoQ	₹9,101 crore added in Q2, 85% from retail and MSME
NBFC PAT / ROA	₹1,008 crore / 2.45%	+41% YoY / +25bps YoY, +7bps QoQ	Lower credit cost and OpEx/AUM at 1.84%
NBFC NIM (incl. fees)	6.00%	Not given YoY; Q1 FY27 was 6.07%	Product-mix benefit offset by higher cost of funds
NBFC credit cost	0.92%	-24bps YoY, -11bps QoQ	Cohort corrections over the last few years; best in 7 years per management
NBFC GS2+GS3	2.31%	-72bps YoY	GS2 at 1.03% (-32bps YoY), GS3 at 1.28% (-40bps YoY); 71% of book secured
NBFC disbursements	₹24,708 crore	Not given YoY; near highest ever, set in Q4 FY26	Retail and MSME at 71% of H1 disbursements vs 67% a year ago
HFC AUM / disbursements	₹57,373 crore / ₹8,957 crore	+50% YoY, +11% QoQ / +55% YoY, +19% QoQ	101 new branches and ABG ecosystem at 17.5% of retail disbursements
HFC PBT / ROA / ROE	₹335 crore / 2.12% / 11.47%	+73% YoY	NII up 53% YoY to ₹641 crore; Stage 3 at 0.37%
Life insurance VNB margin	16.1% (H1)	+450bps YoY	Higher annuity mix (14% of retail new business), rider attachment, productivity, favourable interest rates
Health insurance gross premium (H1)	₹4,543 crore	+48% YoY	Retail +43%, proprietary channel +51%, corporate 40-55%; SAHI share 14.2% vs 13.6%

SEGMENTS & GEOGRAPHIES

- **NBFC (Aditya Birla Finance):** Personal & consumer AUM ₹24,955 crore (+37% YoY, +7% QoQ), 14% of AUM, GS3 at 1.3% with GS2+GS3 down 140bps YoY. MSME AUM ₹1,01,119 crore (+30% YoY), 57% of AUM, 79% secured, GS3 at 1.2%. Unsecured business loan disbursements ~₹1,500 crore (+9% QoQ), GS3 at 1.0% and 0.6% excluding government-guaranteed accounts. Corporate AUM +15% YoY, 29% of portfolio, GS3 at 1.6%. Management expects retail and personal & consumer mix to rise and drive margins over several quarters.
- **HFC (Aditya Birla Housing Finance):** Stage 2+3 fell 45bps YoY to 0.65%, Stage 3 at 0.37%. Off-book at 8.9%. Management targets ₹1 lakh crore+ AUM and 15% ROE over 8-10 quarters.
- **AMC (Aditya Birla Sun Life AMC):** Total AUM including alternatives ₹11.06 lakh crore (+140% YoY), including ESIC and EPFO mandates. MF QAAUM ₹4.42 lakh crore (+4% YoY), equity QAAUM ~₹2.09 lakh crore (+9% YoY), equity mix 47.4%. SIP contribution ₹1,094 crore in September 2026; new SIP registrations rose to 7.05 lakh from 5.2 lakh. Passive QAAUM ~₹39,600 crore; ETF QAAUM +40% YoY vs industry +27%. Launched BSE Total Market Cap Index Fund and ETF, and a GIFT City retail offering with tickets from about $500.
- **Life insurance (ABSLI):** H1 individual FYP +25% YoY vs industry +12% and private industry +12%; proprietary +10%, partnership +31% across all 11 bank partners. Traditional including protection at 66%, ULIP 34%. Group

life premium +90% vs private industry +35%. Total AUM ₹1,20,736 crore (+16% YoY), 23% in equity; group AUM ₹31,400 crore, 26% of total. Solvency 190%, 13-month persistency 83.4%, OpEx-to-premium 21.2%.

- **Health insurance (ABHI):** H1 profit ₹46 crore under IFRS. 2.4 lakh+ agents; 7.3 lakh monthly active app users. Management plans to keep investing in proprietary distribution and the health-first model.

STRATEGY & COMPANY-SPECIFIC

- **Gold loans:** Launched August 2026; 70 branches and ₹1,200 crore AUM in the first 70 days. Phased rollout to 200-300 dedicated branches by March 2027 and 1,000+ branches over three years.
- **Rate actions:** NBFC benchmark rates up 25bps effective 26 October on ~70% of the book; HFC PLR up 20bps effective 1 November.
- **Borrowing mix:** NBFC funding is 57% floating and 43% fixed; assets are 70% floating and 30% fixed.
- **Life insurance distribution:** IndusInd Bank onboarded as a bancassurance partner, with business commencement targeted for December. Direct business is now 8-9% of the mix, up from 2-3%. Management plans to invest more in people and the 400+ proprietary branches this year.
- **AMC products:** Equity Long Short and Equity Next Top 100 Long Short funds launched; the FIA platform now has 3 products and a 3-member team managing close to ₹400 crore. About 6 more GIFT City retail funds are in the pipeline for inward and outward remittance.
- **AI deployment:** NBFC self-service at 82% of channel interactions, 61% of contact centre interactions and 71% of service emails through straight-through processing. HFC has 15 AI use cases live, including FinGenius for document verification and FinShift for channel partners. Health AI handles ~75% of cashless claims; 3,70,000+ high-risk lives under intervention with loss ratio down over 16%.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Life insurance individual FYP	20%+ CAGR over 3 years	Maintained	Growth across proprietary and partnership channels
Life insurance VNB margin	Above 20% in 3 years, with net VNB doubling	Maintained	Annuity mix, rider attachment, productivity; 98% of net VNB from individual business
HFC AUM	₹1 lakh crore+ over 8-10 quarters	Maintained	Branch expansion and partner ecosystem
HFC ROE	15% over 8-10 quarters	Maintained (Q1 also had ~13% by Q4 FY27, not repeated)	AUM scaling; current ROE 11.47%
NBFC ROA	Sustain ~2.5% over coming quarters	Maintained (Q1 target was ~2.5% by Q4 FY27, reached in Q2)	Growth, margin, OpEx and credit cost levers
NBFC OpEx/AUM	1.85%-1.9%, including gold loan investment	New	Q1 one-off normalised in Q2
NBFC borrowing cost	Further 5-10bps increase in Q3 if rates continue to rise	New	Incremental cost rose 11bps between Q1 and Q2
Gold loan branches	200-300 by March 2027; 1,000+ in 3 years	Maintained	Phased rollout across high-potential markets

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Health insurance combined ratio	No FY27 target given	Dropped (Q1 guided 100% for FY27)	Combined ratio 107%, CSR 104% in Q2

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Rising rates and inflation	Repo action, rising interest rates and inflation have tightened the macro; NBFC expects another 5-10bps rise in borrowing cost in Q3 and has raised lending rates to transmit it
Margin expansion delay	Product-mix benefit was offset by higher cost of funds; expansion expected in "few more quarters" as the ₹1.8 lakh crore book reprices slowly
Drought and agri stress	No direct agri exposure in the NBFC book, but inflation impact is being watched; through-the-door monitoring is monthly and high-risk segments are eliminated
Distribution regulation	Consultation paper on expense-of-management caps not final; management will rely on premium growth rather than structural cost cuts to bring the OpEx ratio down
Health insurance regulation	Feedback to the regulator is that there should be no arbitrage between monoline and multi-line players; outcome not known
Credit cost sustainability	Management pointed to GS2 at 1.03% of the portfolio as evidence of quality; a management overlay created after the Iran-US war sits within reported credit cost
HFC competition and BT-outs	Competitors have also raised rates; BT-outs run at 5-5.5% and BT-in at about twice that, and management does not see BT-out pressure currently

Q&A HIGHLIGHTS

NBFC retail disbursement moderation

- Question: Why did QoQ retail disbursement growth slow to about 12% from the historical 20-30%?
- Answer: Growth is calibrated to risk appetite and some quarters are stronger than others; personal & consumer AUM grew 47% YoY and unsecured business 53% YoY, with supply chain utilisation and repayment cycles explaining part of the swing.

NBFC OpEx decline

- Question: Why did employee OpEx fall QoQ despite growth and new branches?
- Answer: Q1 had a one-off that normalised in Q2; OpEx/AUM should stay at 1.85-1.9% even with gold loan branch investment.

HFC cost of funds and PLR

- Question: Why did HFC cost of funds rise about 20bps QoQ and has PLR been raised?
- Answer: Cost of funds rose 11bps to 6.11%, partly from higher leverage after the April capital infusion; cost of borrowing moved from 7.46% to 7.47%. PLR was raised 20bps effective 1 November.

Margin outlook

- Question: When will the rising personal & consumer and unsecured mix feed into margins?
- Answer: The unsecured mix rose about 1% QoQ but the benefit was offset by cost of funds; management will not onboard high-risk customers to lift margins and expects expansion over a few more quarters, with ROA already at

2.45%.

Life insurance under distribution reform

- Question: How will bank relationships and the expense cap be managed under the new distribution rules?
- Answer: OpEx-to-premium is 21.2%, not 26%. Coverage at large bank partners is partial, so the reform creates room to do more; direct business is already 8-9%, and 98% of net VNB comes from the individual business, so the impact should be smaller.

Health insurance regulation

- Question: What is the company's position on expense caps for a younger health insurer?
- Answer: Feedback to the regulator asks for no arbitrage between monoline and multi-line players, and management is hopeful the final regulation reflects that.

Credit cost confidence

- Question: How confident is management in sustaining credit cost below 1%?
- Answer: Stage 2 at 1% of the ₹1,76,557 crore book reflects portfolio quality; the approach is to choose better-risk customers and accept lower pricing for a more resilient book.

DSA-originated unsecured loans and rate transmission

- Question: How is pricing power protected on DSA and digitally originated unsecured loans after the rate hike?
- Answer: These are short-term fixed-rate loans with no cost-of-funds transmission; repricing applies to floating-rate SME, mid-corporate and corporate loans. Revolving credit is immaterial and limited to supply chain and loan against shares.

IIFL Finance Ltd.

GROWTH TRIGGERS

IIFL's bull case is that the post-embargo gold franchise sustains AUM growth and a 20%+ ROE while an equity raise removes the standalone capital constraint, home finance converts disbursements into 18-20% AUM growth, and an off-book mix closer to 40-45% lowers balance-sheet capital intensity without disrupting credit costs.

1. H1 FY27 ROE above 20% is now an outcome

H1 FY27 annualised ROE was 20.1% and ROA 3.1%; Q2 PAT was ₹805 crore, up 13% QoQ and 92% YoY, and H1 PAT was ₹1,518 crore. Management targets consolidated ROE above 20% over the medium to long term, with the equity raise a possible temporary dampener.

2. Gold loans at 53% of AUM remain the growth engine

Gold loans were 53% of Q2 FY27 AUM. Management expects to maintain momentum if gold prices stay within about ±10% and said higher prices lift borrowing capacity while tighter unsecured and microfinance lending pushes customers to gold. Income-generating gold loans are 20-25% of the book.

3. Home finance is guided to 18-20% AUM growth and 16-18% ROE next year

IIFL Home Finance had Q2 AUM of ₹43,070 crore, up 4% QoQ, and GNPA of 1.3%. Onboarding yield rose to 11.81% from 10.69%, H1 disbursements grew 64%, and the HFC added 38 affordable branches to reach 350. Management guides 18-20% AUM growth in FY27 and targets 16-18% ROE next year.

4. Off-book can rise from 34% to 40-45% with 18 bank partners

Off-book AUM was ₹42,796 crore, or 34% of consolidated AUM, with 18 active bank partners in Q2. Management's target is 40-45%. If co-lending scales, assets and risk weights move off the standalone balance sheet, easing the capital constraint on gold growth, although off-book income should decline as upfront income gives way to accrual interest.

5. A 10-20% equity raise could remove the standalone capital constraint

Standalone capital adequacy was 17.03% and consolidated capital adequacy 23.5%, with gold loans carrying a 125% risk weight. Management has board and shareholder approval, is talking to investors and hopes to close a raise this quarter; dilution could be 10-20%, but price and final size are not decided.

6. Microfinance disbursements are guided to exit near ₹1,000 crore a month

Samasta AUM was stable at ₹10,116 crore and GNPA improved 46 bps QoQ. Management expects growth to turn positive in H2, with September disbursements around ₹550 crore, October around ₹800 crore and an exit run-rate near ₹1,000 crore a month; it is not exiting microfinance.

7. Opex at 3.3% and AI productivity support operating leverage

Opex to average AUM declined to 3.3% in Q2 from a peak of 4.0%. Management said AI projects have moved beyond pilot, with about 30% productivity improvement where applied; it illustrated this as work done by 100 people now done by 70. AI helps 1-90 and 90+ collections and renewal lead generation.

8. Fitch upgrade and USD 810 million H1 issuance diversify funding

Fitch upgraded IIFL to BB- in Q2. The company raised USD 300 million via a social bond in Q2, taking H1 international bond issuance to USD 810 million; the social bond was 2.3 times subscribed. Management believes funding costs can fall 100-120 bps once the domestic rating improves, but that benefit is prospective.

INVESTMENT THESIS

IIFL Finance is a retail lending NBFC whose Q2 FY27 economics are dominated by secured gold loans, with home finance and microfinance providing diversification and a capital-light off-book engine supporting growth. Consolidated AUM was ₹1.24 lakh crore in Q2 FY27, up 38% YoY and 8% QoQ, with gold loans 53% of the portfolio and home loans 27%. The business earns a consolidated portfolio yield of 16.5% and reported H1 annualised ROA of 3.1% and ROE of 20.1%, while opex to average AUM fell to 3.3% from a peak of 4.0%. Gross NPA was 1.48% and net NPA 0.87%. The economics work because IIFL lends against collateral to small borrowers underserved by banks and uses direct assignment and co-lending with 18 bank partners to move assets off balance sheet. Off-book AUM was ₹42,796 crore, or 34% of consolidated AUM, in Q2 FY27.

The operating-leverage case rests on three mechanisms. First, gold loans are 53% of AUM, and management expects to maintain growth momentum if gold prices stay within about ±10%. Management said higher gold prices lift borrowing capacity and tighter unsecured and microfinance lending is pushing customers to gold. Income-generating gold loans are 20-25% of the book, up from a process started last quarter, and 70-80% of gold customers are MSMEs who qualify. The risk is that gold NPAs rose about 30 bps QoQ in Q2 and the 90+ DPD cohort had LTV near 85%; management said a sharp price fall could lift NPAs to 1-3%, though collateral should limit ultimate losses.

Second, home finance is being re-based to affordable and emerging segments. Q2 AUM was ₹43,070 crore, up 4% QoQ, with GNPA at 1.3%. Onboarding yield rose to 11.81% from 10.69% a year earlier, and the HFC added 38 affordable branches to reach 350. Management guides 18-20% AUM growth in FY27 and targets 16-18% ROE next year, with continued quarter-on-quarter improvement as operating leverage works. That is guidance, not yet delivery: Q2 AUM growth of 4% QoQ means H2 must accelerate materially. The residual high-yield pool is around ₹600 crore by management's Q2 indication, though the transcript is inconsistent on the split.

Third, Samasta's microfinance book was stable at ₹10,116 crore in Q2, GNPA improved 46 bps QoQ, and management expects growth to turn positive in H2. September disbursements were about ₹550 crore, October around ₹800 crore and the exit run-rate near ₹1,000 crore a month. Management explicitly said it is not exiting microfinance. This is a recovery from a low base, not a return to FY24 growth.

The earnings path is guided, not assured. Management reiterated FY27 guidance without change and said it is on track to meet and exceed it, with consolidated ROE around 20% and above 20% over the medium to long term. The transcript's FY27 AUM growth line is garbled as '46-25%', so the precise AUM growth number is not treated as a clean new guide. FY27 credit cost guidance remains 1.5-1.7%, and Q2 loan loss provisions fell 5% QoQ to ₹21

crore, but one quarter's low charge does not prove the full-year outcome. The 40-45% off-book target remains the main capital-efficiency lever; Q2 was 34%, so the gap is material. Management also said off-book income should decline as co-lending rises, because co-lending has no upfront income; interest income accrues and NII should hold.

Capital allocation is the pivot. Standalone capital adequacy was 17.03% in Q2 FY27 and consolidated 23.5%, with gold loans carrying a 125% risk weight. Management has board and shareholder approval for fresh equity, is talking to investors and hopes to close a raise this quarter with dilution of 10-20%; it has not decided QIP versus private equity. The raise would fund gold growth and reduce the risk of a forced raise later, but it dilutes existing shareholders and may dampen ROE temporarily. It said subsidiaries do not need capital and the raise is at the listed holding company; selling part of a subsidiary is an option, but there is no divestment or IPO plan at this point. Fitch upgraded IIFL to BB- in Q2 FY27 and the company raised USD 300 million via a social bond, taking H1 international bond issuance to USD 810 million. Management believes funding costs can fall 100-120 bps once the domestic rating improves, but that is prospective.

Management delivery is mixed. The FY26 GNPA target was beaten, H1 FY27 ROE reached 20.1%, and Q2 PAT crossed ₹800 crore for the first time. Against that, the FY26 ROA target was cut twice, the 40% off-book target was missed, home finance stayed flat in FY26 before the Q2 FY27 re-base, and the standalone capital fix has been promised since May 2025 and is still open. The insurance commission draft could cut group PBT by about 5%, with HFC and Samasta most exposed. The income tax demand remains under appeal and Q2 gave no further update.

The falsifiers are specific. A sharp gold price correction would raise LTVs on 53% of AUM; Q2 already showed gold NPAs up about 30 bps QoQ and the 90+ DPD gold cohort at an LTV near 85%, so reported GNPAs can rise before auctions. A delayed or poorly priced 10-20% equity raise would dilute ROE and leave standalone capital tight. A stall in co-lending and direct assignment would keep assets on balance sheet at 125% risk weight and worsen the capital constraint. Home finance failing to convert 64% H1 disbursement growth into 18-20% AUM growth would leave the subsidiary a drag. If these risks are contained, the operating-leverage case is that a 20% ROE franchise grows AUM and earnings while opex and credit costs stay controlled; if they are not, the equity raise and gold NPA cycle can dilute the return before the off-book and home finance engines scale.

RESEARCH REPORT

What IIFL Finance Limited does

IIFL Finance Limited is a retail lending NBFC founded in 1995 that runs four secured lending businesses - gold loans, affordable home loans, MSME loans and microfinance - through a physical network of more than 5,000 branches. The parent company carries the gold loan, MSME and small loan-against-property books. Two subsidiaries handle the rest: IIFL Home Finance (79.59% owned) does affordable housing and LAP, and IIFL Samasta Finance (99.56% owned) does microfinance. In Q2 FY27, consolidated AUM was ₹1.24 lakh crore, up 38% YoY and 8% QoQ, with about 90% secured; gold loans were 53% of the portfolio and home loans 27%. Consolidated PAT was ₹805 crore, up 13% QoQ and 92% YoY, and H1 FY27 PAT was ₹1,518 crore.

Q2 FY27 update (15 Oct 2026): Consolidated AUM was ₹1.24 lakh crore, up 38% YoY and 8% QoQ; PAT was ₹805 crore, up 13% QoQ and 92% YoY, and H1 PAT was ₹1,518 crore. H1 annualized ROA was 3.1% and ROE 20.1%. Gross NPA was 1.48% and net NPA 0.87%. Group liquidity was ₹13,804 crore, consolidated capital adequacy 23.5% and standalone 17.03%. Management reiterated FY27 guidance without change, targeting ROE around 20%, and said it hopes to close an equity raise this quarter with dilution of 10-20%. It also said off-book income should decline as co-lending grows while NII holds, and estimated the draft insurance commission rules could reduce group PBT by about 5%.

Management describes the strategy as six pillars: secured lending, with about 90% of the book secured; capital-light growth through co-lending and assignment; funding and liquidity; AI-led operations; branch-led distribution; and credit and cost discipline. AI projects have moved beyond pilot, with about 30% productivity improvement in processes where applied; in examples cited, work done by 100 people can be done by 70. Opex to average AUM declined to 3.3% in Q2 FY27 from a peak of 4.0%.

The company went through a forced reset. The RBI restricted gold loan disbursements in March 2024 over process-level observations, and the embargo was lifted on September 19, 2024. Management also exited higher-risk lines: digital unsecured MSME loans, personal loans, micro LAP under the HFC, and select MFI geographies. The portfolio today is deliberately narrow - gold, mortgages, secured MSME and microfinance - and unsecured lending has been fully discontinued.

Gold loans (~53% of AUM in Q2 FY27)

Gold loans are small-ticket, short-tenure loans against gold jewellery, with a portfolio yield of 18.1% per the FY26 annual report. Products include Gold Loan at Home (doorstep disbursal), Suvarna Dhara for MSME working capital, agriculture gold loans and education-

linked gold loans. Tenure runs up to 24 months, with monthly, quarterly, half-yearly or bullet interest options at different rates.

This is the growth engine. Gold AUM grew 150% year-on-year in FY26 to ₹52,581 crore with 62 tons of gold, then to ₹58,406 crore in Q1 FY27. In Q2 FY27 gold loans were 53% of the consolidated portfolio, and overall AUM grew 8% QoQ and 38% YoY. Tonnage has been the driver rather than price alone - tonnage grew 16% QoQ in Q2 FY26 and about 5-6% in Q1 FY27. Management reiterated FY27 guidance without change and said it expects to maintain growth momentum if gold prices stay within about ±10%.

The risk profile has historically been unusually clean. Management states the loss given default in gold has been almost zero over the last 15-16 years, because customers treat jewellery as emotionally valuable and repay rather than default. Reported gold GNPA was 0.36% in Q3 FY26. In Q2 FY27 gold NPAs rose about 30 bps QoQ, and the 90+ DPD gold cohort had LTV close to 85%; management said the increase was small, driven by lower gold prices at quarter-end and delayed small-ticket payments, and that ultimate losses should be minimal because of collateral. Management added that in a sharp gold price fall NPAs could rise to 1-3%, but ultimate losses should remain negligible; auctions are not zero and have historically run around 1-2%.

Home finance (~27% of AUM, ₹43,070 crore in Q2 FY27)

IIFL Home Finance lends to first-time homebuyers in the EWS, LIG and MIG segments across tier 2-4 cities, plus loan against property. Home loans are about 80% of the HFC portfolio and LAP about 18-19%. The portfolio yield was 10.6% in FY26 and management said it declined about 10 bps QoQ in Q2 FY27 because higher-yield pools are running off, while the onboarding yield rose to 11.81%. In Q2 FY27 AUM was ₹43,070 crore, up 4% QoQ, with GNPA at 1.3%.

The business is being repositioned. Management cut prime entirely, exited micro LAP, and sold about ₹875 crore of BLC and micro LAP assets to an ARC in Q3 FY26, which cut HFC GNPA from 2.2% to 0.9%. The new strategy targets affordable and emerging segments at higher yields - onboarding yield rose to 11.81% in Q2 FY27 from 10.69% a year earlier, and management said affordable yields are about 12.5-12.6% and emerging about 11.5%. Guidance for FY27 is 18-20% AUM growth, and management targets 16-18% ROE in the HFC next year. The HFC had 350 branches in Q2 FY27 after adding 38, all in affordable.

MSME loans (~9% of AUM, INR 10,349 crore as of FY26)

MSME loans are secured and unsecured business loans for working capital, expansion and asset creation, with a FY26 yield of 15.9%. The business has pivoted toward secured MSME lending with data-led underwriting and fintech collaborations. Unsecured business loans and personal loans have been discontinued; management confirmed on the Q1 FY27 call that

both are closed. The core MSME book is a secured priority-sector lending product with average ticket sizes of ₹50 lakh to ₹2 crore in smaller towns, yielding 13.6-14%, with no delinquency in that new portfolio as of Q3 FY26.

Microfinance (~8% of AUM, ₹10,116 crore in Q2 FY27)

IIFL Samasta lends small-ticket income-generating loans to women under the Joint Liability Group model, with an average ticket size of about ₹68,000 and a FY26 yield of 24.5%. It also does micro LAP at about ₹4.8 lakh average ticket. The business went through the sector-wide MFI stress that began with the RBI guardrails in 2023 and is recovering. In Q2 FY27 Samasta AUM was stable at ₹10,116 crore and GNPA improved 46 bps QoQ. Management expects growth to pick up from H2 FY27, with October disbursements around ₹800 crore and an exit run-rate near ₹1,000 crore a month; it retains a 2.5-3% ROA target.

The off-book engine

The company's capital-light model is central to how it grows. In Q2 FY27, off-book AUM (direct assignment plus co-lending) was ₹42,796 crore, or 34% of consolidated AUM, with 18 active bank partners. In co-lending, banks originate jointly with IIFL and hold the loans on their books; in direct assignment, IIFL sells seasoned assets to banks at a small yield give-up. The economics are roughly 100 basis points more expensive than on-book borrowing, but the assets and their risk weights leave the balance sheet, which is what allows the gold book to grow without breaching capital constraints. Management's stated target remains 40-45% off-book. In Q2 management said off-book income fell QoQ and should continue to decline or not grow at the same pace as the mix shifts to co-lending, which carries no upfront income, while interest income accrues; it expects net interest income to hold.

The model matters because the standalone entity's capital adequacy was 17.03% in Q2 FY27 and consolidated capital adequacy was 23.5%, with gold loans carrying a 125% risk weight. Management has board and shareholder approval for fresh equity, is talking to investors, and hopes to close a raise this quarter; dilution could be 10-20%, and it has not decided between a QIP and private equity. It said subsidiaries do not need capital and the raise is at the listed holding company; selling part of a subsidiary is an option, but there is no divestment or IPO plan at this point. The off-book model and co-lending momentum are the levers that buy time before any equity raise.

The funding side is diversified: term loans, debentures, refinance, ECB, securitization and other sources. Quarterly average cost of borrowing was 9.13% in Q1 FY27, down 33 bps YoY; the Q2 transcript's cost-of-borrowing line is garbled and is not used. Fitch upgraded IIFL to BB- in Q2 FY27, and the company raised $300 million via a social bond in Q2 (H1 total $810 million). Management believes cost of funding can fall 100-120 bps once the domestic rating improves from its current AA level.

Business segments

Gold Loans

Gold loans are the engine of IIFL Finance. The segment lends small, short-tenure amounts against pledged gold jewellery, disbursing quickly through a branch network built for last-mile reach. In Q2 FY27, gold loans were 53% of the consolidated ₹1.24 lakh crore book. The business went through a regulatory embargo on new disbursements from March 2024 to September 2024, then rebuilt to cross its pre-embargo AUM by Q3 FY26 at ₹43,432 crore. Growth since has been steep: 189% YoY in Q3 FY26, and overall consolidated AUM grew 8% QoQ in Q2 FY27.

The core capability is a physical network. IIFL runs about 3,000 branches dedicated to gold, and management said average loan per branch is around ₹15 crore, nearly half of the market leader (Jan 2026 concall). In aggregate, including gold and microfinance, the company had more than 5,000 branches in Q2 FY27. The gold loan business head has been with the company roughly 25-30 years. That combination of branch density and institutional memory matters because gold lending is a trust business.

The product line includes the core gold loan, Gold Loan at Home, agriculture gold loans, education-linked gold loans, loans for women borrowers, and Suvarna Dhara for MSMEs. Customers choose repayment frequency - monthly, quarterly, half-yearly, or bullet - with lower rates for more frequent payment. Under the new RBI framework, loans above ₹2.5 lakh need income assessment; management said 20-25% of the gold book is now classified as income-generating, while 70-80% of customers are MSMEs who qualify. Tenure runs up to 24 months, and LTV is capped at 75% for consumption loans, with income-generating loans allowed beyond that only with cash flow assessment.

IIFL's position is strong but not dominant. The average loan per branch is about half the market leader's, which management reads as upside in its own catchment. The yield of 18.1% is maintained because IIFL focuses on small-ticket loans where the rate is fair for the service provided. Competition shows up in two ways - rivals dropping yields or raising LTVs - and management says it sees both but is not chasing either. In Q2 FY27 management said competition is increasing, but the market is expanding because higher gold prices raise household borrowing capacity, tighter unsecured and microfinance lending is pushing customers to gold, and small-business credit demand is improving.

The asset quality profile has historically been the segment's defining feature. Gold loan GNPA was 0.36% in Q3 FY26. In Q2 FY27, overall gross NPA was 1.48% and the 90+ DPD portfolio was 1.5%; gold NPAs rose about 30 bps QoQ, and the 90+ DPD gold cohort had LTV close to 85%. Management attributed the gold increase to lower gold prices at quarter-end and small customers paying late, and said losses should remain minimal because of collateral. The critical number is the loss history:

> *"loss given default in gold in the last 15, 16 years has almost been 0"*
>
> **NIRMAL JAIN, Q1 FY27 CONCALL (JUL 2026)**

That is because gold retains value and IIFL maintains LTV discipline. Portfolio LTV was around 61-63% in recent quarters before Q2 FY27, well below the 75% cap, giving cushion if gold prices correct. Management said the 90+ DPD gold cohort's LTV was close to 85% in Q2 FY27.

Gold loans fit the group strategy as the primary growth engine. Management described a six-pronged approach: secured lending dominated by gold and mortgages, capital-efficient growth via co-lending and off-book, funding and liquidity, AI-led operations, branch-led distribution, and credit and cost discipline. The off-book model matters because gold loans carry 125% risk weight, which pressures the parent's capital adequacy. In Q2 FY27 total off-book AUM was ₹42,796 crore, or 34% of consolidated AUM, with 18 active bank partners. Management's target is to take total off-book to 40-45% of AUM. The segment also cross-sells: gold loan customers are a base for secured MSME lending and home finance referrals.

Management's gold growth outlook is conditional on gold prices. In May 2026 it guided 20-25% AUM growth if prices held. In Q2 FY27 it reiterated FY27 guidance without change and said it expects to maintain growth momentum if gold prices stay within about ±10%; it did not repeat a clean gold-only growth range. New branches set up in the last two quarters are becoming productive, and the Q2 call referenced tonnage rising from 64 tons to 69 tons. Tonnage remains the more durable measure because AUM also reflects gold prices.

Home Finance (via IIFL Home Finance)

IIFL Home Finance is the group's housing finance subsidiary, held 79.59% by IIFL Finance Limited. It lends to first-time homebuyers in the EWS, LIG and MIG segments, with 350 branches in Q2 FY27 across tier 2 to 4 cities. The core capability is underwriting borrowers with informal or semi-formal income. These customers rarely have salary slips or IT returns, so the company built credit assessment frameworks that evaluate cash flows from small businesses and shopkeeping. That capability, combined with a physical branch presence in underserved towns, is what allows the entity to serve borrowers that formal home finance has historically missed.

The product mix is about 80% home loans and 18% to 19% loan against property, with the remainder in construction finance, per Girish Kousgi, MD and CEO of IIFL Home Finance, on the Q1 FY27 call. The home loan book includes loans under the PMAY-U 2.0 interest subsidy scheme, which covers loans up to ₹25 lakhs. The annual report notes the company supported over 5,200 beneficiaries under PMAY 2.0 in FY 2025-26. LAP is offered on both affordable and emerging segments, with ticket sizes of ₹14 to ₹15 lakhs for affordable and

₹20 to ₹21 lakhs for emerging, as Kousgi described on the Q3 FY26 call. The company has exited prime lending entirely because margins there are too thin.

Customers are first-time homebuyers, self-employed individuals with limited formal documentation, and informal income households in tier 2 to tier 4 cities. The annual report states that 87% of customers across the group belong to income groups earning below ₹3 lakh annually. They buy from IIFL because the branch network and underwriting models are built for their income profiles. A borrower with a small shop and no IT return can get a home loan from IIFL Home Finance because the company assesses cash flows directly rather than relying on formal documents.

The competitive set includes other affordable housing finance companies. On the Q4 FY26 call, Kousgi acknowledged competition from Bajaj Housing and PNB Housing entering the affordable and lower ticket size segments, but argued the market is large. The annual report cites ICRA data showing affordable housing finance company AUM grew 19% year-on-year to ₹1.58 lakh crores in 9M FY 2025-26. Kousgi noted on the same call that there are only 7 to 8 large companies actively doing affordable business, with another 80-plus players holding very small books.

The segment fits the group's pivot to secured lending. Nirmal Jain, Managing Director, described the strategy as anchored on "secured lending dominated by gold loan and mortgages, mortgages comprised by home loan and loan against property." The subsidiary shares the parent's AI-led operating model and branch discipline. There is a historical synergy with microfinance: the micro LAP product was originally a cross-sell to microfinance customers, though that product was discontinued and sold to an ARC after the microfinance sector stress damaged its asset quality. Nirmal Jain also flagged on the Q4 FY26 call that a demerger of the housing finance entity is an option, given the private equity investor ADIA needs an exit.

Revenue mix: home finance is roughly 27% of group AUM in Q2 FY27, at ₹43,070 crore. The segment yield is 10.6% in FY26.

Management has been explicit about the cleanup and the pivot. On the Q3 FY26 call, Nirmal Jain described the ARC transaction that removed the problem book:

> *"almost INR 875 crore of total portfolio deal has happened. And that cleans the entire thing. And that is why if you see, our GNPA in housing has fallen from 2.2% to 0.9%."*
>
> **NIRMAL JAIN, MD, Q3 FY26 CONCALL (JAN 2026)**

The remaining high-yield problem book is small: management said in Q2 FY27 that the residual pool is roughly ₹600 crore, about ₹250 crore in home-loan BLC and around ₹400 crore in LAP, though the transcript is inconsistent. The company guided to 18-20% AUM

growth for FY27 in Q2 and targets 16-18% ROE in the HFC next year. On the Q4 FY26 call, Kousgi said the company is pivoting to higher yields starting at 12% plus this year. The HFC's capital adequacy stood at 41.7% as of Q1 FY27, reflecting the off-book model where loans are assigned to banks.

MSME Loans

MSME Loans is the smallest of IIFL Finance's four core product segments, contributing roughly 9% of the group's loan AUM. The segment provides secured and unsecured business loans for working capital, expansion, and asset creation to micro-enterprises, small traders, and self-employed individuals across manufacturing, trading, services, and e-commerce. The core capability is data-led underwriting: IIFL combines cash-flow-based assessment with bureau data, transaction history, and behavioral signals to underwrite borrowers who lack formal income documentation. That capability took years to build through fintech collaborations and proprietary digital platforms, and it now supports fully paperless, swift-disbursal lending.

The products inside the segment fall into two buckets. Secured MSME loans, which include loan against property (LAP) and business loans backed by collateral, are the strategic focus. Unsecured business loans were discontinued. Management confirmed this explicitly on the Q1 FY27 call: "Unsecured business loan and personal loan, both we have discontinued." The discontinued book is in run-off, with management focused on recovery and collections. The annual report for FY26 shows MSME loan AUM of ₹10,349 crore with a yield of 15.9%, and breaks the book into core MSME business versus discontinued business.

The customers are MSMEs and self-employed individuals in urban and semi-urban clusters. They buy from IIFL because they cannot access formal bank credit: their income documentation is thin, their collateral is modest, and their working capital needs are urgent. IIFL's branch network, roughly 3,000 branches dedicated to gold alone, gives it catchment-level reach into these segments. The knowledge center provides working capital loans, business expansion loans, and supply chain finance. The yield of 15.9% reflects the pricing power that comes from serving borrowers who have few alternatives.

The competitive position is defined by who has exited. IIFL has deliberately pulled back from unsecured MSME lending, a space where asset quality deteriorated across the industry. On the Q2 FY26 call, management said the continuing secured LAP and unsecured business loan book would carry credit costs of 2.5% to 3%, while the discontinued book would run at about 8%. That is a higher cost structure than gold loans, which carry near-zero loss given default. Competitors in secured MSME lending include banks like HDFC Bank and SBI, and NBFCs like Bajaj Finance and L&T Finance. IIFL's positioning is narrower: it targets smaller ticket sizes and less formal borrowers, where its data-led underwriting gives it an edge that large banks lack.

The segment fits the group through cross-sell and capital efficiency. MSME loans are originated to gold loan and home loan customers, deepening the relationship with an existing borrower base. The segment also runs through co-lending partnerships with banks, which keeps it off IIFL's balance sheet. In Q2 FY27, total off-book AUM was 34% of consolidated AUM and the company had 18 active bank partners. Management has guided that total off-book proportion will reach 40% to 45%. MSME loans are a meaningful part of that off-book engine.

The revenue mix is disclosed in the annual report: MSME loans are roughly 9% of AUM at ₹10,349 crore, against a total consolidated AUM of ₹1,08,180 crore as of March 2026. That makes MSME the smallest core segment, behind gold loans at ₹52,581 crore and home loans at ₹32,125 crore.

Management's commentary across the four concalls shows a segment in deliberate contraction and repositioning. On the Q2 FY26 call, Nirmal Jain explained the asset quality deterioration in LAP:

> *"The micro-LAP was a cross-sell primarily to microfinance customers. The microfinance customers were very badly hit by the new guardrail which restricted the loan amount... So, that is where the micro-LAP has been impacted because of the cash flows of these borrowers."*

On the Q1 FY27 call, management confirmed the strategic direction: 'The LAP or secured MSME is another product which will be there in our listed company.' The segment is being rebuilt around secured lending, with the unsecured book running off. In Q2 FY27 management said MSME yields fell about 98 bps QoQ as new LAP business shifted to better-quality borrowers at 12.5-13.5% from an older 18-24% micro LAP book with heavy losses; it accepted lower yield for lower credit and collection costs. It said segment ROA may be around breakeven this year, with 2.5-3% targeted next year. Credit cost guidance for FY27 is 1.5% to 1.7%, and Q2 loan loss provisions declined 5% QoQ to ₹21 crore, but that is a quarterly charge, not proof of the full-year outcome.

Microfinance (via IIFL Samasta Finance)

IIFL Samasta Finance, a 99.56%-owned subsidiary, is the group's microfinance arm. It lends small-ticket, income-generating loans to women borrowers under the Joint Liability Group (JLG) model, where five to ten women from the same village guarantee each other's repayment. The core capability that took years to build is the field-level underwriting and collection machinery: 1,614 branches across rural and semi-urban India, staffed by local credit officers who assess borrower cash flows and enforce the group-repayment discipline that keeps losses in check. The annual report calls it a "proven JLG-based lending model focused on women borrowers, ensuring high repayment discipline and social impact."

The product shelf spans income-generating loans (Samriddhi, Samriddhi Plus), top-up loans (Samvardhana), dairy cattle loans (Surabhi), water and sanitation loans (Sajal), consumer product loans (Suvidha), and a mortgage ladder (Sampark, Pragati Sampark, Sampark Advantage) with ticket sizes far above the core product. The average microfinance ticket is around INR68,000; the micro-LAP product averages around INR4.8 lakhs, per the Q4 FY26 concall. Two-wheeler loans run through co-lending partnerships.

Customers are women entrepreneurs, micro-entrepreneurs, and first-time borrowers in rural and semi-urban regions, most with no formal credit history. They buy from Samasta because the JLG model gives them access to credit without collateral, and because the branch network reaches geographies where banks have no lending infrastructure. The annual report notes 94% of group loans support productive purposes.

The competitive position is defined by the sector-wide stress of FY24-25, when RBI's guardrails - capping lender exposure at three to four lenders and cutting loan limits - forced a sharp contraction across the MFI industry. Samasta shrank its book deliberately: AUM fell from ₹13,094 crore in FY 2023-24 to ₹9,859 crore in FY 2024-25, then ₹9,143 crore in FY 2025-26. In Q2 FY27 AUM was stable at ₹10,116 crore. Management's positioning is cautious recovery, not aggressive growth. Nirmal Jain said in Q2 FY27 that growth will pick up a little, but 'it may not be as strong as it used to be 2-3 years ago.'

The segment fits the group as the rural inclusion engine and a capital-efficiency play. Samasta's capital adequacy stood at 24.9% in Q1 FY27, well above the 15% regulatory floor, because the off-book model - direct assignment and co-lending - moves assets off its balance sheet. In H1 FY27 the group raised USD 810 million in international bonds, including a USD 300 million social bond in Q2. In Q2 management said subsidiaries do not need capital and there is no divestment or IPO plan at this point, though it continues to evaluate options including selling part of a subsidiary to fund the parent.

Microfinance is roughly 8% of group AUM, at ₹10,116 crore in Q2 FY27, with a FY26 yield of 24.5%. Samasta's FY26 revenue was ₹2,208.54 crore with profit after tax of ₹21.30 crore.

The recovery is visible in the collections data. In Bihar, where Samasta was first to implement the guardrails, multi-lender exposure is below 5% and collection efficiency is around 99%, with arrears near 6%, per the Q2 FY26 call. Karnataka and Tamil Nadu, the two largest states, are back to 99.5% plus collection efficiency, Venkatesh reported in the Q3 FY26 call. The zero-bucket collection rate - the share of dues collected on the day they fall due - is at an all-time peak of 99.56%.

> *"we want to get back to our AUMs where we let off in March '24. So that will be the key thing. And we are cautiously growing."*
>
> **VENKATESH N., MD, IIFL SAMASTA FINANCE, Q4 FY26 CONCALL (MAY 2026)**

Management's ROA target for Samasta is 2.5% to 3%, with Venkatesh saying "closer to 3%" by year-end. The constraint on growth is not demand but the guardrail framework itself, which limits borrower debt by design. That is the trade: slower, steadier growth on a book that management believes is structurally safer than the pre-2024 version.

Customers

The customer base is deliberately Bharat, not the metros. 87% of customers belong to economically weaker sections earning below INR 3 lakh annually, and 84% of branches sit in non-metro markets. The annual report states 94% of loans support productive purposes. The company serves over 4.6 million customers through about 4,800 branches, with 50 lakh-plus app downloads.

Gold loan customers are predominantly small traders, shopkeepers and mom-and-pop businesses who need working capital in small amounts on short cycles. Management describes them as people who "really can't borrow any other type of loan" because their income documentation is weak. The buying decision is driven by speed and proximity - a customer pledges jewellery and gets cash the same day, often at the doorstep. The emotional attachment to gold is the collection mechanism: customers repay because they want the jewellery back, which is why the loss given default has been near zero for 15-16 years. The average loan per branch is about INR 15 crore, roughly half the market leader, which management cites as evidence of headroom in its existing catchment.

Home finance customers are first-time homebuyers in the affordable and emerging segments, largely self-employed or informally employed, with limited income documentation. The PMAY-U 2.0 subsidy program is structural for this business - IIFL Home Finance supported over 5,200 beneficiaries under the scheme in FY26, and the subsidy's five-year lock-in reduces customer attrition because borrowers must stay current and non-delinquent to receive the annual subsidy installments.

Microfinance customers are women organized under Joint Liability Groups, borrowing about INR 68,000 per cycle for income-generating activities. The JLG model creates peer pressure as the repayment mechanism - the group is jointly liable, which is what makes small-ticket unsecured lending to this segment workable. The average ticket is small enough that concentration risk is granular.

The switching costs are modest in the formal sense - there is no contractual lock-in on a gold loan - but the relationship is sticky in practice. Gold loan customers return for top-ups and

renewals because the branch knows them, the collateral is already pledged, and the process is instant. Management frames the franchise as the moat: existing customers, branch relationships and the ability to maintain yield without chasing price competition.

Concentration is low by design. The gold book is granular - millions of small loans rather than a few large ones. The one meaningful geographic concentration is Bihar in the microfinance book at about 22% of Samasta's portfolio, where collection efficiency is back to about 99% and the plus-4 lender exposure (borrowers with four or more lenders) is under 5%.

Competitive landscape

Gold loans

The gold loan market is large, fragmented and increasingly contested. Management notes that several large public sector banks have gold loan portfolios exceeding INR 3 lakh crore each, and that new NBFC entrants have been aggressive on both yield and LTV. The competitive response from IIFL is not to match on price but to rely on the branch network, customer franchise and the learning curve new entrants face in building secure gold storage, trained staff and valuation systems. The market is big enough that no single player's aggression moves the needle - part of the market is still unorganized, and the clampdown on unsecured lending is pushing customers toward gold.

IIFL's position is strong but not dominant. The average loan per branch is about half the market leader's, which management reads as upside in its own catchment. The yield of 18.1% is maintained because IIFL focuses on small-ticket loans where the rate is fair for the service provided. Competition shows up in two ways - rivals dropping yields or raising LTVs - and management says it sees both but is not chasing either.

Home finance

The competitive set in affordable housing includes Bajaj Housing Finance and PNB Housing Finance, both named by management as actively entering the INR 15-25 lakh ticket segment. The industry structure matters here: only about 7-8 big players are active in affordable, with another 80-plus companies holding very small books. The PMAY 2.0 subsidy lock-in is a structural change that reduces balance-transfer attrition, which was the historical problem for affordable lenders - customers would upgrade their bureau score and switch to a cheaper lender after 12-18 months. That dynamic is now dampened for subsidized customers.

IIFL's competitive weakness in home finance is its high-cost legacy book. The HFC's GNPA was much higher than peers because of micro LAP, and the yield of 10.6% was low for the segment. The repositioning - exit prime, push affordable and emerging at 12% plus, cut

micro LAP - is an attempt to close that gap. The LGD on the housing book is 33-34%, which is the reference for provisioning.

MSME lending

MSME lending is a crowded field of banks, NBFCs and fintechs. IIFL's edge is the branch network and data-led underwriting, plus co-lending partnerships that let it originate without holding all the risk. The secured MSME product (INR 50 lakh to INR 2 crore tickets in smaller towns at 13.6-14% yield) is a priority-sector lending play where banks need the origination capability that IIFL has. The unsecured business was discontinued because the risk-return was unacceptable.

Microfinance

The MFI industry went through a coordinated stress event after the RBI guardrails limited borrower debt and lender count. IIFL Samasta's position is that of a large, bank-funded MFI with a parent balance sheet - the standalone small MFIs that depended on bank lines were the ones most at risk. The competitive advantage is access to funding and the parent's systems. The recovery is visible: collection efficiency at 99.56% in the zero bucket in Q3 FY26, and management describing Karnataka and Tamil Nadu as the strongest comeback states at 99.5% plus.

Where IIFL wins is in distribution density, the gold franchise and the off-book relationships with banks. Where it loses is in cost of funds versus banks and large HFCs, and in the home finance yield where it is rebuilding from a weak base. The honest read is that gold is the competitively strong business, home finance is the turnaround, and MSME and microfinance are steady but not differentiated.

Industry

Gold loans

The gold loan market in India was valued at about INR 7.1 lakh crore in FY24 and is projected to reach INR 14.19 lakh crore by FY28-29, a CAGR of 14.85%, per the FY26 annual report. Gold loans account for 11.1% of the retail credit portfolio, the second-largest retail lending segment after housing. The market has expanded nearly 3.8x since March 2022, and average ticket sizes have more than doubled from about INR 90,000 to INR 1.96 lakh as collateral values rose.

The demand drivers are structural: rising gold prices increase the borrowing capacity of existing gold holders, the RBI's clampdown on unsecured lending pushes small borrowers toward collateralized gold loans, and the organized market is taking share from the unorganized sector. India's place in the global gold supply chain matters here - households hold enormous gold stocks, and gold is culturally preferred collateral. The industry is not

cyclical in the credit sense because the loans are short-tenure (6-24 months) and secured, but it is sensitive to gold price corrections, which raise LTVs and can push borrowers into default if the cushion erodes. Management's stated tail risk is a sharp gold price correction, which is why it maintains LTV discipline (around 61-63% at quarter ends) despite the regulatory ceiling of 75%.

Affordable housing

The affordable housing finance market grew 19% year-on-year to INR 1.58 lakh crore in 9M FY26, and ICRA expects 19-21% growth in FY26-27, per the annual report. The demand drivers are government policy (PMAY-U 2.0, which subsidizes interest for EWS/LIG/MIG borrowers and locks them into their lender for five years), low mortgage penetration in tier 2-4 cities, and the formalization of income among informal borrowers. The segment is less cyclical than prime housing because demand is needs-based rather than investment-driven, though it is sensitive to interest rates - the last two years of elevated rates favored the luxury segment, which is precisely why IIFL exited prime.

MSME

India's MSME financing gap exceeds US$ 530 billion, per the annual report. The addressable market is expanding as GST registrations cross 1.5 crore, UPI and digital payments formalize small businesses, and banks seek priority-sector lending assets. NBFCs are the origination channel for much of this because they have the branch reach and underwriting capability for small borrowers that banks lack. The segment is structurally underpenetrated but carries higher credit risk, which is why IIFL's pivot to secured MSME matters.

Macro and regulation

The RBI held the repo rate at 5.25% in June 2026 with a neutral stance, trimmed FY27 GDP growth to 6.6% and nudged inflation up to 5.1% on geopolitical pressures, per the Q1 FY27 call. The West Asia situation has kept crude and shipping volatile. Domestic retail and MSME credit demand has remained resilient regardless.

The regulatory environment is the defining feature of the industry right now. The new gold loan guidelines (effective April 2026) require income assessment for loans above INR 2.5 lakh - lenders must classify loans as consumption or income-generating, cap consumption loans at 75% LTV, and assess cash flows for income-generating loans. This is a barrier to entry that favors established players with technology-driven assessment systems, and it is why management calls the regulation "healthy from a long-term point of view." The new co-lending directions (CLM-1) took effect January 2026 and formalized the co-lending framework, which initially slowed co-lending as banks integrated their systems but is now gathering momentum with 18 active bank partners in Q2 FY27.

The RBI also freed branch expansion - NBFCs no longer need regulatory approval to open branches - which is why IIFL plans 500 new branches in FY27. The unsecured lending clampdown is shifting borrowers toward gold, and the MFI guardrails reduced borrower debt, which is now showing up in improved collection efficiency.

The industry is in a consolidation phase after the stress of FY24-25. The NBFC sector is entering "a more stable phase after a period of recalibration," in management's words, with the focus on asset quality, capital efficiency and sustainable growth under tighter regulatory oversight. That favors well-capitalized, branch-led, secured lenders with bank partnerships - which is the position IIFL has deliberately built toward.

Growth triggers

Scaling co-lending with banks (18 active partners in Q2 FY27)

Co-lending is IIFL's capital-efficient growth channel. IIFL originates loans through its branch network, a partner bank funds the majority share, and IIFL keeps a minority slice on its books while servicing the full loan. The bank's portion sits off IIFL's balance sheet, so co-lending grows AUM without consuming capital adequacy. The FY26 annual report describes co-lending as "a cornerstone of our capital-light growth strategy," with cumulative originations since FY 2020-21 crossing INR50,000 crores.

The trigger is the partner count: 12 active banks in FY26, 15 in Q1 FY27, 18 in Q2 FY27. Off-book AUM was ₹42,796 crore, or 34% of consolidated AUM, in Q2 FY27. Management's target is to grow co-lending from roughly 13-14% of AUM to 20%, and total off-book (direct assignment plus co-lending) from 34-36% of AUM to 40-45% (Q4 FY26 concall, May 2026). During FY26, Central Bank of India, Jammu & Kashmir Bank and Bank of Maharashtra were onboarded for gold loan co-lending.

Growth was deliberately slow through FY26 because the RBI's new Co-Lending Directions took effect January 1, 2026, and banks paused new integrations while building systems. Nirmal Jain said in Q2 FY26 (Nov 2025): 'they have put the co-lending thing on hold, but there is tremendous excitement... we will see momentum in this from the next quarter.' By Q2 FY27 he said the company had 18 active bank partners and off-book was 34% of AUM; co-lending had scaled a bit slower than plan in Q1 but was expected to gather momentum.

The mechanism is bank-by-bank process alignment. Each partner must accept IIFL's underwriting before origination starts:

> *"when you do co-lending, banks have to accept your process, and that process should meet their standards also... for every bank, we have to work separately."*
>
> **NIRMAL JAIN, Q1 FY27 CONCALL (JUL 2026)**

The capital-relief angle is the point. With the parent NBFC's capital adequacy at 17.03% in Q2 FY27 and gold loans carrying 125% risk weight, Nirmal Jain said co-lending 'will also ease the pressure this quarter' in Q1 FY27, and reaching the 40-45% off-book target would keep the company 'safe in our debt and capital' (Q4 FY26). In Q2 FY27 he said the company is committed to raising equity at the earliest opportunity and hopes to close something this quarter.

Branch expansion continues; HFC added 38 affordable branches to 350 in Q2 FY27

IIFL Finance's parent branch plan was 500 branches for FY27 as of the Q1 FY27 call; the Q2 call confirmed the aggregate network, including gold and microfinance, was above 5,000 branches and said branches set up in the last two quarters are becoming productive. IIFL Home Finance had 350 branches in Q2 FY27 after adding 38, all in affordable.

Branches are the sourcing engine in IIFL's branch-led model, and each new branch originates loans in its catchment, gold loans in the parent and affordable home loans in the HFC. The RBI freed branch expansion, removing regulatory approval requirements, and management is targeting underserved semi-urban and rural markets where banking penetration is thin. Nirmal Jain framed it partly as a productivity play, noting per-branch AUM has headroom:

> *"our average loan per branch is around INR 15 crores, which is nearly half of the market leader."*
>
> **MD, Q3 FY26 CONCALL (JAN 2026)**

For Home Finance, the branches are aimed at the affordable segment, where onboarding yields run above 12% versus the 10.6% FY26 blended portfolio yield. The HFC added 38 branches in Q2 FY27, all in affordable, taking the total to 350; affordable disbursements rose to ₹790 crore in Q2 from ₹400 crore in Q1. Management said affordable yields are about 12.5-12.6% and emerging about 11.5%.

There is a near-term cost. Branches carry fixed salaries and rent, so expansion offsets some operating-efficiency gains. Opex to average AUM was 3.3% in Q2 FY27, down from a peak of 4.0%, and management said branches set up in the last two quarters are becoming productive. The operating-efficiency benefit arrives as the new branches scale their books.

Gold loan growth driven by elevated gold prices and branch productivity

Gold loans are IIFL's primary growth engine, and the growth rests on two compounding levers. Elevated gold prices expand the loan amount each gram of collateral supports: gold loans are capped at 75% LTV, so when prices rise, the same physical gold backs a larger loan, and AUM grows faster than tonnage. In Q1 FY27, gold AUM grew 11% quarter-on-quarter while tonnage grew only 5-6%, a split Nirmal Jain confirmed on the call. Branch productivity is the second lever. IIFL runs roughly 3,000 branches dedicated to gold, and average loan per branch sits around INR15 crores - about half the market leader, per the Q3 FY26 concall. The

post-embargo recovery is also bringing back customers who left during the RBI restriction, and management plans 500 new branches in FY27.

The book's trajectory shows the compounding: INR34,577 crores in Q2 FY26, INR43,432 crores in Q3 FY26 (crossing the pre-embargo level), INR52,581 crores in Q4 FY26, and INR58,406 crores in Q1 FY27. Management's FY27 guidance ties growth to gold prices holding:

> *"if they remain here, we should see AUM growth of around 20% to 25%."*
>
> **NIRMAL JAIN, Q4 FY26 CONCALL (MAY 2026)**

The annual report adds context: the gold loan industry is projected to grow at a 14.85% CAGR to INR14.19 lakh crores by FY2028-29, and IIFL's gold yield improved to 18.1% in FY26.

AI-led operating model (Project PACE) reducing costs and improving collections

Project PACE is the company's AI-led operating model. In Q2 FY27, Nirmal Jain said projects have moved beyond pilot and are deployed with reasonable success, with about 30% productivity improvement in processes where applied. The model spans the credit lifecycle: lead generation, underwriting, collections, cross-sell, and fraud detection. In microfinance, AI is helping in the 1-90 and 90+ collection buckets by feeding field officers with leads and payment commitments.

The mechanism is direct. The AI-driven lead engine generates a monthly pipeline of nearly ₹1,000 crores, per the FY26 annual report. AI-assisted collections handle about ₹450 crores, and the AI fraud detection system flagged 1,895 loans for field audit. 48% of branches now take decisions based on AI/analytics. Better collections and fewer fraud losses lower credit costs, and automation cuts operating expenses.

> *"Across lead generation, underwriting, collections and cross-sell, AI is improving conversion rates, reducing credit costs and enhancing operating efficiency."*
>
> **NIRMAL JAIN, Q4 FY26 CONCALL (MAY 2026)**

The cost impact is already visible. Nirmal Jain said opex to AUM is down to 3.4% (Q1 FY27 concall, Jul 2026).

The cost impact is already visible. Nirmal Jain said opex to average AUM declined to 3.3% in Q2 FY27 from a peak of 4.0%.

Management is deliberately cautious about the range. On Slide 19, Project PACE shows loss prevention of 10-40% and operating cost reduction of 8-20%. Nirmal Jain said year one will

land on the lower side, while the 3-year view is on the higher side. The next 2-3 years are the period when these benefits compound.

Home finance turnaround with focus on affordable/emerging segments and higher yields

The housing finance subsidiary spent FY26 cleaning up a legacy micro LAP book that overlapped with stressed microfinance customers. In January 2026, management sold an INR 875 crore portfolio to an ARC, cutting housing GNPA from 2.2% to 0.9%. In Q2 FY27 HFC AUM was ₹43,070 crore, up 4% QoQ, and GNPA was 1.3%. The residual problem book is small - micro LAP at INR 440 crore and BLC at INR 260 crore as of June 2026.

The pivot targets affordable and emerging segments at higher yields. Management shut the prime business for its thin margins, and is pushing onboarding yields toward 12% plus. In Q2 FY27 onboarding yield was 11.81% versus 10.69% a year earlier; management said affordable yields are about 12.5-12.6% and emerging about 11.5%. Three mechanisms drive this: 38 branches added in Q2 (350 total), PMAY 2.0's 5-year interest subsidy which keeps customers on book and reduces balance transfers, and a higher-yield LAP push - LAP is 18% of the book and yields more at both affordable and emerging ticket sizes.

> *"we are pivoting towards higher yield, which will be to start with about 12% plus this year"*
>
> **GIRISH KOUSGI, Q4 FY26 CONCALL (MAY 2026)**

The first evidence of traction came in Q2 FY27: H1 disbursements grew 64% and Q2 disbursements grew 41% sequentially, onboarding yield improved to 11.81%, and AUM grew 4% sequentially. Management guided to 18-20% AUM growth for FY27 in Q2 and targets 16-18% ROE in the HFC next year, with continued quarter-on-quarter improvement and operating leverage as volume growth accelerates.

Microfinance recovery with improving collection efficiency

The trigger is the turnaround of IIFL Samasta, the microfinance subsidiary, after the sector-wide stress caused by RBI guardrails that restricted how much credit each borrower could take. The recovery has two parts: collection efficiency returning to near-normal, and the loan book resuming growth after being deliberately shrunk.

The mechanism runs through Samasta's portfolio, which closed FY26 at ₹9,143 crore of loan AUM with a 24.5% yield and was stable at ₹10,116 crore in Q2 FY27. When the guardrails forced borrowers to cut credit, management exited high-risk geographies, tightened underwriting, and focused on recovery and collection. At the Q3 FY26 concall (Jan 2026), Samasta CEO Venkatesh N said Karnataka and Tamil Nadu were back to collection efficiency of 'around 99.5% plus', and the zero-bucket collection rate reached an all-time peak of 99.56%.

> *"Microfinance is seeing a robust recovery with improving collection efficiency and stabilizing asset quality. We are growing this book cautiously with a sharper focus on quality and sustainability."*
>
> **NIRMAL JAIN, Q4 FY26 CONCALL (MAY 2026)**

The recovery converts into business in three ways. Growth resumes: management said in Q2 FY27 that microfinance growth will pick up a little, with October disbursements around ₹800 crore and an exit run-rate near ₹1,000 crore a month, though it may not return to the 30-40% pace of FY24. Profitability recovers: management guided Samasta's ROA to 2.5-3%, with Venkatesh N saying 'closer to 3%' by the end of FY27, from a base where FY26 PAT was ₹21.3 crore. The recovered franchise also reopens capital options - management is evaluating a partial stake sale or listing of the microfinance subsidiary.

Key risks

Sharp gold price correction. Gold loans are ~53% of AUM in Q2 FY27. Elevated prices have supported growth and kept portfolio LTV around 61-63% in recent quarters, but management calls a sharp correction 'a real tail risk.' In Q2 FY27 gold NPAs rose about 30 bps QoQ and the 90+ DPD gold cohort had LTV close to 85%. If prices fall sharply, LTVs rise and customers who borrowed at peak prices have less incentive to repay. The 15-16 year record of near-zero LGD in gold is untested at this book size, and reported GNPAs can move up before auctions happen.

Capital adequacy at the edge in the standalone entity. Standalone capital adequacy was 17.03% in Q2 FY27 and consolidated capital adequacy 23.5%, with gold loans carrying 125% risk weight. Growth at 20-25% consumes capital quickly. Management has shareholder approval for fresh equity, is talking to investors, and hopes to close a raise this quarter; dilution could be 10-20%. If co-lending and direct assignment don't scale fast enough, an equity raise at unfavorable valuations becomes the only path.

Competition in gold loans. New NBFC entrants are dropping yields and raising LTVs to win share. Management says it is not chasing cutthroat competition and relies on its branch network and customer franchise, but the pressure is real. PSU banks alone hold more than ₹3 lakh crore of gold loan portfolios, so the competitive field is deep. In Q2 FY27 management said competition is increasing, but the market is expanding and it expects to maintain growth momentum if gold prices stay stable.

Regulatory friction in gold loans and co-lending. New RBI guidelines require income assessment for gold loans above ₹2.5 lakh, with consumption loans capped at 75% LTV and income-generating loans needing documented cash flow checks. This adds underwriting friction at the branch level. Separately, the CLM-1 co-lending directions effective January 2026 require bank-by-bank system integration, and banks have different policies and

thresholds. Delays here compound the capital issue because co-lending is the primary capital-efficient growth engine.

Asset quality in discontinued portfolios. Digital unsecured MSME loans and micro LAP were discontinued but remain on the books, each about 2% of the portfolio. These have elevated NPAs and shrinking denominators, so percentage-wise they look worse as they run off. Micro LAP is ₹440 crore and the BLC book is ₹260 crore. In Q2 FY27 loan loss provisions declined 5% QoQ to ₹21 crore, but credit cost guidance of 1.5-1.7% for FY27 assumes these run off as planned, and slower recoveries push credit costs above guidance.

Income tax assessment overhang. A Section 132 search was followed by a Section 142(2A) special audit covering a six-year block period. A ₹475 crore demand is already being contested before the CIT. In Q2 FY27 management said there was no further update and it is presenting its case. Management expects no material adverse outcome, but the final demand is unknown and the process is ongoing.

Housing finance turnaround risk. Home finance AUM was flat in FY26 at ₹32,125 crore and profitability was subdued due to micro LAP stress. In Q2 FY27 AUM was ₹43,070 crore, up 4% QoQ, and GNPA 1.3%. The pivot to affordable and emerging segments with 11.81% onboarding yields is guided to deliver 18-20% AUM growth in FY27 and 16-18% ROE next year. Housing LGD is 33-34%, so losses in this book are real. If the pivot fails, the subsidiary keeps dragging consolidated returns.

Concentration risk in gold loans. Gold loans are ~53% of AUM in Q2 FY27 and the primary growth engine. The 2024 RBI embargo showed how disruptive a regulatory action in this segment can be, and it took over a year to recover. Any future regulatory action, operational failure, or gold price shock in this segment has outsized impact on the company.

Funding cost pressure. Quarterly average cost of borrowing was 9.13% in Q1 FY27. The USD 500 million social bond program is fully hedged but at a higher cost; IIFL raised $300 million in Q2 and $810 million in H1 FY27. Fitch upgraded the rating to BB- in Q2. Management expects funding costs to drop 100-120 bps if the domestic rating improves, but that depends on rating agency action. Elevated funding costs squeeze NIM, especially in gold loans where competition is intensifying.

Microfinance recovery risk. Samasta PAT was ₹21.30 crore in FY26, down sharply from prior years. Industry loan losses were ~8% for the year. Management targets Samasta ROA of 2.5-3%, but that assumes collection efficiency stays at 99%+ and the industry recovery holds. A stall in the microfinance recovery keeps credit costs elevated and the subsidiary a drag. In Q2 FY27 AUM was stable at ₹10,116 crore and management expects growth to pick up only gradually.

Scenarios

Bull case

Gold prices hold near current levels or drift within about ±10%, and gold loan AUM grows 20-25% as management guided. Co-lending scales with 18 active bank partners and off-book AUM moves toward 40-45% of the total, easing the standalone capital constraint without forced equity dilution. The equity raise, if completed, is modest at 10-20% dilution and funds growth. Credit cost lands at the low end of the 1.5-1.7% guidance as discontinued portfolios run off cleanly and the ARC sale in housing finance accelerates cleanup. Home finance delivers 18-20% AUM growth with onboarding yields above 11.8%, and the micro LAP drag fades. A rating upgrade cuts funding costs by 100-120 bps. Samasta recovers to 2.5-3% ROA as microfinance collection efficiency holds at 99%+. ROE sustains above 20%.

Base case

Gold loan AUM grows 20-25% as guided, with tonnage contributing 5-6% and the rest from price appreciation. Co-lending scales gradually with 18 bank partners, and off-book stays around 34-36% of AUM, keeping standalone capital adequacy just above minimums. The company raises a mix of perpetual debt and possibly a modest equity round of 10-20% dilution to fix the capital position. Credit cost lands at 1.5-1.7%. Home finance grows 18-20% with gradual yield improvement to 11.5-12% as the affordable and emerging pivot takes hold. ROE stays around 20%. Microfinance recovers slowly, with Samasta ROA reaching 2.5% by year-end.

Bear case

Gold prices correct sharply, raising LTVs and triggering higher NPAs in the gold book. Competition from new entrants forces yields down, squeezing NIM in the core engine. Co-lending scaling lags as banks take longer to integrate under CLM-1, forcing an equity raise at unfavorable valuations; dilution of 10-20% at a low price reduces ROE. Discontinued portfolios deliver worse-than-expected recoveries, pushing credit costs above 2%. Home finance fails to grow 18-20%, with the affordable pivot not delivering and the micro LAP drag persisting. The insurance commission draft cuts group PBT by about 5%. The income tax assessment results in a material demand. Credit costs and funding costs rise together, and ROE falls to low teens.

VALUATION SUMMARY

LINE ITEM	FY25	FY26	FY27E	FY28E	FY29E
Revenue (₹ Cr)	5,536	7,626	9,588	11,397	13,208
Interest (₹ Cr)	4,170	5,717	7,692	8,870	9,983
PBT (₹ Cr)	707	2,409	4,373	5,163	6,186
Tax (₹ Cr)	129	592	1,072	1,265	1,516
Tax rate	18.2%	24.6%	24.5%	24.5%	24.5%
PAT (₹ Cr)	379	1,661	3,104	3,664	4,390
PAT growth	-	+338.5%	+86.9%	+18.1%	+19.8%
EPS (₹)	8.70	38.80	72.80	85.70	103
P/E	70.7x	15.9x	8.4x	7.2x	6.0x
PEG	3.7x	0.8x	0.4x	0.4x	0.3x

CAGR FY27E-FY29E: Revenue +17.4% · EBITDA - · PAT +18.9%

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Q2 FY27 concall notes

TLDR

IIFL Finance reported Q2 FY27 consolidated PAT before NCI of ₹805 crores, up 13% QoQ and 92% YoY, crossing ₹800 crores for the first time, with AUM at ₹1.24 lakh crores (up 38% YoY, 8% QoQ). Consolidated ROE reached 20.1% and ROA 3.1% for H1. Gross NPA improved 7 bps QoQ to 1.48%, though gold loan GNPA rose about 30 bps QoQ on softer gold prices. Off-book AUM (assignment plus co-lending) stood at ₹42,796 crores, 34% of consolidated AUM, across 18 bank partners. Management maintained FY27 guidance of 25-30% AUM growth and around 20% ROE, and expects to close an equity raise of 10-20% dilution this quarter. Watch items: gold price correction, insurance commission regulation, and home finance yield compression.

WHAT CHANGED SINCE Q1 FY27

- **Equity raise moved from enabling resolution to active process.** In Q1, the board sought shareholder approval for an enabling resolution with options including QIP, subsidiary stake sale, perpetual debt and subordinated debt. This quarter management said it is talking to investors and expects to close something this quarter, with dilution of 10-20% of market cap. No decision yet between private equity and QIP.
- **Fitch upgrade delivered.** Q1 notes flagged Fitch engagement with a committee expected post-results and management optimistic on an upgrade. This quarter Fitch upgraded the rating to BB-.
- **Co-lending partners increased from 15 to 18.** Q1 had 15 active bank partners; this quarter 18 across IIFL Finance, Home Finance and Samasta.
- **Off-book income now guided to decline.** Q1 said assignment upfront income would become negligible as co-lending scales. This quarter management said off-book income will continue to decline or not grow at the same pace, while interest income is maintained.
- **Gold loan GNPA rose about 30 bps QoQ.** Q1 reported gold 30+ DPD at 3.8%, up marginally, and management called it manageable. This quarter gold GNPA increased on lower gold prices toward quarter end, with the 90+ DPD cohort at close to 85% LTV. Management still expects minimal losses.
- **Income-generating gold loans disclosed at 20-25% of the book.** Q1 launched the product under the new RBI framework without a share. This quarter management said 20-25% of gold loans are income-generating as of now, with 70-80% of customers being MSMEs who qualify.
- **Home finance growth guidance maintained but mix shifted.** Q1 guided 17-18% book/AUM growth and 30%+ disbursement growth. This quarter management said it will meet the 18-20% AUM guidance, with affordable disbursements doubling from ₹400 crores in Q1 to ₹790 crores in Q2 and 38 new branches added, all in affordable.
- **Samasta growth stance softened from cautious to positive.** Q1 described steady 3-4% QoQ industry growth and a 2.5-3% ROA target. This quarter management said growth will pick up, September run rate was close to ₹550 and October is targeted at close to ₹800, with an exit run rate of around ₹1,000 a month.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated AUM	₹1.24 lakh crores	Up 38% YoY, 8% QoQ	Gold loans around 53% of portfolio, home loans around 27%; core businesses 97% of portfolio, up 43% YoY

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated net interest income	₹1,480 crores	Up 13% QoQ	Growth in loan volume
Total income	₹2,340 crores	Up 6% QoQ	Business momentum
Pre-provision operating profit	₹2,355 crores	Up 8% QoQ	Operating efficiency
PAT before NCI	₹805 crores	Up 13% QoQ, 92% YoY	First quarter above ₹800 crores; H1 at ₹1,518 crores
Loan loss provision	₹21 crores	Down 5% QoQ	Lower credit cost
Gross NPA	1.48%	Down 7 bps QoQ	Improvement despite gold loan GNPA rising about 30 bps QoQ
Net NPA	0.87%	Up QoQ	Gold loan GNPA rise, provision lagging GNPA
ROE (annualized, H1)	20.1%	Above 20% target	Profitability growth
ROA (annualized, H1)	3.1%		
Opex to average AUM	3.3%	Down from 4% peak	Operating efficiency
Portfolio yield	16.5%	Down 3 bps QoQ	Stable
Cost of borrowing	16.5%	Up 3 bps QoQ	Stable; interest spread narrowed 60 bps to 7.42%
Liquidity (cash and unbound lines)	₹13,805 crores	All-time high	Global uncertainty and expected local liquidity tightening
Net gearing	4.1x	vs 4.0x in Q1	
Standalone loan book	₹70,383 crores	Up 11% QoQ	96% secured; gold loans around 93% of standalone AUM
Standalone gross NPA	1.3%	Up 3 bps	
Home finance AUM	₹43,070 crores	Up 4% QoQ	Disbursements up 41% QoQ on booking basis
Samasta AUM	₹10,116 crores	Stable	Calibrated approach to growth
Off-book AUM	₹42,796 crores	34% of consolidated AUM	Assignment and co-lending across 18 bank partners

SEGMENTS & GEOGRAPHIES

- **Gold loans**: Around 53% of consolidated portfolio and 93% of standalone AUM. Tonnage rose from 64 to 69 tons. GNPA increased about 30 bps QoQ as gold prices were lower at quarter end than at the start; the 90+ DPD cohort carries LTV close to 85%. Management said a sudden 10% gold price correction could push NPAs to 1-3% but ultimate losses would be minimal given collateral. Auctions rose slightly from near zero in the last 2-3 quarters, running at 1-2% of transactions historically. Income-generating loans are 20-25% of the book. Management expects to maintain growth momentum in H2 if gold prices stay within plus or minus 10%.
- **Home finance**: AUM ₹43,070 crores, up 4% QoQ; disbursements up 41% QoQ on booking basis and 64% H1 to H1 on check clearance basis. Affordable disbursements doubled to ₹790 crores in Q2 from ₹400 crores in Q1; 38 new branches added, taking the count to 350, all in affordable. Affordable yield is 12.5-12.6% blended and emerging

11.5%. Portfolio yield fell 10 bps QoQ, which management attributed to runoff of higher-yield pools and could not fully reconcile on the call. ROE target of 16-18% is for next year, with continuous quarterly improvement.

- **Microfinance (Samasta)**: AUM stable at ₹10,116 crores. GNPA improved 46 bps, supported by lower credit cost. September run rate was close to ₹550 and October is targeted at close to ₹800, with an exit run rate of around ₹1,000 a month. Growth was muted in geographies with drought conditions. Management expects H2 momentum to build through the festive season.
- **MSME**: Yields fell 0.98% QoQ as the book shifted to superior quality borrowers. New LAP business is written at 12.5-13.5% versus 18-24% for the old micro LAP. Management said segment ROA this year will be around breakeven, returning to 2.5-3% next year. Residual high-yield runoff is about ₹250 crores in home loans and around ₹400 crores in LAP, about ₹600 crores in total.

STRATEGY & COMPANY-SPECIFIC

- **Equity raise**: Board and creditor approval obtained last quarter. Management is talking to investors and expects to close this quarter, with dilution of 10-20% of market cap. No decision between private equity and QIP. Capital is needed only in the listed holding company; subsidiaries have adequate capital adequacy.
- **Subsidiary capital options**: Management said it can sell part of a subsidiary to bring capital to the parent, since dividends are taxable. It expects an opportunity in 6-7 quarters to demerge, divest or release capital blocked in subsidiaries. No plan at this point for a home finance or Samasta IPO or stake sale.
- **Funding**: Raised $300 million social bond in Q2, about 2.3 times subscribed, part of $810 million raised in H1 FY27 through international bond issuances. Also did a small tokenized bond issue for the first time. Fitch upgraded the rating to BB-.
- **Co-lending and assignment**: Off-book AUM at ₹42,796 crores, 34% of consolidated AUM, with 18 bank partners. About 40% of the gold loan portfolio is co-lending. Management said co-lending is used because capital adequacy is not adequate to keep everything on the books. Off-book income will continue to decline as co-lending scales, while interest income is maintained.
- **AI deployment**: Processes where AI has been applied show about 30% productivity improvement, with 100 people's work done by 70. It is helping collections in the 1-90 and 90+ buckets by feeding field officers, and in lead generation for renewal and add-on loans from the existing customer base.
- **Branch network**: More than 5,000 branches across gold loan and microfinance. Home finance added 38 branches in Q2, all in affordable, taking the count to 350.
- **Insurance commission regulation**: FY26 group insurance commission was ₹250-260 crores, flowing almost entirely to PBT. Of this, ₹160-170 crores is in HFC and ₹75-80 crores in Samasta; IIFL standalone has about ₹3 crores. Management said the impact would be around 5% of PBT or slightly less, not 10%. Commission rates could fall from around 14% to 2.5-5% under the new regime. Management expects the change to take effect next financial year and is working with insurance partners to minimize the impact.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 AUM growth	25-30%	Maintained	On track to meet and exceed; management said there is no change in guidance
FY27 profit growth	Similar to AUM growth	Maintained	No change in guidance

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 ROE	Around 20%, upper end of guidance	Maintained	Possible to close FY27 at 20% even with dilution
Equity raise	Close this quarter, 10-20% dilution	New	Talking to investors; committed to raise at the earliest opportunity
Home finance AUM growth	18-20%	Maintained	Already achieved after 2 quarters; H2 to see accelerated core home loan growth
Home finance ROE	16-18%	Maintained	Target for next year, with continuous quarterly improvement
Samasta monthly run rate	Around ₹1,000 by Feb-March	New	September close to ₹550, October targeted close to ₹800
MSME segment ROA	Around breakeven this year, 2.5-3% next year	New	Shift to superior quality borrowers at lower yield
Consolidated ROE (medium to long term)	Above 20%	Maintained	Profitability catch-up after any dilution within a quarter or two
Gold loan growth	Maintain momentum in H2	New	If gold prices stay within plus or minus 10% and the economy holds

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Gold price correction	A sudden 10% correction could push NPAs to 1-3%, but ultimate losses would be minimal because collateral value exceeds the loan. The 90+ DPD cohort carries LTV close to 85%.
Gold loan GNPA rise	Gold GNPA rose about 30 bps QoQ on lower gold prices at quarter end. Management said 60-90 bps variation is acceptable and losses will be minimal.
Insurance commission regulation	Group commission of ₹250-260 crores could be impacted, around 5% of PBT or slightly less. Commission rates could fall from around 14% to 2.5-5%. Management expects a middle path and possible deferral to next financial year.
Home finance yield compression	Portfolio yield fell 10 bps QoQ. Management attributed it to runoff of higher-yield pools but could not reconcile the full gap on the call and offered to share the breakup offline.
Capital adequacy	Management said capital adequacy is not adequate to keep everything on the books, which is why co-lending is used. Equity raise of 10-20% dilution expected this quarter.
Dilution at unfavorable valuation	An analyst pressed on raising at a suboptimal price-to-book. Management said market price is market price and there is a trade-off with maintaining growth, but quality of investors matters for re-rating.
Tax demand	Assessment order and tax demand are stayed; the company is presenting its case. No further update since last quarter.
Competition in gold loans	Competitive intensity is increasing, but management said much of it is noise since competitors need time to set up branches, hire and train. Market is expanding as gold prices raise household borrowing capacity and tightened unsecured and microfinance lending pushes customers to gold loans.

Q&A HIGHLIGHTS

Gold loan NPA and LTV Question: Why did gold NPAs rise about 30 bps QoQ, and what would a 10% gold price correction mean for NPAs and LGD? Answer: Gold prices were lower at quarter end than at the start, and some small customers could not pay on time. A sudden 10% correction could push NPAs to 1-3%, but ultimate losses would be minimal because collateral value exceeds the loan. The 90+ DPD cohort carries LTV close to 85%.

Capital raise process and size Question: Where is the standalone capital raise, QIP or strategic investor, and what size? Answer: Board and creditor approval were obtained last quarter. Management is talking to investors and expects to close something this quarter, with dilution of 10-20% of market cap. No decision yet between private equity and QIP.

Off-book income decline Question: Off-book AUM rose QoQ but off-book income fell. Why? Answer: Co-lending carries no upfront income, and assignment income is amortized as the book runs off. Off-book income will continue to decline or not grow at the same pace, while interest income is maintained because co-lending interest accrues like on-book loans.

Insurance commission impact Question: How much of the ₹240 crores FY26 group insurance commission is at risk, and how will the gap be covered? Answer: Of ₹250-260 crores, ₹160-170 crores is in HFC and ₹75-80 crores in Samasta; standalone has about ₹3 crores. The impact would be around 5% of PBT or slightly less. Commission rates could fall from around 14% to 2.5-5%. Management expects the change next financial year and is working with insurance partners to minimize the impact.

Gold loan competition and growth Question: Q2 was expected to see more intense competition after the new regulations. How did IIFL grow volumes and improve yields? Answer: The market is expanding as gold prices raise household borrowing capacity and tightened unsecured and microfinance lending pushes customers to gold loans. Competition is increasing but much of it is noise since competitors need time to set up branches, hire and train. Management focuses on customers, transparent policies and trained staff.

Home finance yield compression Question: Incremental disbursements are at higher yields than the portfolio, so why is the home loan portfolio yield falling? Answer: Management attributed the fall to runoff of higher-yield pools and said onboarding yield has risen to 11% from 10.69% a year back. It could not reconcile the full gap on the call and offered to share the breakup offline.

Samasta growth and divestment Question: Is IIFL exiting microfinance within a year or two, and when does growth pick up? Answer: Management said it is not exiting. Growth will pick up, though not as strongly as 2-3 years ago. September run rate was close to ₹550 and October is targeted at close to ₹800, with an exit run rate of around ₹1,000 a month. Growth was muted in drought-affected geographies.

Co-lending in gold loans Question: Why do co-lending in gold loans when distribution is large, and what is the true nature of the assignment book? Answer: Management said candidly that capital adequacy is not adequate to keep everything on the books. There is no ban on assignment; the RBI rule is that banks do not get priority sector credit for assigned loans. About 40% of the gold loan portfolio is co-lending, and the portfolio does not have much in bullet loans.

Northern Arc Capital Ltd

GROWTH TRIGGERS

The bull case rests on Northern Arc converting its 66% D2C mix into a durable ROA ladder while holding credit cost inside a 2.6-2.8% band and managing a guided rise in funding cost. Q2 FY27 showed the operating momentum: AUM up 34%, PAT up 41%, NIM at 9.3% and ROA at 2.8%. The next leg depends on the ~70% D2C target, the fund platform first close converting into fee AUM, and the branch and Altifi investments producing productivity.

1. D2C mix approaching 70% supports the ROA ladder

D2C was 66% of AUM in Q2 FY27, with the direct book at INR 12,502 crore, consumer finance at INR 6,912 crore and MSME at INR 4,240 crore. Management aims for about 70% by end-FY27. ROA was 2.8% in Q2, with guidance around 3% for FY27 and 3.4-3.5% for FY28, supported by mix and operating leverage rather than a single quarter.

2. Record Q2 profit with 34% AUM growth and NIM held at 9.3%

Q2 FY27 AUM rose 34% to INR 19,003 crore, PAT rose 41% to INR 129 crore, NII rose 32% to INR 425 crore and net revenue rose 32% to INR 453 crore. NIM was 9.3% and the opex ratio stayed at 3.6%. The result is broad-based, with consumer, MSME and rural all growing sequentially.

3. Funding cost has a guided path and a partial natural hedge

Cost of funds was 8.55% in Q2 FY27, guided to 8.65% in Q3 and 8.85% in Q4, exiting FY27 near 8.75%. About 37% of borrowings are fixed and INR 8,500 crore of loans mature over six months and reprice, while the direct-to-customer mix supports yields. This does not eliminate margin pressure, but it makes the funding path visible.

4. Fund platform first close adds a capital-light fee stream

The Diversified Debt Fund first-closed at INR 400 crore against a INR 2,000 crore size, and the Savings Plus Fund was launched. Performing credit funds AUM was INR 2,787 crore. Management expects fund AUM/raise to be upward of INR 4,000 crore by end-FY27 and the Diversified Debt Fund near INR 1,000 crore. The fee stream is early and the segment had a Q2 fair value loss, so delivery of AUM matters.

5. Altifi scales with a ring-fenced spend budget

Altifi had over 1,10,000 registered users and Q2 FY27 volume of INR 450 crore, more than double the INR 164 crore a year earlier. Management plans INR 10-15 crore of additional spend in the rest of FY27 and says it is within prior budget and guidance. The platform is small relative to the balance sheet but adds a capital-light distribution channel.

6. Asset quality stable with higher coverage and overlays

Q2 FY27 credit cost was 2.6%, within the guided 2.6-2.8% range. Net NPA was below 0.5%, Stage 3 provision coverage was 58.9%, and Stage 2 coverage rose to 17.3% from 10.9%. Management added overlays in MSME and rural finance before stress appeared. The Stage 3 increase included a fully provided accounting reclassification and did not have a net P&L impact.

7. Capital headroom avoids near-term dilution

Tangible net worth was INR 4,221 crore, debt-equity 3.3x, CRAR around 21% and Tier 1 around 20.5%. Management said no equity raise is needed for 1.5 years, and the company remains profitable every quarter. That gives the branch, technology and Altifi investments time to season without an immediate capital raise.

8. Branch entry adds physical origination capacity

Northern Arc entered Uttar Pradesh with 11 additional branches in Q2 FY27. The cost is visible before productivity: average cost per employee rose 11% quarter-on-quarter and other opex per branch 17%, attributed to branch expansion, technology and senior hires. The branch adds MSME LAP and rural origination capacity, and the opex ratio stayed at 3.6%.

INVESTMENT THESIS

Northern Arc Capital is a diversified NBFC that is converting a partnership-lending and credit-solutions platform into a higher-yielding direct retail lender. The business earns a spread by funding itself in wholesale debt markets and lending to consumers, MSMEs and rural borrowers, while a capital-light fee layer sits alongside it in placements, fund management and the Altifi bond platform. At Q2 FY27, AUM was INR 19,003 crore, up 34% year-on-year, and the direct-to-customer book was 66% of AUM at INR 12,502 crore. Consumer finance was INR 6,912 crore, MSME finance INR 4,240 crore and rural finance INR 1,350 crore. The economics are those of a specialised lender: NIM was 9.3%, ROA 2.8%, and PAT was a record INR 129 crore, up 41% year-on-year. NII rose 32% to INR 425 crore and net revenue rose 32% to INR 453 crore.

The durability of the model comes from origination and underwriting rather than from a single product. On the partnership side, Northern Arc worked with over 382 originator partners in Q2 FY27, with around 93% rated BBB and above and 93% maintaining capital adequacy above 20%. That network feeds placements and funds, and it also supplies data for the direct lending book. The direct lending side uses NuScore, described as drawing on over 52 million data points and 30-plus proprietary models, with more than 100 risk professionals and on-ground presence across about 25% of India's districts. The MSME book is secured by registered mortgage and focused on higher-ticket loan-against-property. The consumer book is diversified across digital partners and carries a First Loss Default Guarantee of up to 5%. Rural lending is individually underwritten and partly protected by CGFMU. These are real operating mechanisms, not just a growth slogan.

The earnings path now has a clearer management marker. Guidance is for FY27 AUM growth of 23-25%, credit cost of 2.6-2.8%, and ROA around 3% by end-FY27, rising to 3.4-3.5% in FY28. Q2 FY27 was running ahead on AUM at 34%, but management deliberately held the formal range and said it should do upward of 25%. The company aims to take the D2C mix to about 70% by end-FY27 from 66% in Q2. The fund platform first-closed its INR 2,000 crore Diversified Debt Fund at INR 400 crore and launched the Savings Plus Fund; management expects fund AUM/raise to be upward of INR 4,000 crore by end-FY27. Altifi had over 1,10,000 users and INR 450 crore of Q2 volume, more than double the year-earlier level. These are fee and mix levers, but they are early-stage and not yet proof of the FY28 ROA target.

The main tension is funding cost. Q2 FY27 cost of funds was 8.55%, up 9 bps quarter-on-quarter; management guides it to 8.65% in Q3 and 8.85% in Q4, exiting FY27 near 8.75%, with incremental cost near 9% in Q3 and 9.25% in Q4. About 37% of borrowings are fixed, and INR 8,500 crore of loans mature over six months and reprice, which gives a partial natural hedge. But NIM was flat at 9.3%, and management said it may not see expansion

even while holding prior NIM guidance. The ROA ladder therefore depends on mix, fee income and operating leverage doing more work than NIM.

Capital allocation is a support, not a free option. Tangible net worth was INR 4,221 crore, debt-equity 3.3x, CRAR around 21% and Tier 1 around 20.5%. Management said no equity raise is needed for 1.5 years. The company is spending on branches and technology: it entered Uttar Pradesh with 11 branches in Q2 FY27, average cost per employee rose 11% quarter-on-quarter and other opex per branch 17%, while the opex ratio stayed at 3.6%. Altifi spend is budgeted at INR 10-15 crore for the rest of FY27. Those costs are visible before the productivity, so the opex ratio is a live monitorable.

Management delivery is mixed-to-good on the evidence available. Q2 FY27 delivered strong growth and profitability, and the near-term guides were restated with specific funding-cost numbers. The credit-cost band was held at 2.6-2.8% and overlays were added in MSME and rural finance before stress appeared. The CGFMU disclosure is a material correction to the old assumption: only around 50-55% of the rural book was covered, and the new-booking window from 1 April 2026 is not yet open. The fund management segment also lost about INR 9.8-10 crore in Q2 on a fair value mark. The bundle contains only the Q2 FY27 transcript, so the longer management record is preserved from existing research but cannot be independently re-verified here.

The thesis is a compounder if three conditions hold. First, credit cost stays inside 2.6-2.8% as consumer and MSME scale, with the added overlays proving adequate rather than the first sign of a broader cycle. Second, funding cost tracks the guided path and the D2C mix supports yields enough to keep NIM near 9.3% and ROA moving toward 3% in FY27 and 3.4-3.5% in FY28. Third, the fund and Altifi platforms convert first closes and user growth into recurring fee income. The falsifiers are specific: credit cost above 2.8%, a NIM compression beyond the guided funding path, an opex ratio above 3.6%, or a rural stress event that exposes the lower CGFMU cover. If those do not occur, the earnings base can compound from a larger, more retail-heavy balance sheet without an equity raise for 1.5 years. That is the operating case, not a price call.

RESEARCH REPORT

What Northern Arc Capital Limited does

Northern Arc is a Chennai-based NBFC that sits in the middle of India's credit ecosystem. It does two things: it finances and services other lenders through Credit Solutions, and it lends directly to end borrowers through Direct-to-Customer (D2C) lending. The company was incorporated in 1989 but the current business was built over the last 16 years, starting as a funder of microfinance institutions and expanding into a full credit intermediation platform. As of FY26 it manages AUM of INR 16,594 crore, has 432 branches, 57 digital partners, 368 originator partners, and over 1,500 investors. It has enabled INR 2.5 Lakh Crore of credit since inception and says it has touched roughly 140 million lives directly and through its partners.

The dual-engine design is the strategic point. Credit Solutions generates the data, underwriting models and investor relationships. D2C uses those to build a granular retail loan book. Management has been explicit that the D2C mix is the profit driver: it went from 19% of AUM in FY21 to 59% in FY26, and net interest margin expanded from 5.6% to 9.4% over the same period. The more the book tilts toward direct lending, the higher the margin. AUM grew at a 26% CAGR over five years to INR 16,594 crore, and profit after tax grew at a 43% CAGR to INR 406 crore in FY26.

Q2 FY27 update (quarter ended 30 September 2026): AUM rose 34% year-on-year to INR 19,003 crore, with D2C at 66% of AUM after the direct book crossed INR 12,502 crore. PAT was a record INR 129 crore, up 41% year-on-year; NII rose 32% to INR 425 crore and net revenue rose 32% to INR 453 crore. NIM was 9.3%, ROA 2.8% and credit cost 2.6%. Management guides FY27 AUM growth of 23-25%, credit cost of 2.6-2.8% and ROA around 3%, with FY28 ROA of 3.4-3.5%. Cost of funds is guided to rise to 8.65% in Q3 and 8.85% in Q4, ending FY27 near 8.75%.

> *"Our direct lending portfolio has now crossed over INR10,000 crores, a significant milestone that reflect the strength of our customer-centric approach and a disciplined execution."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Credit Solutions

Credit Solutions is the original business. It provides financing to over 382 originator partners - NBFCs, microfinance institutions, fintechs, housing finance companies - through four channels: balance sheet lending, debt placements, fund management, and technology platforms. At Q2 FY27, credit-solutions disbursements were INR 6,501 crore, up 7% quarter-on-quarter; placement volume was INR 4,088 crore, up 60% year-on-year; and performing credit funds AUM was INR 2,787 crore. The fund management arm closed its

seventh fund at a 14.5% gross return and first-closed the INR 2,000 crore Diversified Debt Fund at INR 400 crore.

The placement business is the structural moat. Northern Arc has been placing debt - mostly securitisation and assignment transactions - for over 16 years, cumulatively INR 1.3 Lakh Crore. It does not run a pure arranger model. It takes pools onto its own balance sheet first, tracks risk, and only then passes them to institutional investors. Management says that "skin in the game" posture is why 90% of investors keep buying from it over three to five year cycles. Placement volume was INR 4,088 crore in Q2 FY27, up 60% year-on-year. Around 93% of the 382+ originator partners were rated BBB and above, and 93% had capital adequacy above 20%.

The fund business has a roughly 10-year track record. NAIM has run 12 Category II AIFs and three PMS schemes, deployed over INR 15,000 crore, and exited six funds, all of which delivered returns ahead of target. Performing credit funds AUM was INR 2,787 crore at Q2 FY27. The seventh fund closed at a 14.5% gross return. The Diversified Debt Fund, sized at INR 2,000 crore including green shoe, first-closed at INR 400 crore, and the open-ended Savings Plus Fund was launched. Management expects fund AUM/raise to be upward of INR 4,000 crore by end-FY27. The investment management segment reported a loss of about INR 9.8-10 crore in Q2 FY27, mainly a fair value loss on a matured fund investment.

On the technology side, Credit Solutions runs nPOS, an API-based co-lending and on-lending platform that underwrites 20,000 to 25,000 loans a day; Nimbus, a loan management system; NuScore, an ML underwriting scorecard platform; and Altifi, a retail bond platform with over 1,10,000 registered users whose Q2 FY27 volume rose to INR 450 crore from INR 164 crore a year earlier. Management plans INR 10-15 crore of additional Altifi spend in the rest of FY27. Early monetisation of these platforms as SaaS is a future fee stream, not yet a reported revenue line.

Direct-to-Customer lending

The D2C book was INR 12,502 crore at Q2 FY27, 66% of total AUM. It has three legs with different economics and risk profiles. The group AUM was INR 19,003 crore, up 34% year-on-year.

Consumer finance is the largest, at INR 6,912 crore (36% of AUM in Q2 FY27), up 19% quarter-on-quarter. These are unsecured digital personal loans with ticket sizes of INR 50,000 to INR 5 Lakh, tenors of 12-48 months, sourced through digital partners and underwritten by Northern Arc itself. The loans carry a First Loss Default Guarantee of up to 5% from the partners. Management works with over 30 digital partners on the consumer side, and 70% of customers are repeat borrowers. The segment targets a risk-adjusted yield of 15-16% and generates a ROA upward of 4%, per the May 2026 call.

MSME finance is the second leg, INR 4,240 crore (22% of AUM in Q2 FY27), up 39% year-on-year. The core product is secured Loan Against Property with an average ticket of INR 11-15 Lakh, 100% registered mortgage, bureau score of 650+, and LTV below 50%. There is also supply chain finance and unsecured merchant lending under FLDG. The LAP business is focused on higher-ticket loans of INR 10-15 lakh and above. MSME AUM grew 39% year-on-year in Q2 FY27.

Rural finance is the third leg, INR 1,350 crore (7% of AUM in Q2 FY27), up 12% quarter-on-quarter, run through the 90.1%-owned subsidiary Pragati Finserv. Q2 FY27 disbursements were INR 399 crore. It is microfinance with ticket sizes of INR 30,000-75,000, using both joint liability group and individual models. Every loan is underwritten by NuScore. Around 50-55% of the rural book was covered by CGFMU; the scheme is open for pre-March 2026 originations, while the window for new bookings from 1 April 2026 is not yet open. Rural 30+ DPD was 0.4%.

The D2C franchise runs on a "phygital" model - branches for MSME and rural, plus digital partners for consumer. In Q2 FY27 the company entered Uttar Pradesh with 11 additional branches. Management says some mature D2C businesses make over 4% ROA. The underwriting backbone is a database of over 52 million data points and 30-plus proprietary models, supported by a team of over 100 risk professionals covering about 25% of districts on the ground.

Business segments

Credit Solutions

Credit Solutions is the foundational business at Northern Arc Capital Limited. It provides financing to Originator Partners - NBFCs, microfinance institutions, and fintechs - through four channels: balance sheet lending (Intermediate Retail Lending), debt placements, fund management through AIFs and PMS, and technology platforms like nPOS, Nimbus, NuScore, and Altifi. In Q2 FY27 it worked with over 382 originating partners, of which around 93% were rated BBB and above and around 93% maintained capital adequacy above 20%.

The business model is built on a deep partner network. At Q2 FY27, Northern Arc worked with over 382 originating partners, of which around 93% were rated BBB and above, and approximately 93% maintained capital adequacy above 20%. The onboarding process is rigorous: prospective partners undergo due diligence across business, financial, operational, governance, and risk parameters, followed by independent reviews by Business, Credit, and Risk teams. Northern Arc requires Originator Partners to hold collateral against loans, ensuring skin in the game.

The products inside this segment serve different capital needs. Intermediate Retail Lending is balance sheet lending to partners. The financing instruments include loans, non-

convertible debentures, market-linked debentures, commercial papers, and structured debt solutions. The placement business facilitates debt transactions between Originator Partners and institutional investors. Q2 FY27 placement volume was INR 4,088 crore, up 60% year-on-year. The fund management business, run through subsidiary Northern Arc Investment Managers, managed INR 2,787 crore of performing credit funds AUM at Q2 FY27. Altifi had over 1,10,000 registered users and Q2 volume of INR 450 crore.

The technology platforms are becoming a monetisation avenue themselves. nPOS, the API-based on-lending and co-lending platform, underwrites 20,000-25,000 loans a day. Nimbus, the loan management system, has enabled large credit flow across partners. NuScore, the ML-based underwriting scorecard, is used across the lending businesses. Altifi, the retail bond platform, has over 1.1 lakh registered investors and Q2 FY27 volume of INR 450 crore, more than double the year-earlier INR 164 crore. Management has stated these platforms, built for internal use, are seeing early signs of monetisation as SaaS solutions.

Customers buy from Northern Arc because it offers a complete capital stack. A partner can start with a small balance sheet exposure, get tested, and then access placements, funds, and technology as it grows. The relationship is long-term, often spanning 5 to 15 years. As Ashish Mehrotra described the model:

> *"We take small exposure by dipping our feet. We test their performance, we get to know them better, we get to know their proposition. Then we work with them more closely by supporting them in their liability need. Then we try and bring other lenders to participate to provide them to grow."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The competitive position is anchored in the fee-based businesses being a differentiator. Placement is not transactional - Northern Arc only represents pools that pass its own risk filters, which is why 90% of investors have been buying from the company for three to five years. Competitors in this space include other NBFCs and arrangers, but management argues the full-stack capability - balance sheet, funds, placements, bonds, and technology - is unique. The funds business has a clear track record: 12 AIFs managed since inception, deploying over INR 15,000 Crore, with 1,300+ unique investors.

The segment fits the group as the engine that generates insights for the Direct-to-Customer business. The data accumulated from underwriting and monitoring partner portfolios across sectors feeds directly into the D2C underwriting models. The strategic shift is deliberate: balance sheet lending is being used selectively to cultivate new partner relationships, while incremental funding needs of existing partners are increasingly met through placements, funds, and Altifi. This is capital-light and fee-accretive. The Q2 FY27 call did not restate an 8-10% full-year Credit Solutions growth target; credit-solutions disbursements grew 7% quarter-on-quarter to INR 6,501 crore.

Across the concalls, management consistently described the segment by its scale and quality. The partner network expanded over time and stood at 382+ in Q2 FY27, with 93% rated BBB and above and 93% above 20% capital adequacy. The D2C segment contributed 66% of total AUM in Q2 FY27, with MSME at 22%, consumer at 36%, and MFI at 7%. Management guides FY27 AUM growth of 23-25%, blended credit cost of 2.6-2.8%, ROA around 3% for FY27 and 3.4-3.5% for FY28. The fee income target of 80-100 basis points was not numerically restated on the Q2 call.

Northern Arc's consumer finance business is digital lending to individuals for personal and consumption needs, sourced through digital partners and processed on nPOS, the company's API-based co-lending platform. Management put the run rate at 20,000-25,000 loans a day on the Q2 FY27 call. Every loan is individually underwritten using NuScore, the proprietary scorecard built on over 50 million data points and 30-plus models. The combination of a platform that processes loans in minutes and a scorecard tested across years of partnership lending is the capability that took eight years to build. It is also the reason the segment can scale without the branch economics of the MSME book.

Northern Arc's consumer finance business is digital lending to individuals for personal and consumption needs, sourced through digital partners and processed on nPOS, the company's API-based co-lending platform. The annual report states nPOS has the capacity to process 15,000-20,000 loans per day. Management put the actual run rate at 20,000-25,000 loans a day on the Q3 FY26 call. Every loan is individually underwritten using NuScore, the proprietary scorecard built on over 50 million data points and 30-plus models. The combination of a platform that processes loans in minutes and a scorecard that has been tested across years of partnership lending is the capability that took eight years to build. It is also the reason the segment can scale without the branch economics of the MSME book.

The product set is straightforward: personal loans and end-use based financing such as education fee payments, with ticket sizes between INR 50,000 and INR 5 lakh and tenures of 12-48 months, per the FY26 annual report. Management has deliberately pushed tenure toward 15-18 months, describing on the Q4 FY26 call how they "consciously brought down short tenure portfolio to almost zero" and capped the end APR, letting go of segments that were not long-term accretive. The customer is the young Indian in the mass-market and mass-affluent segment, a borrower who is comfortable transacting on a digital platform and needs credit at the point of purchase.

The customer does not come to Northern Arc directly. They come through the 57 digital partners across the company, and for consumer specifically management cited 30-plus digital partners and 50-plus on the direct side on the Q1 FY27 call. Northern Arc underwrites the application, sanctions the loan, takes repayment instructions, and handles collection.

The partner brings the customer. This is an embedded model, and management is explicit that it is not a short-term growth play. From the Q1 FY27 concall:

> *"Ours is deep commitment with our partner which goes for 5, 10, 15 years. In most of the cases, we were the first lenders to them, some of them now hit capital markets or in a process of hitting capital markets."*

That answer came in response to an analyst observation that most NBFC peers have not scaled fintech lending without taking a hit on credit cost. The distinction is the risk-sharing structure. Under RBI's digital lending guidelines, Northern Arc takes a First Loss Default Guarantee of up to 5% from each digital partner, which aligns the partner's incentives with portfolio performance. The FY26 annual report notes the company leverages FLDG up to 5% from digital partners. The February 2026 RBI clarification allowing NBFCs to factor FLDG cash collateral into ECL provisions removed the extraordinary provisioning burden that hit the book in March 2025, which management described on the Q4 FY26 call as putting the business "on a very, very strong footing."

The competitive set is the entire digital personal loan market. The annual report cites FACE data showing digital NBFCs' share of personal loan sanction value reached 19% in FY26, up from 12% in FY23, with banks still dominant at 60%. Northern Arc's position inside that market is not as a consumer brand but as the lending infrastructure behind multiple brands. Its diversification is the defensible part: management stressed on the Q1 FY27 call that the book is spread across 30-plus digital partners with concentration guardrails at the sector, product, geography, district, and partner level. The segment's economics reflect the model. Management guided on the Q4 FY26 call that the consumer business targets a risk-adjusted yield of 15%-16% and runs at an ROA upward of 4%, well above the company's 2.8% blended ROA for FY26.

The segment is the single largest piece of the group. In Q2 FY27, consumer finance was 36% of total AUM at INR 6,912 crore, up 19% quarter-on-quarter. For FY26, consumer AUM stood at INR 5,092 crore, up 50% year-on-year, with 24.12 lakh customers. Growth accelerated from 24% in Q2 FY26 to 45% in Q3 FY26 and 50% for FY26, driven by consumption demand and GST rate cuts. The synergies run both ways: the underwriting data from this book feeds NuScore, which is also used in the MSME and rural segments, and the origination insights identify partners that the Credit Solutions business can later fund through placements or the Altifi bond platform. The consumer book also carries FLDG protection, which is why the credit cost profile is distinct from the unsecured MSME book.

Asset quality is managed through the conservative policy of writing off unsecured loans at 90 days past due, which keeps the Stage-3 pool clean but produces higher near-term credit costs. Q2 FY27 overall credit cost was 2.6%, within the 2.6-2.8% guided range. Management

added overlays in MSME and rural finance in anticipation of stress, though the portfolios had not yet shown it. The Stage 3 increase included an accounting reclassification of a purchased portfolio, fully provided with no net impact. Stage 3 provision coverage was 58.9%.

Direct-to-Customer (D2C) Lending - MSME Finance

Northern Arc lends directly to micro, small and medium enterprises through secured Loan Against Property (LAP), supply chain finance, unsecured business loans, and merchant lending. The segment is the second-largest piece of the company's direct-to-customer franchise, contributing 22% of total AUM in Q2 FY27, with AUM of INR 4,240 crore, up 39% year-on-year. The core capability is individual underwriting, and every secured loan carries a 100% registered mortgage. The company does not do quasi-secured lending where a title deed is merely deposited.

The flagship product is secured LAP, which accounts for roughly half the MSME book. The average ticket size is INR 12-15 lakh, average loan-to-value is 48%, and average yield is 17-19%. Management explicitly positions this as a deliberate choice: it lends at 17-18% yields, not 24%, to self-employed borrowers with Bureau scores of 650 and above, in Tier 3 and Tier 4 markets where formal credit is scarce. The self-description from the Q4 FY26 call remains apt: "It is an estimated income with a perfect collateral." In Q2 FY27 the company entered Uttar Pradesh with 11 additional branches and continued to focus on higher-ticket LAP of INR 10-15 lakh and above.

Supply chain finance and emerging business finance are the second pillar, with a closing AUM of INR 762 crore across roughly 100 clients in solar, EVs, logistics, manufacturing, pharma and chemicals. This is largely technology-driven invoice financing, and it feeds a second purpose beyond lending: it creates a pipeline of investment opportunities for Northern Arc's fund management business. The third product is unsecured merchant lending through Digital Partners under the First Loss Default Guarantee (FLDG) model, with AUM of about INR 1,000 crore. Here the partner takes the first loss, aligning incentives, and the net yield after credit costs runs 15-16%.

Who buys, and why? The customer is the self-employed entrepreneur - a trader, a small manufacturer, a service business owner - who needs working capital or asset financing but sits below the radar of the banking system. The Q2 FY26 call was explicit about the addressable market: the sector faces a credit gap of approximately INR 30 lakh crore, and only 41% of India's 8.7 crore registered MSMEs have accessed formal credit, according to the TransUnion CIBIL-SIDBI report cited by management. They buy from Northern Arc because the company will underwrite them as individuals using NuScore, its proprietary scorecard trained on over 50 million data points, while the secured products protect their credit history through a genuine mortgage structure. The company also operates in geographies - Tamil Nadu, Andhra Pradesh, Gujarat, Telangana - where it has spent years

building branch-level relationships. The collection efficiency on the LAP book improved from 97.8% in September 2025 to 99.4% by March 2026, which is the operational proof that the underwriting holds.

Competitive position is framed by what Northern Arc refuses to do. The company does not play in the INR 2-5 lakh unsecured segment where peers have reported stress, and it does not chase 24% yields. On the Q1 FY27 call, management noted that MSME portfolio quality improved against the industry trend, with the X-bucket collection efficiency strengthening across both the LAP and merchant books. The competitive set is the large NBFCs and small finance banks in secured MSME lending, plus the digital lenders in the merchant space. Northern Arc's differentiation is the combination of perfect collateral and individual underwriting, which lets it hold credit costs in the 1.5-1.7% range on LAP over a cycle, a number most unsecured-heavy competitors cannot match.

The segment fits the group as the engine of the balance sheet transformation. Five years ago, D2C was 19% of AUM; by FY26 it was 59% and by Q2 FY27 it was 66%. The MSME book is the secured, long-tenured annuity that anchors that shift, and it feeds the Credit Solutions segment directly - the same underwriting data and scorecards used for direct lending inform how Northern Arc assesses the portfolios of its 382+ originator partners. Management's current growth guidance is 23-25% for the group, and the MSME book grew 39% year-on-year in Q2 FY27.

On the Q1 FY27 call, Ashish Mehrotra summed up the thesis:

> *"The MSME finance continued to be an important engine of growth, secured LAP business contributes predominant share of MSME. MSME AUM expanded by about 40% Y-o-Y to INR3,761 crores."*

And on the Q4 FY26 call, he described the structural choice:

> *"We are happy to operate at 17-18% kind of yield, we are not chasing 24% yield. We follow imperfect / estimated income but with perfect collateral (100% registered mortgage)."*

The risk is that the segment is capital-intensive - secured lending at 48% LTV ties up more balance sheet than the consumer book - and the branch network is a fixed cost that only pays off at scale. Management is betting on productivity: the company entered Uttar Pradesh with 11 additional branches in Q2 FY27, average cost per employee rose 11% quarter-on-quarter and other opex per branch rose 17%, attributed to branch expansion, technology investment and senior hires. The payoff is a granular, secured, annuity-like book that compounds with the branch network.

Direct-to-Customer (D2C) Lending - Rural Finance

Northern Arc's rural finance business runs through Pragati Finserv Private Limited, a 90.1%-owned subsidiary that operates as the company's exclusive business correspondent. Pragati manages the full lending lifecycle - sourcing, origination, servicing, and collections - for microfinance loans across rural and semi-urban India. The core capability is the underwriting engine: every loan, whether sourced through a Joint Liability Group or as an individual loan, is scored using NuScore. Q2 FY27 rural AUM was INR 1,350 crore, up 12% quarter-on-quarter, with disbursements of INR 399 crore. Around 50-55% of the rural book was covered by CGFMU; the new-booking window from 1 April 2026 is not yet open.

The product is microfinance lending with ticket sizes between INR 30,000 and INR 75,000, disbursed to small business owners, rural individuals, and women entrepreneurs. Borrowers use the loans for income-generating activities, small business financing, and agricultural value chains. The segment runs both Individual Liability Group and JLG models for customer sourcing, but every loan is individually underwritten. At Q2 FY27, rural AUM was INR 1,350 crore, up 12% quarter-on-quarter, with disbursements of INR 399 crore. Around 50-55% of the rural book was CGFMU-covered, with the pre-March 2026 portfolio covered and new bookings awaiting the window.

Who buys and why: the typical customer is a woman entrepreneur in a Tier 3 or Tier 4 district who has limited access to formal credit. Northern Arc's pitch is reliability and discipline. The company slowed disbursements for six to seven quarters starting mid-2024, when the microfinance sector was hit by borrower over-indebtedness and a Karnataka state ordinance that impaired collection efficiency. Management kept the branch network largely intact through the stress. In Q2 FY27, reported collection efficiency was 99.7%; Karnataka rural exposure was about 2% of AUM, mostly CGFMU-covered, and Maharashtra had no MFI exposure.

The competitive position is defined by how Northern Arc plays the segment. The microfinance industry consolidated sharply through FY26, with industry AUM declining 13% year-on-year to INR 3.25 lakh crore as of March 2026, according to the annual report. Competitors include the large MFI-focused NBFCs. Northern Arc's own rural 30+ DPD was 0.4% in Q2 FY27. The differentiator is not size but the combination of NuScore underwriting, CGFMU coverage for the older portfolio, and the branch footprint. Management added overlays in rural finance in Q2 FY27 in anticipation of macro stress.

The segment is the smallest of the three D2C lines but strategically important for the group's risk diversification. Rural finance contributed 7% of total AUM in Q2 FY27, with AUM of INR 1,350 crore, up 12% quarter-on-quarter. Q2 disbursements were INR 399 crore. The synergies with the rest of the group run through the data and distribution network: the rural branches feed into the same NuScore engine used across MSME and consumer lending, and

the CGFMU guarantee covered around 50-55% of the rural book in Q2 FY27, with the new-booking window pending.

Management's commentary across the concalls traces a clear arc from stress to recovery. On the Q2 FY26 call, Ashish Mehrotra described the deliberate drawdown: "We have consciously calibrated our Microfinance portfolio while largely retaining a strong operational base of 285 branches with over 1,900 employees." By Q1 FY27, the tone had shifted to measured optimism on scaling back up:

> *"In rural finance, we achieved highest ever quarterly disbursement of INR328 crores, reflecting steady momentum. AUM in this segment grew first time after many quarters of consolidation by 26% Y-o-Y, taking to INR1,203 crores. Collection efficiencies remain robust at about 99.6% in June '26."*

The segment's credit cost trajectory is the metric to watch. Q2 FY27 overall credit cost was 2.6%, within the guided 2.6-2.8% range, but management added overlays in rural finance and MSME in anticipation of stress. Rural CGFMU coverage was around 50-55%, not the higher level previously assumed, and the new-booking window is pending. The business is small today, but it is the group's structural hedge into rural consumption, and the infrastructure cost is already sunk.

Customers

Northern Arc has three distinct customer groups with very different buying dynamics.

The first is originator partners. These are 382+ NBFCs, MFIs, fintechs and housing finance companies that borrow from Northern Arc, use its placement desk to raise debt, and buy its technology. The relationship is deliberately long-lived. Management describes a progression: take a small exposure early, test the partner's performance, then deepen into liability support, then bring in other lenders through placement, then offer fund investment, then securitisation. Partner quality is high: around 93% of partners are rated BBB and above, and about 93% maintain capital adequacy above 20%.

The second group is institutional and retail investors. Over 1,500 investors buy Northern Arc-placed paper or invest in its funds: banks, development finance institutions, mutual funds, insurers, offshore investors, and high-net-worth individuals. On the retail side, Altifi served over 1,10,000 registered investors in Q2 FY27, with volume of INR 450 crore. The reason they buy from Northern Arc rather than a bank's securitisation desk is the underwriting. Northern Arc holds the pools first, tracks performance, and has a 16-year track record. The six closed funds all beat target returns.

The third group is end borrowers: 29.55 Lakh direct customers across roughly 24 Lakh consumer borrowers, 4.6 Lakh MSME families, and 5 Lakh rural customers. The buying

decision differs by product. For consumer loans through digital partners, the customer applies through a fintech app and Northern Arc underwrites, sanctions, disburses and collects. For LAP and microfinance, the decision is made by a Northern Arc credit officer on the ground plus a centralised data team. The switching cost for borrowers is low, but the repeat rate is high: 70% of consumer customers return, which management cites as proof of underwriting quality and customer stickiness.

For originator partners, the switching cost is real. They get capital, placement, technology and risk infrastructure from one counterparty that holds data on their vintage performance. Recreating that across four or five providers is inefficient. For investors, the switching cost is about trust built over multiple cycles. The contract structure for partners typically involves collateral: Northern Arc takes assets to the extent of 110-120% of the loan value to cover default risk.

There is no major customer concentration disclosed in the sources. Management's stated guardrail is diversification across sector, product, geography, district and partner, and it says this is the non-negotiable part of the model.

Competitive landscape

The Indian NBFC market is fragmented and intensely competitive at the margin. Northern Arc's competitive position rests on the combination of the Credit Solutions platform and the D2C book, not on either alone. The sources do not name direct competitors, so the competitive set has to be described by segment.

In MSME LAP, Northern Arc competes with other NBFCs and small finance banks. Management concedes the segment is crowded and that stress built up in small-ticket LAP and unsecured business loans across the industry in FY26. Its stated edge: it does not play in the INR 2-5 Lakh ticket segment, holds average tickets of INR 11-15 Lakh, does 100% registered mortgages with full title search, and underwrites twice - once by a field officer, once by a centralised data team. The X-bucket collection efficiency improved from 97.8% in September 2025 to 99.4% in March 2026, which management cites as evidence the underwriting is working.

In consumer digital lending, the field is dominated by fintech lenders and digital NBFCs. Digital NBFCs' share of personal loan sanction value rose to 19% in FY26 from 12% in FY23, per Fintech Association for Consumer Empowerment data. Northern Arc's differentiation is that it is not an arranger: it takes the loans on its own books, underwrites each one, carries the FLDG, caps the end APR, and has consciously avoided short-tenor high-yield products. Management's line from the Q1 FY27 call is that it demonstrates the "strength of character to say no" when a cohort is not performing.

In microfinance, Northern Arc's Pragati competes with dedicated MFIs and banks. The sector contracted 13% in FY26, and Northern Arc responded by cutting its book and rebuilding. Its edge is NuScore underwriting and the CGFMU cover, which cushions the downside. The collection efficiency reached 99.6% in March 2026.

Banks are both competitors and customers. They compete in consumer and MSME lending, but they also buy Northern Arc's securitisation paper and co-lend through nPOS. That is the unusual part of this company: many of its competitors are also its counterparties. The honest assessment from management in the Oct 2025 call is that industry-wide growth is broad and Northern Arc's advantage is the ability to dial up and dial down across sectors based on risk. Diversification across product, geography, district and partner is the stated operating guardrail.

The competitive moat is the data and the placement franchise. Building 50 million data points of loan performance across sectors took 16 years. Building the placement trust took the same period. A new entrant cannot buy either quickly, and the combination - origination plus distribution plus underwriting - is what makes the model hard to copy. The weakness is that in any single product line, Northern Arc is not the largest player, and in consumer lending it is growing into a segment where credit costs can spike quickly.

Industry

The Indian NBFC sector is large and still growing. CRISIL Ratings expects NBFC AUM to surpass INR 50 Lakh Crore by March 2027. The industry accounts for roughly 18-19% of India's overall credit market, and NBFCs have carved out a role in segments banks do not serve well: MSME, consumer, affordable housing, rural finance. The Reserve Bank restored standard risk weights on bank lending to NBFCs, which improved funding conditions for the sector.

The structural demand drivers are the same across all three D2C segments. India's credit-to-GDP ratio is around 53%, low for an economy of its size. Only 41% of India's 8.7 crore registered MSMEs have accessed formal credit, per a TransUnion CIBIL-SIDBI report. The MSME credit gap is estimated at about INR 30 Lakh Crore, with formal credit penetration among Udyam-registered enterprises at about 47%. The consumer finance market was valued at INR 5.2 Lakh Crore in 2025 and is projected to reach INR 19 Lakh Crore by 2031, a CAGR of 23.5%. The personal loan market is projected to grow at a 15.1% CAGR through 2034.

The microfinance sector went through a sharp correction that reshaped the industry. AUM declined 13% year-on-year to INR 3.25 Lakh Crore as of March 2026, and the number of unique borrowers fell from 7.8 crore to 6.4 crore. Portfolio at Risk (31-180 days) improved to 2% from 6% a year earlier. Disbursements rebounded in Q4 FY26 to INR 78,938 crore. The

stress was driven by borrower over-indebtedness, and the MFIN guardrails - which cap borrower indebtedness - are now the operating framework. Northern Arc's own rural collection efficiency reached 99.6% by March 2026.

India's position in the global credit supply chain is structural. The country has built digital public infrastructure - Aadhaar, UPI, OCEN, and now the Unified Lending Interface - that reduces information asymmetry and enables data-led lending. This benefits NBFCs like Northern Arc that have the data and models to use it. The formalisation of the economy through GST and Udyam registration is expanding the addressable borrower pool. On the funding side, Northern Arc sources 25-27% of its borrowing from offshore and development finance institutions, which brings long-tenor, cost-effective capital into the Indian credit system. The equivalent of import substitution here is the domestic capital formation: Northern Arc's Altifi platform is democratising access to corporate bonds for retail investors, reducing dependence on institutional money.

Regulation is the swing factor. The RBI's Digital Lending Directions 2025 strengthened borrower protection. The February 2026 clarification allowing NBFCs to factor FLDG cash collateral into ECL provisions was a direct positive for Northern Arc's consumer finance profitability. The MFIN guardrails reshaped microfinance. Capital adequacy requirements and governance norms continue to tighten, which favours well-capitalised players. In Q2 FY27, management said the IRDAI insurance-distribution consultation would have no material impact because insurance commission income was less than 1% of net revenue in H1. The CGFMU new-booking window remains a regulatory dependency for rural credit protection.

Cyclicality is real and visible in the numbers. The MFI over-indebtedness stress hit credit costs from FY25 into FY26. The unsecured business loan segment showed stress through FY26. The micro-LAP segment was hit by MFI contagion before recovering. Q2 FY27 cost of funds was 8.55% and management guides it to 8.65% in Q3 and 8.85% in Q4, exiting FY27 near 8.75%; incremental cost is guided near 9% in Q3 and 9.25% in Q4. Management's FY27 credit cost guidance is 2.6-2.8%. The company's 16-year history includes demonetisation, the IL&FS crisis, COVID, and the MFI stress, and it remained profitable through all of them.

> *"we should be able to grow business at about three times of GDP, so look at anywhere between 22% to 25%"*
>
> **MD & CEO, Q4 FY26 CONCALL (MAY 2026)**

Growth triggers

Launch of two new funds - Diversified Debt Fund and Savings Plus Fund

Launch of two new funds - Diversified Debt Fund and Savings Plus Fund

Northern Arc launched two performing credit funds in FY27: a Diversified Debt Fund and the Northern Arc Savings Plus Fund. The Diversified Debt Fund has a total size of INR 2,000 crores, including a INR 500 crore green-shoe option, and first-closed at INR 400 crore in Q2 FY27. Savings Plus is an open-ended private credit fund. These funds sit within Northern Arc Investment Managers (NAIM), the wholly-owned subsidiary that manages the group's Category II AIF and PMS structures.

The commercial mechanism is the management fee. NAIM has earned approximately 110 basis points on assets under management in the past, though the Q2 FY27 call did not restate that rate. Performing credit funds AUM was INR 2,787 crore. Each new fund adds to the fee base without requiring balance sheet capital, which is why management frames the fund pipeline as a lever for loaded NIM expansion and ROA progression toward the 3% target.

The timeline is now more concrete. The Diversified Debt Fund first-closed at INR 400 crore in Q2 FY27, and management expects it to reach about INR 1,000 crore by end-FY27. It expects total fund AUM/raise to be upward of INR 4,000 crore by end-FY27. The Savings Plus Fund has been launched. The staging is still early: commitments are not the same as deployed AUM, and the fund management segment reported a Q2 FY27 loss of about INR 9.8-10 crore from a fair value mark on a matured fund investment.

> *"We have received SEBI approval to launch two new funds. One is the diversified debt fund and the second is the Northern Arc's Saving Plus Fund, providing strong visibility for growth."*

The strategic role is specific: these funds widen the credit solution ecosystem's capacity to originate, structure and distribute credit without deploying incremental balance sheet capital. As the fund AUM grows, the fee stream expands the loaded NIM, which management explicitly connected to the path toward 3% ROA. The funds also deepen NAIM's track record of deploying across AIFs and PMS schemes, with six exited funds delivering XIRR above targeted performance. The Q2 FY27 first close is a funding milestone, not proof of deployed fee-earning AUM.

Branch expansion - Uttar Pradesh entry and network productivity

Northern Arc's branch network is the physical origination engine for its direct-to-customer lending business, which contributed 66% of total AUM in Q2 FY27. In Q2 FY27 the company entered Uttar Pradesh with 11 additional branches. Management linked the higher employee cost to branch expansion, technology investment and senior hires in Altifi and debt capital

markets. The branch additions add local origination capacity for secured LAP and microfinance loans, but the cost arrives before productivity.

> *"We are at 430 branch network, and we will add another 50 to 60 branches this year. We've added 230 people in the sales in quarter 1 itself. So, idea is to get more sales per store, per branch."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The mechanism is straightforward: each new branch adds local origination capacity for secured LAP loans (average ticket size INR 12-15 lakh) and microfinance loans, which are the two physical-world lending products. Q2 FY27 average cost per employee rose 11% quarter-on-quarter and other opex per branch rose 17%, which management attributed to the Uttar Pradesh entry, technology and senior hires. Management is pairing branch additions with productivity investments rather than just raw expansion; the opex ratio was stable at 3.6%.

Management is pairing the branch additions with productivity investments rather than just raw expansion. The AI-enabled LAP journey is being rolled out across retail branches to target 90% loan turnaround within 3 days, alongside the 230 sales hires made in Q1 FY27 alone. The stated goal is higher throughput per branch, which management expects to translate into better operating efficiency. In the Q1 FY27 call, management noted the opex ratio is held at 3.6% while investing in this capacity, and that mature D2C businesses make "4% plus ROA," implying the branches are the vehicle for the guided ROA expansion toward 3% for FY27.

The FY26 annual report had 432 branches as of March 2026. Q1 FY27 counted 430. In Q2 FY27 the company added 11 Uttar Pradesh branches; the total network count was not restated on the call. The branch additions are aimed at MSME LAP and rural finance, and management is watching productivity per branch as the offset to upfront cost.

MFI recovery and scaling rural finance

Northern Arc deliberately shrank its rural finance book starting late 2024, cutting it from roughly INR 1,500 crore to about INR 900 crore as the microfinance industry absorbed borrower over-indebtedness and the Karnataka ordinance disrupted collections. The book has now stabilised, and management is scaling it back up. Q2 FY27 rural AUM was INR 1,350 crore, up 12% quarter-on-quarter, with disbursements of INR 399 crore. This is a sequential recovery, not proof that the segment has returned to pre-stress scale.

The recovery shows up in the numbers. Rural finance AUM grew 12% quarter-on-quarter to INR 1,350 crore in Q2 FY27, with quarterly disbursements of INR 399 crore. Reported collection efficiency was 99.7% as of September 2026, and rural 30+ DPD was 0.4%.

Karnataka rural exposure was about 2% of AUM, mostly CGFMU-covered, and Maharashtra had no MFI exposure.

The scaling rests on branch expansion, credit protection, and proprietary underwriting. The rural network was built through FY26, and Q2 FY27 added 11 Uttar Pradesh branches at the group level. CGFMU coverage was around 50-55% of the rural book, with the scheme open for pre-March 2026 originations and the post-April 2026 window not yet open. Every rural loan is underwritten using NuScore. Management added rural overlays in Q2 FY27 in anticipation of macro stress.

> *"In rural finance, we achieved highest ever quarterly disbursement of INR328 crores, reflecting steady momentum. AUM in this segment grew first time after many quarters of consolidation by 26% Y-o-Y, taking to INR1,203 crores."*
>
> **MD AND CEO, Q1 FY27 CONCALL (JULY 2026)**

The credit cost trend is the evidence to watch. Q2 FY27 overall credit cost was 2.6%, within the 2.6-2.8% guided range, but that is a group number and not a rural-only credit cost. Management added overlays in rural finance and MSME in anticipation of stress, while rural 30+ DPD was 0.4%. The CGFMU cover on the older rural portfolio and the NuScore underwriting are the buffers; the new-booking window remains pending.

> *"rural, back in later part of 2024, we started bringing down the exposure, we actually brought it down from INR 1,500 Cr, to down to about INR 900 Cr, and we are now building it back and we've seen the performance which gives us a confidence to build it back."*
>
> **MD AND CEO, Q4 FY26 CONCALL (MAY 2026)**

Affordable Housing product launch (board approved)

Northern Arc's board has approved an Affordable Housing product, but management has not committed to a launch date. The product would be distributed through the company's existing branch network, which stood at 430 branches as of the July 2026 concall, with 50-60 more planned for FY27.

The mechanism is a product extension on existing infrastructure. The LAP business already underwrites self-employed borrowers at average tickets of INR 12-15 lakhs through 86 branches across seven states. Affordable housing targets the same customer in the same geographies, so the branch, field force and collection machinery carry over. The company also holds a decade of credit performance data on this asset class through its Credit Solutions business, where 45 affordable housing finance companies are Originator Partners.

Management is deliberately sequencing the launch. At the Q4 FY26 concall, Ashish Mehrotra said:

> *"Affordable Housing product is anyway approved by our board, at some point of time, opportune point in time, we will launch it as a network matures over a period of time."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

He gave the sequencing logic in the same call: launching affordable housing would pull focus away from business loans, so LAP must first reach "a certain size and scale". The FY26 annual report lists Affordable Housing under "Our future value-builders and growth enablers" alongside Gold Loan, governed by a Test>Validate>Scale philosophy - pilot, assess market acceptance and performance, then scale.

What management has not disclosed is the trigger point: no LAP AUM threshold, branch productivity target, or target quarter for the launch. The approval, distribution network and underwriting history all exist. The gating factor is management's stated preference to build the LAP book first.

Growth of Altifi retail bond platform and SaaS monetisation of nPOS/NuScore

Northern Arc's fee-based franchise rests on platforms built for its own use that are now being monetised externally: Altifi, nPOS, and NuScore. The company frames these as a path to an independent, fee-accretive business within a larger strategy to grow fee income. Altifi had over 1,10,000 registered users in Q2 FY27, and its volume was INR 450 crore versus INR 164 crore a year earlier. Management plans INR 10-15 crore of additional Altifi spend in the rest of FY27, within prior budget and guidance.

Altifi is a SEBI-registered Online Bond Platform Provider (OBPP) that lets retail investors buy fixed-income securities, including bonds originated by Northern Arc's 382+ Originator Partners. The mechanism is direct: Altifi distributes debt issued by partners, earning fees while deepening the credit solution ecosystem beyond the balance sheet. Management confirmed momentum in Q2 FY27: registered users crossed 1,10,000 and volume more than doubled year-on-year to INR 450 crore.

> *"AltiFi has registered customers of over 1 lakh subscriber. The volume on the platform has more than doubled on a Y-o-Y basis, increasing from INR146 crores to over INR315 crores."*
>
> **MD & CEO, Q1 FY27 CONCALL (JULY 2026)**

The annual report placed Altifi at over 95,000 registered investors for FY26, with one of the highest average investment values per customer in the industry. By Q2 FY27 the platform had over 1,10,000 registered users and quarterly volume of INR 450 crore. The company is spending to grow the platform: management guides INR 10-15 crore of additional Altifi spend in the rest of FY27.

nPOS and NuScore operate on a different monetisation path. nPOS is the API-based co-lending and on-lending platform that underwrites 15,000-20,000 loans daily. NuScore is the proprietary ML underwriting scorecard, commercialised for external financial institutions since FY23. The annual report confirms NuScore handled over 7 lakh loan assessment requests in FY26. Management first signalled the SaaS direction in Q3 FY26:

> *"While these platforms were built for our own use, we are seeing early signs of monetisation, giving us confidence that we can become an independent, fee-accretive business over time."*
>
> **MD & CEO, Q3 FY26 CONCALL (JAN 2026)**

The strategic ambition is explicit in the annual report's "future value-builders" section: monetising nPOS and NuScore as SaaS solutions creates a scalable, recurring fee stream while partners gain Northern Arc's underwriting infrastructure. This is early-stage. The platform metrics - over 1.1 lakh Altifi users, 20,000-25,000 daily nPOS loans, and NuScore across the lending businesses - show the underlying volume is real. Altifi's Q2 FY27 volume was INR 450 crore, more than double the year-earlier INR 164 crore.

AUM growth guidance of 22-25% for FY27

AUM growth guidance of 23-25% for FY27

Management held its FY27 AUM growth guidance at 23-25% on the Q2 FY27 call. The MD acknowledged that the Q2 run-rate implied the company could do upward of 25%, but said management preferred to hold the stated range and try to do better.

The formal guide remains below the Q2 run-rate: AUM grew 34% year-on-year to INR 19,003 crore. Management said festival-season demand in consumer finance and MSME was strong, but it chose to keep the full-year range unchanged.

The mechanism behind the growth is the direct-to-customer segment, which was 66% of AUM at Q2 FY27. Management aims to take the retail book to about 70% by end-FY27. The branch network, with 11 Uttar Pradesh branches added in Q2 FY27, supports the physical lending side, while digital partners handle consumer finance origination. Consumer finance was INR 6,912 crore and MSME INR 4,240 crore in Q2 FY27.

The Q2 FY27 result provided the current proof point. AUM was INR 19,003 crore, up 34% year-on-year, with D2C at 66% of the total. The direct-to-customer book crossed INR 12,502 crore. PAT was INR 129 crore, up 41% year-on-year. Management nevertheless held the formal FY27 AUM growth guide at 23-25%.

> *"we should be able to grow business at about three times of GDP, so look at anywhere between 22% to 25%"*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

> *"Our assets under management grew by about 26% on a Y-o-Y basis to INR16,855 crores"*
>
> **CFO, Q1 FY27 CONCALL (JUL 2026)**

The Q2 result signals the company is running above the midpoint of its formal guidance, with 34% AUM growth against a 23-25% full-year guide. Management chose not to upgrade the range, citing a cautious environment, but said it should do upward of 25% and would try to do better. The D2C mix shift and branch expansion provide the operational capacity to sustain that pace through the year.

Key risks

- **Geopolitical shock and inflation keep funding costs higher for longer.** Q2 FY27 retail inflation rose from 4.38% in June 2026 to 5.54% during the quarter, and management guides book cost of funds to 8.65% in Q3 and 8.85% in Q4, exiting FY27 near 8.75%. The mechanism: higher crude and inflation delay rate cuts, raise incremental funding costs, and weaken repayment capacity for small merchants, rural households and young consumers. Direct exposure to oil-linked sectors is under 2% of the portfolio, but macro transmission is the risk.
- **A weak monsoon or El Nino event hits rural repayment at the wrong time.** The MFI book is only just recovering. Q2 FY27 rural AUM was INR 1,350 crore, up 12% quarter-on-quarter, with disbursements of INR 399 crore. Karnataka rural exposure was about 2% of AUM and mostly CGFMU-covered; Maharashtra had no MFI exposure. But CGFMU covered only around 50-55% of the rural book, and the new-booking window is pending. If rural incomes fall, collection efficiency drops and the recovery stalls.
- **Interest rate and liquidity conditions tighten faster than the book can reprice.** Q2 FY27 cost of funds was 8.55%, up 9 bps quarter-on-quarter; incremental cost was 8.8%. Management guides book cost of funds to 8.65% in Q3 and 8.85% in Q4, with incremental cost near 9% and 9.25%, respectively. About 63% of borrowings are variable, with nearly half of that benchmarked to MCLR, so transmission lags. NIM was 9.3% in Q2, and management said it may not see expansion even as it holds prior NIM guidance.
- **Credit cost in unsecured segments rises above the 2.6-2.8% guidance.** The company writes off all unsecured loans at 90 days past due, so credit cost directly reflects near-term delinquency. Q2 FY27 credit cost was 2.6% and management said it was holding the 2.6-2.8% band. Management added overlays in MSME and rural finance in anticipation of stress. The Stage 3 increase included a fully provided accounting reclassification of a purchased portfolio. If unsecured stress spreads into consumer or merchant lending, the write-off policy forces immediate recognition.

- **Regulatory change shifts the economics of a core product.** The February 2026 RBI guideline allowing FLDG to be netted against ECL provisions was a tailwind. But the same regulatory direction can move the other way. The 2025 Digital Lending Directions, MFIN guardrails, and any future tightening of FLDG treatment or capital adequacy requirements would each change the profitability of the largest AUM segment. In Q2 FY27, management said the IRDAI insurance-distribution consultation would have no material impact because insurance commission income was less than 1% of net revenue in H1. The CGFMU new-booking window remains a regulatory dependency.
- **Partner ecosystem concentration in the Credit Solutions book.** Management states that 93% of the 382+ originator partners are rated BBB and above, and 93% maintain capital adequacy above 20%. But the Intermediate Retail lending book is a portfolio of loans to these partners, and the placement business intermediates their debt. If a cluster of partners - say, MFI lenders or fintech platforms - deteriorates together, credit cost rises and placement fee income falls simultaneously. Diversification guardrails mitigate idiosyncratic risk, not systemic stress within a partner segment.
- **The D2C growth engine depends on repeatable underwriting quality at scale.** Consumer finance was INR 6,912 crore (36% of AUM) and MSME INR 4,240 crore (22%) in Q2 FY27. This growth is underwritten through NuScore, which draws on over 50 million data points and 30+ models. The risk is that the models are calibrated on a benign credit cycle for these newer vintages. Management added overlays in MSME and rural finance in Q2 FY27 and Stage 2 coverage rose to 17.3%. Every 100 bps of credit cost above the 2.6-2.8% guidance removes profit at the current AUM base.

Scenarios

Bull case

Bull case

The macro environment cooperates enough for cost of funds to track management's path - 8.65% in Q3 and 8.85% in Q4, exiting FY27 near 8.75% - while 37% fixed-rate borrowings and INR 8,500 crore of maturing loans reprice in the company's favour. AUM grows above the 23-25% guide, as it did at 34% in Q2 FY27, with D2C reaching about 70% by end-FY27. Credit cost holds at 2.6%, within the 2.6-2.8% band, and overlays are not needed beyond the Q2 additions. Consumer finance and MSME sustain growth, while rural recovers without a new delinquency wave. The Diversified Debt Fund scales from the INR 400 crore first close and the fund platform reaches upward of INR 4,000 crore by end-FY27, lifting fee income. Altifi crosses 1.1 lakh users and doubles volume. ROA reaches around 3% in FY27 and 3.4-3.5% in FY28, with no equity raise for 1.5 years.

Base case

Base case

The environment stays uncertain but manageable. Inflation at 5.54% in Q2 FY27 keeps rate cuts on hold, and cost of funds follows management's guided path to 8.65% in Q3 and 8.85% in Q4, ending FY27 near 8.75%. AUM grows at the guided 23-25%, below the Q2 34% print, driven by consumer finance and MSME while rural grows from a small base. Credit cost stays within 2.6-2.8%, with the write-off policy keeping the balance sheet clean but preventing a sharp decline in provisions. D2C reaches about 70% by end-FY27, NIM stays around 9.3% without expansion, and fee income grows as the funds first close converts into AUM. ROA improves to around 3% in FY27 and 3.4-3.5% in FY28. The management overlays are held, not released.

Bear case

Bear case

Inflation stays above 5% and funding costs overshoot management's path. Book cost of funds moves above 8.75%, with incremental cost above 9.25%, while 63% variable-rate borrowings reprice with a lag. NIM stays at 9.3% or compresses, and the guided ROA path slips. Consumer finance, at INR 6,912 crore and 36% of AUM, sees delinquency rise; the 90 DPD write-off policy forces immediate credit cost recognition above the 2.6-2.8% band. Rural CGFMU coverage is only around 50-55% and the new-booking window remains closed, so a monsoon shock would hit a larger unguarded book. The fund management segment remains loss-making, and the Diversified Debt Fund fails to scale beyond the INR 400 crore first close. AUM growth slows below 23%, fee income disappoints, and the FY28 ROA target of 3.4-3.5% is pushed out. The balance sheet stays solvent with CRAR around 21% and debt-equity 3.3x, but the compounding path is interrupted.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,248	1,484	1,882	2,345	2,854
Revenue growth	-	+18.9%	+26.8%	+24.6%	+21.7%
PBT (₹ Cr)	386	536	715	968	1,259
Tax (₹ Cr)	85.00	132	184	247	315
Tax rate	22.0%	24.6%	25.7%	25.5%	25.0%
PAT (₹ Cr)	305	406	531	721	944
PAT growth	-	+33.1%	+30.9%	+35.8%	+30.9%
EPS (₹)	18.90	25.10	32.90	44.60	58.40
P/E	14.6x	11.0x	8.4x	6.2x	4.7x
PEG	0.4x	0.3x	0.3x	0.2x	0.1x

CAGR FY27E-FY29E: Revenue +23.1% · EBITDA - · PAT +33.3%

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Q2 FY27 concall notes

Northern Arc Capital Ltd - Q2 FY27 Earnings Call Summary Tuesday, November 3, 2026 6:30 PM IST

TLDR

Northern Arc reported Q2 FY27 AUM of ₹19,003 crores, up 34% YoY, with PAT of ₹129 crores (41% YoY) and NII of ₹425 crores (32% YoY). D2C AUM crossed ₹12,502 crores (66% of AUM, up 16% QoQ); MSME finance grew 39% YoY to ₹4,240 crores, consumer finance 19% QoQ to ₹6,912 crores, and rural finance 12% QoQ to ₹1,350 crores on record disbursements of ₹399 crores. Credit cost held at 2.6% with GNPA stable and net NPA under 0.5%; management added overlays in MSME and rural finance against expected macro stress. Cost of funds rose 9 bps QoQ to 8.55%, and management guided to 8.65% in Q3 and 8.85% in Q4, ending FY27 near 8.75%, with NIM guidance held. Management reiterated 23-25% AUM growth, 2.6-2.8% credit cost, ~3% ROA for FY27 and 3.4-3.5% ROA for FY28, and said no equity raise is needed for 1.5 years.

WHAT CHANGED SINCE Q1 FY27

- **AUM growth guidance restated with a higher floor.** Q1 notes recorded a 22-23% growth target underpinning the no-equity-raise case; management now guides 23-25% for FY27 and said "we should do upward of 25%" while declining to raise the formal range.
- **Credit cost range widened at the top.** Q1 guidance was 2.6-2.7%; management now holds 2.6-2.8% for FY27, with Q2 at 2.6%.
- **Cost of funds guidance raised.** Q1 guided 8.5-8.6% rangebound with 5-10 bps repricing expected; Q2 cost came in at 8.55% (+9 bps QoQ) and management now guides 8.65% in Q3, 8.85% in Q4, ~8.75% exit, and ~9% incremental cost for the full year.
- **NIM guidance narrowed from expansion to maintenance.** Q1 guided NIM to ~9.5% next quarter and ~10% by end-FY27; Q2 NIM was 9.3%, flat YoY and QoQ, and management said "we may not see expansion, but we will be able to hold what we have said earlier."
- **Equity raise runway shortened.** Q1 said no raise needed for two years; Q2 says no raise needed for 1.5 years, with Tier 1 at ~20.5% against lender covenants of 16-17%.
- **New FY28 ROA guidance given:** 3.4-3.5% for FY28, against ~3% for FY27.
- **Overlays added rather than released.** Q1 carried a ~₹66 crore overlay unchanged from March; Q2 took additional overlay in MSME and rural finance in anticipation of stress, though management did not quantify it. Stage 2 coverage rose from 10.9% to 17.3% and Stage 3 coverage by 10% to 58.9%.
- **Fund management losses disclosed.** A ₹9.8-10 crore loss in investment management came from a fair value hit on the manager's own investment in a fund that matured; two funds matured this year, and two new funds were launched.
- **CGFMU coverage disclosed lower than before.** Q1 said ~94% of the MFI book was covered; Q2 says 50-55% of the rural finance book is covered, with the scheme window for originations after 1 April 2026 not yet open and revalidation pending.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Total AUM	₹19,003 crores	34% YoY	D2C at 66% of AUM; sequential growth across segments
Net interest income	₹425 crores	32% YoY, 8% QoQ	Portfolio mix and pricing discipline
NIM	9.3%	Flat YoY and QoQ	Cost of funds up 9 bps QoQ offset by mix; management expects to hold guidance
Total net revenue (incl. fees)	₹453 crores	32% YoY, 9% QoQ	Fee-led credit solutions and placement volumes
Operating expense ratio	3.6%	Stable	Operating leverage despite branch and technology spend
Pre-provisioning operating profit	₹286 crores	32% YoY, 9% QoQ	Revenue growth with flat expense ratio
PAT	₹129 crores	41% YoY	Record quarterly profit
ROA	2.8%	Up from 2.7% in Q1, 2.4% a year ago	Improving profitability ratios
ROE	12.4%	Up from 11.5% in Q1	Earnings accretion
Credit cost	2.6%	Flat QoQ	Within guided range; additional overlays taken in MSME and rural finance
Cost of funds	8.55%	Up 9 bps QoQ	Tighter liquidity and higher rates; incremental cost stable at 8.8%
Net NPA	Under 0.5%	Stable	Stage 3 coverage improved 10% to 58.9%

SEGMENTS & GEOGRAPHIES

- **D2C:** AUM crossed ₹12,502 crores, up 16% QoQ and 66% of total AUM (MSME 22%, consumer 36%, MFI 7%). Management expects the mix to reach ~70% by end-FY27, which it says will partly offset higher cost of funds.
- **MSME finance:** AUM ₹4,240 crores, up 39% YoY. Expected collection efficiency improved 80 bps QoQ to 98.3% as of September 2026. Focus is on higher-ticket LAP of ₹10-15 lakhs and above; management describes this as a long-term annuity business that takes time to build.
- **Consumer finance:** AUM ₹6,912 crores, up 19% QoQ. Share of loans above ₹50,000 ticket size rose from 37% to 69%, and disbursements with tenor above 6 months to ~95%. Management said the portfolio is profitable with loss estimation and coverage in place.
- **Rural finance (MFI):** AUM ~₹1,350 crores, up 12% QoQ, on record quarterly disbursements of ₹399 crores. 30+ DPD was 0.4%, among the lowest in the industry; collection efficiency 99.7% as of September 2026, with Tamil Nadu and Karnataka cited as strong performers. Karnataka is ~2% of total AUM, mostly CGFMU-covered; Maharashtra has no MFI exposure.
- **Credit solutions:** Disbursements ₹6,501 crores, up 7% QoQ, across 382+ originating partners, ~93% rated BBB and above and ~93% with capital adequacy above 20%. Placement volume rose ~60% YoY to ₹4,088 crores. No partner default through the microfinance stress.
- **Fund management:** Performing credit fund AUM ₹2,787 crores; the seventh fund closed with a 14.5% gross return. The diversified debt fund (₹1,500 crores plus ₹500 crores green shoe) had a first close of ₹400 crores, and

the open-ended Savings Plus Fund was launched. Management expects fund AUM upward of ₹4,000 crores by year-end, with the diversified debt fund near ₹1,000 crores.

- **Altifi:** Registered users above 1,10,000; volumes rose from ₹164 crores in Q2 FY26 to ~₹450 crores in Q2 FY27. Management plans ₹10-15 crores of investment for the rest of the year, within prior budget and guidance.

STRATEGY & COMPANY-SPECIFIC

- **Branch expansion:** Entered Uttar Pradesh with 11 additional branches.
- **Pricing action:** Raised the FBLR by 30 bps; ~₹8,500 crores of loans mature over the next six months and are expected to reprice automatically.
- **Liability mix:** Total borrowings ₹14,107 crores, ~63% variable (nearly half of that MCLR-linked, which transmits with a lag), 23% from offshore and DFI partners, 37% fixed-rate locked in earlier. Liquidity surplus ~₹1,300 crores with LCR above 150%.
- **Capital position:** Tangible net worth ₹4,221 crores, up 15% YoY; debt-equity 3.3x against a 4-4.5x comfort level; CRAR ~21%, Tier 1 ~20.5%.
- **Technology:** Nimbus B2B platform has enabled over $1 trillion of credit flow; the partner origination system and API-based on-lending and co-lending platform underwrite 20,000-25,000 loans a day. Underwriting uses 52 million data points, 30+ proprietary risk models and 100+ professionals, with on-ground presence in 25% of India's districts.
- **Insurance regulation:** Management does not expect material impact from the IRDAI consultation paper on distribution and commission, as insurance commission income is less than 1% of net revenue in H1. Credit-linked protection insurance continues to be offered in LAP and rural businesses.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
AUM growth (FY27)	23-25%; "upward of 25%" possible	Raised (was 22-23%)	Current momentum; management retains caution on the environment
Credit cost (FY27)	2.6-2.8%	Raised at the top (was 2.6-2.7%)	Q2 at 2.6%; additional overlays taken
NIM (FY27)	Hold prior guidance; no expansion expected	Cut (was ~9.5% next quarter, ~10% by end-FY27)	Cost of funds increase offset by yield repricing and D2C mix
Cost of funds, Q3 FY27	8.65%	New	Market rate trends
Cost of funds, Q4 FY27	8.85%	New	Market rate trends
Cost of funds, FY27 exit	~8.75%	Raised (was 8.5-8.6% rangebound)	Rate cycle reversal
Incremental cost of funds, Q3 / Q4	~9% / ~9.25%; ~9% for FY27	New	Against 8.65% for FY26
ROA (FY27)	~3%	Maintained	NIM, operating leverage, stable credit cost
ROA (FY28)	3.4-3.5%	New	NIM expansion and operating leverage from footprint and technology
D2C mix	~70% by end-FY27	New	Current 66%

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Equity raise	Not needed for 1.5 years	Cut (was 2 years)	Tier 1 ~20.5% vs 16-17% covenants; debt-equity 3.3x
Fund AUM	Upward of ₹4,000 crores by year-end	New	Two new funds; diversified debt fund near ₹1,000 crores
Altifi investment	₹10-15 crores for rest of year	New	Within prior budget and guidance

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Macro stress and inflation	Retail inflation rose from 4.38% in June 2026 to 5.54% in the quarter; management took additional overlay in MSME and rural finance in anticipation of stress even though numbers do not yet show it
Rainfall deficiency and drought	Maharashtra and Karnataka identified among affected states; no MFI exposure in Maharashtra, Karnataka ~2% of AUM and mostly CGFMU-covered; management remains very cautious in Karnataka
Rising cost of funds	Cost up 9 bps QoQ to 8.55%; guided to 8.65% in Q3 and 8.85% in Q4; management cites an industry report projecting ~30 bps NBFC cost increase in H2
CGFMU scheme continuity	Window for originations after 1 April 2026 not yet open; revalidation applied for; 50-55% of rural finance book covered; management says underwriting does not depend on the cover
Stage 3 increase	Driven by retail mix and reclassification of one purchased portfolio, fully provided with no net impact; Stage 2 rose from 1.6% to 1.7% partly on one MSME asset
Fund management losses	₹9.8-10 crore fair value hit from the manager's own investment in a matured fund; two funds matured this year
Geopolitical exposure	Less than 2% of the portfolio directly or indirectly exposed to segments impacted by high crude oil prices
Insurance regulation	IRDAI consultation paper on distribution and commission; insurance commission under 1% of H1 net revenue, no material impact expected

Q&A HIGHLIGHTS

Operating cost increase Question: Why are average cost per employee and other opex per branch up 11% and 17% QoQ, with employee cost rising 20-25% YoY? Management attributed it to the Uttar Pradesh branch entry, where costs come before productivity, technology investment in direct lending and the refreshed Altifi website, and hiring senior talent in Altifi and the debt capital markets business to build the fee stream.

Stage 3 movement Question: Where did the sequential Stage 3 increase come from? Management said less than 25% was from the rising retail share, with the rest from reclassification of one purchased portfolio taken in settlement of a credit exposure a couple of years ago, fully provided with no net impact; a ₹100 book bought at ₹80 was already fair-valued, which also explains the PCR jump.

Growth guidance Question: With 34% growth in Q2, why not upgrade the 23-25% guidance? Management said "we should do upward of 25%" but chose to hold the stated range given the environment, noting festival-season demand in consumer finance and MSME is very good.

NIM and cost of funds Question: With D2C mix rising, should yields and margins expand in H2? Management said yields should rise but cost of funds will too, guiding to 8.65% in Q3 and 8.85% in Q4, ~8.75% exit and ~9% incremental for the year, and expects to hold NIM guidance without expansion.

ROA path Question: What is the FY28 ROA guidance and the drivers? Management guided to ~3% by end-FY27 and 3.4-3.5% for FY28, driven by NIM expansion and operating leverage from branch productivity and technology, with credit cost guidance held.

Capital adequacy Question: What is Tier 1 and when is a fundraise needed? Management said Tier 1 is ~20.5% against lender covenants of 16-17%, debt-equity 3.3x against a 4-4.5x comfort level, and no equity raise is needed for 1.5 years given quarterly profit accretion.

Fund management loss Question: What caused the ₹9.8-10 crore loss in investment management? Management said one account required a fair value loss on the manager's own investment in a fund that came up for maturity; the ₹400 crores refers to the first close of the new ₹2,000 crores diversified debt fund.

CGFMU coverage Question: How is the credit guarantee scheme progressing and what if the amount is reduced? Management said the scheme is open for originations before March 2026, the window for new bookings from 1 April 2026 is not yet open, 50-55% of the rural finance book is covered, and underwriting is based on NuScore regardless of cover.

AU Small Finance Bank Limited

GROWTH TRIGGERS

AU can sustain 25% loan growth and 29% deposit growth with CASA improving, while credit cost stays below the ~90 bps FY27 guidance and cost-to-assets improves, letting broad-based retail, commercial and gold loan growth plus AI-led processing lift ROE without relying on NIM expansion.

1. Loan growth at 25% with management targeting 2-2.5x nominal GDP

Q2 FY27 loans grew 25% YoY and 7% QoQ versus banking-system credit growth of 19%; secured assets grew 26% and unsecured 23%. Management targets overall growth of 2 to 2.5 times nominal GDP, which makes 20-25% loan growth the operating ambition rather than a one-quarter outcome.

2. Deposit franchise grows 29% and CASA ratio reaches 29.5%

Deposits grew 29% YoY and 8% QoQ against system deposit growth of 18%, while CASA grew 29% YoY and the CASA ratio rose 70 bps QoQ to 29.5%. The bank added 45 deposit branches and targets 25% YoY deposit growth, giving it a broader funding base for loan growth.

3. Commercial banking grows 39% to ₹35,300 crore and is almost entirely floating rate

Commercial banking grew 39% YoY and 8% QoQ to ₹35,300 crore, with transaction banking and forex income up 51% YoY. The book is almost entirely floating rate, and management is attaching a current account, CMS or collections proposition to every lending and supply-chain relationship to make the segment progressively self-funded.

4. Gold loans reach ₹4,700 crore, with near-term growth tied to gold price reversal

Gold loans reached ₹4,700 crore, up 102% YoY but only 4% QoQ, as a reversal in gold prices reduced renewals and balance-transfer opportunities. LTV is around 75% and management still sees distribution headroom; a stabilisation in gold prices would remove the main near-term drag on the fastest-growing secured product.

5. AI tools already touch 5% of disbursements and cut automated coverage cost by 50%

The cross-lead platform with voice AI enabled 5% of Q2 FY27 disbursements and delivered 50% operating cost savings on automated customer coverage. Scorecard-led underwriting delivered over ₹500 crore of unsecured disbursement, and the agentic AI gold loan system disbursed over 2,500 loans across 40 branches, giving measurable proof before the cost ratio fully reflects scale.

6. Credit cost at 0.8% and H1 at 73-74 bps leave room under 90 bps FY27 guidance

Q2 FY27 credit cost including guarantee premium was 0.8%, down 45 bps YoY; provisions fell 25% to ₹359 crore, slippage ratio improved to 2.6% and GNPA fell to 1.99%. H1 credit

cost of 73-74 bps sits below the ~90 bps FY27 guidance and gives room for Q3 seasonality.

7. Cost-to-assets at 3.9% with management expecting full-year improvement

Q2 FY27 cost-to-assets excluding guarantee premium was 3.9%, and management expects the ratio to improve year-on-year on a full-year basis. Operating expenses grew 26% as the bank invested in distribution, brand and technology, so the improvement has to come from revenue scale and AI-led productivity rather than slower investment.

8. Inclusive banking grows 23% with 99.6% collection efficiency and 99% CGFMU cover

Inclusive banking grew 23% YoY and 6% QoQ, collection efficiency was stable at 99.6%, and 99% of the book was covered under CGFMU. The guarantee converts credit loss into a paid premium and supports the book's priority-sector role while asset quality normalises.

9. Digital unsecured grows 23% with personal loans up 81%

Digital unsecured grew 23% YoY and 14% QoQ. Personal loans grew 81% YoY and 31% QoQ off a low base, supported by analytics-led cross-sell and calibrated new-to-bank acquisition, while the credit card book saw marginal growth with 1.5 lakh new cards issued.

INVESTMENT THESIS

AU Small Finance Bank is an operating-leverage thesis: a retail and commercial lender growing loans and deposits materially faster than the banking system, funding itself through a granular deposit franchise, and using distribution, credit discipline and AI-driven processing to push cost-to-assets lower while credit costs normalise. Q2 FY27 is the clearest evidence yet that the model is working together: deposits grew 29% year-on-year, loans 25%, CASA ratio rose 70 bps sequentially to 29.5%, net interest margin was 5.8%, cost-to-assets excluding guarantee premium was 3.9%, credit cost including guarantee premium was 0.8%, PAT rose 53% to ₹858 crore, and ROE improved to 16.1%. H1 FY27 PAT rose 45% to ₹1,650 crore and H1 ROA was 1.7%.

The business economics rest on three spreads. First, AU lends to semi-urban and rural customers that larger banks under-serve, so yields are higher than mainstream retail credit. Retail secured assets formed 66% of the loan book in Q2 FY27 and grew 22% year-on-year; wheels reached ₹51,000 crore, up 27%, gold loans ₹4,700 crore, up 102%, and commercial banking ₹35,300 crore, up 39%. Second, the deposit franchise is becoming more granular: branch banking is about 60% of deposits, CASA accounts grew 29% year-on-year and 11% quarter-on-quarter, and the bank added 45 deposit branches in Q2. Third, operating costs are being managed: cost-to-assets excluding guarantee premium fell to 3.9%, and management expects further year-on-year improvement on a full-year basis.

The earnings path is visible in the composition. Net interest income grew 32% year-on-year on loan growth and a 33 bps year-on-year margin expansion. Fee income grew 16%, while treasury profits were lower, so total other income grew 8%. Operating expenses grew 26% as the bank added about 2,400 employees, 45 deposit branches and 100+ asset centres, and continued brand and technology spending. Provisions declined 25% to ₹359 crore, largely because unsecured businesses normalised; the slippage ratio improved to 2.6% from 3.3%, GNPA fell 42 bps to 1.99%, and credit cost including guarantee premium fell 45 bps to 0.8%. The H1 credit cost of 73-74 bps sits below the ~90 bps FY27 guidance, leaving room for Q3 seasonality.

The growth engines are no longer only wheels. Commercial banking grew 39% year-on-year and 8% quarter-on-quarter to ₹35,300 crore, with transaction banking and forex income up 51%; the book is almost entirely floating rate and management wants every relationship to carry a current account, CMS or collections proposition. Inclusive banking grew 23% year-on-year and 6% quarter-on-quarter, with collection efficiency at 99.6% and 99% CGFMU cover. Digital unsecured grew 23% year-on-year and 14% quarter-on-quarter; personal loans grew 81% and 31% respectively off a low base, and the credit card book issued 1.5 lakh new cards. Gold loans remain the highest-growth secured product, but Q2 growth

moderated to 4% quarter-on-quarter from 15% in Q1 as a reversal in gold prices reduced renewals and balance transfers; LTV is around 75% and management still sees headroom.

The AI programme is starting to show measurable operating outcomes rather than only ambition. In Q2 FY27 the cross-lead platform with voice AI enabled 5% of total disbursements and delivered 50% operating cost savings on automated customer coverage. Scorecard-led underwriting delivered over ₹500 crore of unsecured loan disbursement, and the agentic AI gold loan system had disbursed over 2,500 loans across 40 branches. These are small shares of a large bank, but they are the mechanism by which management expects to push cost-to-assets toward its longer-term benchmark without adding back-office headcount proportionally.

Management delivery is mixed but improving. The 25% deposit growth target is being exceeded at 29%, credit cost is tracking below the ~90 bps guidance, and cost-to-assets is at 3.9%. Earlier research cited a 1.8% FY27 ROA target, but the Q2 call did not restate it and Q2/H1 ROA was 1.7%; treat 1.8% as unverified rather than current guidance. Credit-card profitability also remains unresolved; the Q2 call disclosed issuance but not breakeven. The new insurance fee-income consultation paper is a fresh headwind: management said it will have some impact on ROA/ROE, with the final shape still unknown, and other fee pools such as forex, credit cards and trade finance are expected to offset only part. The 7-8 bps figure was an analyst framing, not management guidance.

My inference, not company guidance, is that the ROA path needs cost-to-assets to stay near 3.9% or lower and credit cost to remain below 90 bps through Q3, because NIM is unlikely to provide the lift: Q2 NIM fell 9 bps sequentially as higher investments and seasonality offset a 7 bps decline in cost of funds, and management said further cost-of-funds improvement may be capped as liquidity dries up and short-term rates rise. About 70% of the loan book is fixed-rate, so a rising rate cycle compresses margins before asset repricing catches up; 30% is floating and transmits the 25 bps repo hike over three to four months.

The falsifiers are specific. If NIM falls further as deposit costs rise, if gold loan growth stays at 4% or lower for several quarters, if Q3 credit cost jumps above the 90 bps guidance, if the insurance fee-income impact is larger than expected, or if the credit card book remains loss-making without a credible path to breakeven, the operating-leverage thesis weakens. Conversely, if deposits keep growing near 29% with CASA near 29.5%, cost-to-assets holds at 3.9% or below, and credit cost stays in the 70s, the bank can deliver the earnings path without relying on margin expansion.

RESEARCH REPORT

What AU Small Finance Bank Limited does

AU Small Finance Bank is a retail-focused bank built on a vehicle-financing franchise that began in Jaipur in 1996 as AU Financiers, an NBFC lending to commercial vehicle operators that formal banks would not touch. It received its small finance bank license in 2015, commenced banking operations in April 2017, and merged with Fincare Small Finance Bank effective April 1, 2024, becoming India's largest small finance bank by asset size. It applied for a Universal Banking license in September 2024, received in-principle approval from the RBI on August 7, 2025, and filed its final license application in March 2026.

The bank's core purpose is lending to customers in semi-urban and rural India that larger banks under-serve: small business owners, commercial transport operators, farmers, and first-time borrowers. Its loan book is deliberately secured-heavy, with 87% of the portfolio in retail secured and commercial banking assets as of FY25. The bank believes this collateral-backed model keeps loss-given-default low, which is why management repeatedly states it is comfortable with the transition to expected credit loss norms from April 2027.

Retail Secured Assets is the flagship, comprising 66% of the loan portfolio in Q2 FY27 and growing 22% year-on-year. It includes wheels (vehicle loans), micro business loans (MBL), affordable housing, and gold loans. Commercial Banking grew 39% year-on-year to ₹35,300 crore in Q2 FY27 and covers MSME lending, agri value chain financing, real estate developers, NBFCs, and transaction banking. Inclusive Banking, the microfinance business, is about 6% of the book and grew 23% year-on-year in Q2 FY27. Digital unsecured lending, comprising credit cards and personal loans, is around 3% and grew 23% year-on-year.

Retail Secured Assets (66% of loan portfolio, Q2 FY27)

Wheels is the originating product and still the largest single book at INR 51,000 crores in Q2 FY27, growing 27% year-on-year and 6% quarter-on-quarter. It finances cars, MUVs, LCVs, construction equipment, tractors, and two- and three-wheelers. The product exists because goods transport operators and passenger taxi operators in rural India had steady cash flows but no documentation, so they were excluded from formal credit. The bank has underwritten this segment for three decades and expanded it from 550 branches in March 2024 to roughly 1,000 branches by March 2026, doubling its distribution footprint.

Micro Business Loans (MBL) are secured business loans against immovable property for micro and small enterprises: kirana stores, dairy businesses, restaurants, and service providers with limited documentation but visible cash flows. In Q2 FY27 the combined mortgage book, comprising MBL and affordable housing, grew 12% year-on-year and 2% quarter-on-quarter, with MBL and LAP disbursements up 17% year-on-year. The book was around INR 28,000 crores and grew at mid-teens in FY25, deliberately slower than the rest

of the portfolio because competitive intensity has increased. As Sanjay Agarwal put it on the Q4 FY26 call, 'that market has become too competitive and every new NBFC or HFC is coming and building their book there only and I don't think that now there is a risk-reward left there.'

Home loans are affordable housing products for Tier 2 city customers, restarted in 2017 after the bank sold its housing finance subsidiary. The book is around INR 10,000 crores with 1.4% GNPA, but management has been explicit that they are not chasing growth in this segment because the risk-reward has deteriorated. In Q2 FY27 the broader mortgage book grew 12% year-on-year and 2% quarter-on-quarter; management said it is not looking to chase affordable housing loan growth given its cost of funds and competitive intensity in the segment.

Gold loans are the newest scale-up. The book reached INR 4,700 crores in Q2 FY27, growing 102% year-on-year and 4% quarter-on-quarter, after the bank extended the product to 400-plus branches in Q1 FY27 and took total distribution to over 1,300 branches. Management said the sequential moderation reflected a reversal in gold loan prices, which affected renewals and the balance-transfer portfolio, while LTV remained around 75%. The average ticket size is around INR 2.5 lakh, more than 80% of the book is rural, and portfolio IRR was about 15.5% in Q1 FY27. The capability came from Fincare, which had deep rural distribution and gold loan expertise in southern geographies; AU is scaling that capability across its north-west stronghold where it had no distribution.

Commercial Banking (₹35,300 crore, +39% YoY in Q2 FY27)

Commercial Banking grew 39% year-on-year and 8% quarter-on-quarter to INR 35,300 crores in Q2 FY27, with broad-based growth across sub-verticals. It operates through five businesses: Business Banking (working capital and term loans to wholesalers, traders, manufacturers, service providers), Agri Banking (the full agricultural value chain from flour and dal mills to cold storage and poultry farms), Real Estate Group (small-scale residential developers in affordable and mid-income housing), Emerging Enterprises & Financial Institutions (lending to asset-backed NBFCs), and Transaction Banking (CMS, trade finance, forex).

The segment is strategically important for two reasons. First, it is progressively self-funded: commercial banking sources about 56% of its own funding requirements through current accounts, transaction banking, and CMS, and the bank's stated goal is to run it as a fully self-funded business. In Q2 FY27 management reiterated that every lending, supply chain and corporate banking relationship should have a current account, CMS or collections proposition attached, as part of making the segment progressively self-funded. Second, it has the highest return profile outside retail, with a 30% plus CAGR over five years, stable asset quality, and ROA of about 2% as of Q2 FY26.

The renewable energy book is a dedicated segment within commercial banking, growing over 120% year-on-year. It lends to project developers specifically under the KUSUM C and KUSUM A components, with project sizes between 2 megawatts and 5 megawatts. The business started in Rajasthan three years ago and expanded to Gujarat, Maharashtra, and Madhya Pradesh. The viability comes from government capital subsidies to developers and attractive PPAs.

Inclusive Banking - Microfinance (approx. 6% of loan portfolio, growing 23% YoY in Q2 FY27)

The microfinance business was acquired through the Fincare merger and serves 25.7 lakh customers across 59,000-plus villages in 18 states, with 45% being first-time borrowers. It is a joint-liability group lending model to women-led rural households, with doorstep collections and financial literacy camps. The loans are collateral-free and unsecured, and the book went through a severe credit cycle in FY25 as the industry over-indebted households, then tightened. In Q2 FY27 the inclusive banking franchise grew 23% year-on-year and 6% quarter-on-quarter, with collection efficiency stable at 99.6% and 99% of the book covered under the CGFMU guarantee scheme.

The business model has fundamentally changed since the introduction of the CGFMU credit guarantee scheme. As of Q2 FY27, 99% of the book is covered under the guarantee, meaning the bank pays a premium for protection rather than building provisioning buffers. Management's earlier framing of a 3% credit cost business has been revised: as Sanjay Agarwal said on the Q1 FY27 call, 'after this guarantee came in, the entire business model has gone through a change.' The bank is not trying to maximize ROA from this book; it exists to fulfill the small and marginal farmer priority sector obligation and provide financial inclusion, which is why management has publicly capped it at around 10% of the total book.

Digital Unsecured Lending (approx. 3% of loan portfolio, +23% YoY in Q2 FY27)

Credit cards and personal loans make up this segment. In Q2 FY27 the digital unsecured portfolio grew 23% year-on-year and 14% quarter-on-quarter. Personal loans grew 81% year-on-year and 31% quarter-on-quarter off a low base, supported by analytics-led cross-sell and calibrated new-to-bank acquisition. The credit card book saw marginal growth, with 1.5 lakh new cards issued in the quarter.

Both businesses are currently loss-making or breakeven. As Prince Tiwari said on the Q1 FY27 call, "credit card is currently loss-making, right? So PL is obviously breakeven." The credit card book went through an underwriting tightening 18 months ago that reduced the revolver mix from about 35-36% to 26%, which suppressed yields. The bank's position is that these are cross-sell businesses for the liability franchise and need time to mature before they contribute meaningfully to profitability.

Deposits and liabilities

Deposits grew 29% year-on-year and 8% quarter-on-quarter in Q2 FY27, ahead of banking-system deposit growth of 18%, with CASA ratio at 29.5%. The bank organizes its liability franchise into four verticals: branch banking (60% of deposits), government and interbank deposits (21%), commercial banking and wholesale deposits (7%), and financial institutions group (8%).

The deposit strategy is built on three pillars. Granularity, through growing the branch banking book and acquiring new CASA accounts at a run rate of over 1 lakh per month. Stability, through emphasizing non-callable deposits, with total stable deposits (CASA plus retail TDs plus non-callable bulk TDs) at 79% of the total. And cost of funds, which declined 32 basis points year-on-year in FY26 to 6.75%. In Q2 FY27 the bank added 45 deposit branches, grew premium CASA account acquisition 45% year-on-year, and improved the CASA ratio to 29.5% from 28.8% in Q1.

The bank's stated long-term ambition is to bring cost of funds to around the prevailing repo rate once it matures as a universal bank. As Sanjay Agarwal said on the Q4 FY26 call, "if you see any mid-sized bank, they are around 6.25% and the old three-four banks are around 5.25%, right. So ideally, once we become very mature in our universal banking avatar, then my cost of funds should be around the repo rate prevailing at that time."

Technology and operating model

The bank spends about INR 1,000 crores annually on technology, roughly 12-13% of total opex. Its tech agenda is organized around 'run, build, and transform' with a focus on embedding AI into core business processes. The first AI-enabled gold loan origination platform went live in Q1 FY27 on an Agentic AI platform, with mortgage loan origination under build-out. In Q2 FY27 the cross-lead platform together with voice AI enabled 5% of total disbursements and delivered 50% operating cost savings on automated customer coverage; scorecard-led underwriting delivered over ₹500 crore of unsecured loan disbursement; and the agentic AI gold loan system had disbursed over 2,500 loans across 40 branches. AI-led transformation is underway across vehicle finance, personal loans, and credit cards, while the commercial banking journey is being built on a new platform.

The stated goal is to use AI to reduce operating costs. Management has been explicit that headcount growth should decelerate because back-office functions are being automated: on the Q1 FY27 call, Sanjay Agarwal said, 'we believe operations, accounts, finance these things have been taken care of by AI more. But as we are expanding in newer markets, new geographies, new products, we might want to hire people for front-ending.' In Q2 FY27 the bank added around 2,400 employees, largely in customer-facing roles, to support increased distribution.

The bank's target is to sustain compounding at 2x to 2.5x of India's nominal GDP growth rate, which it has stated consistently across quarters, and it reiterated a 25% year-on-year deposit growth target in Q2 FY27. It expects cost-to-assets excluding CGFMU premium to improve on a full-year basis, having already declined from 4.3% in FY25 to 4.1% in FY26, with earlier commentary indicating it should be below 4% in FY27. Q2 FY27 cost-to-assets excluding guarantee premium was 3.9%; the reported prior-period comparison is ambiguous, so the Q1 base should not be relied on from this call. In Q2 FY27 the bank added 45 deposit branches and over 100 asset centres, and management linked distribution and technology investment to the cost ratio.

Q2 FY27 operating result

In Q2 FY27 deposits grew 29% year-on-year and loans 25%, with the CASA ratio at 29.5%. Net interest income rose 32%, NIM was 5.8% (down 9 bps QoQ), and PAT rose 53% to ₹858 crore; ROA was 1.7% and ROE 16.1%. H1 FY27 PAT rose 45% to ₹1,650 crore and H1 ROA was 1.7%. Management guides ~90 bps FY27 credit cost and 25% deposit growth; Q2 credit cost including guarantee premium was 0.8% and H1 credit cost was 73-74 bps.

Q2 FY27 corporate and strategic updates

In Q2 FY27 the bank added about 2,400 employees, 45 deposit branches and 100+ asset centres. It appointed Anil Agarwal as Senior Executive Group Head for commercial and institutional banking and Amol Padi as Chief Risk Officer, inaugurated a new corporate office in Mumbai, received SEBI approval for UPI sponsorship services under the ASBA framework for IPOs, and had its credit rating outlook upgraded to positive from stable on 1 October while the long-term AA rating was reaffirmed.

Business segments

Retail Secured Assets

It forms 66% of the loan portfolio as of Q2 FY27, per the Oct 2026 concall, and is the product of a lending franchise that began in 1996 as an NBFC in Jaipur. The core capability that took decades to build is underwriting and collections expertise in semi-urban and rural India, where borrowers have informal income documentation. The FY25 annual report states the segment has a 'vintage of over 2 decades' and is the foundation of the bank's asset book, with a track record of lending to customers traditional banks cannot assess.

The wheels business is the flagship product, financing commercial vehicles, cars, tractors, and two-wheelers. It reached INR51,000 crores in Q2 FY27, growing 27% year-on-year and 6% quarter-on-quarter, driven by demand in the new vehicle segment and newer geographies. The FY25 annual report shows the wheels book at INR36,623 crores with a 27% growth rate, and the customer base is commercial vehicle operators, goods transporters, and passenger taxi operators who depend on steady cash flows. Micro business

loans (MBL) are property-secured loans for small business owners like kirana stores, dairy businesses, and service providers, with the FY25 report showing a portfolio of INR28,050 crores. Home loans focus on affordable housing for first-time buyers in Tier 2 cities, with the book at INR10,048 crores in FY25. In Q2 FY27 the combined mortgage book grew 12% year-on-year and 2% quarter-on-quarter, with MBL and LAP disbursements up 17% year-on-year. Gold loans, scaled from the Fincare acquisition, reached INR4,700 crores in Q2 FY27, growing 102% year-on-year and 4% quarter-on-quarter, with an average ticket size of around INR2.5 lakh and over 80% from rural geographies.

Customers are small business owners, commercial vehicle operators, farmers, and self-employed individuals in semi-urban and rural India. They buy from AU because the bank has been serving this exact segment for three decades, with 2,456 touchpoints across 25 states and union territories as of FY25. The bank's underwriting model relies on on-ground intelligence and cash flow assessment rather than documented income, which is why it can lend where larger private banks do not. The FY25 annual report notes that 63% of loans are below INR25 lakhs, reflecting the focus on small-ticket borrowers. The bank's yield on retail secured assets was around 14.5% in FY25, a direct result of serving customers who cannot access cheaper credit from mainstream banks.

Competition in this segment is fragmented. In vehicle finance, AU competes with NBFCs like Shriram Finance and Chola, and with banks like HDFC Bank. In micro business loans, the FY25 annual report notes that competitive intensity has increased significantly, with "small localized and niche players competing in every micro market." The housing loan market is dominated by HDFC and SBI, but AU focuses on the affordable segment where these players have thinner distribution. Gold loans face competition from Muthoot and Manappuram, though AU's branch-led model and rural distribution give it a different sourcing profile. The bank's market share in wheels is growing, with management stating in the Q2 FY26 concall that wheels grew 26% year-on-year, which they described as "market-leading in its segment."

The segment's group fit is central to the bank's strategy. Retail secured assets generate the yields that fund the deposit franchise, and the bank cross-sells savings accounts to these asset customers. In Q3 FY26, the bank opened 90,000 new CASA accounts from its retail asset base, with INR160 crores in balances. The Fincare merger in April 2024 doubled the distribution network and brought the gold loan capability, and the bank has been expanding wheels and MBL into southern markets using that network. The FY25 annual report notes that distribution for each retail secured business has nearly doubled to 900-1,000 branches in two years. The segment also shares technology infrastructure with the rest of the bank, including the Salesforce loan origination system and FICO decision engine, which management says have reduced turnaround times.

Management described the segment's role on the Q2 FY27 call:

> *'Retail secured assets comprising VIEs, mortgages, and gold loans form 66% of our portfolio and grew 22% year-on-year and 5% quarter-on-quarter.'*
>
> **CFO, Q2 FY27 CONCALL (OCT 2026)**

On the wheels business specifically, the Q2 FY27 call noted:

> *'Within retail, VIEs book crossed the ₹50,000 crore milestone this quarter. And grew 27% year-on-year and 6% quarter-on-quarter to reach ₹51,000 crores.'*
>
> **CFO, Q2 FY27 CONCALL (OCT 2026)**

The mortgages business, comprising MBL and affordable housing, grew 12% year-on-year and 2% quarter-on-quarter in Q2 FY27, with MBL and LAP disbursements up 17% year-on-year. Management has been cautious on this book, with Sanjay Agarwal stating in the Q4 FY26 concall that the affordable housing market has become 'too competitive' and there is no longer a risk-reward left there; in Q2 FY27 it said it is not looking to chase affordable housing growth given its cost of funds and competitive intensity. The gold loan business, by contrast, is the growth engine, reaching INR4,700 crores in Q2 FY27, up 102% year-on-year and 4% quarter-on-quarter, with the product distributed across over 1,300 branches. Management said the sequential moderation reflected a reversal in gold loan prices, which affected renewals and the balance-transfer portfolio, while LTV remained around 75%. Vivek Tripathi described it in the Q1 FY27 call as a 'very simple business' where distribution expertise from Fincare is being scaled across the north and west, with more than 80% of the book in rural areas and a portfolio IRR of about 15.5%.

Commercial Banking

Commercial banking is AU's lending engine for the mid-sized Indian economy: MSMEs, agri processors, small real estate developers, NBFCs and emerging enterprises. It grew 39% year-on-year and 8% quarter-on-quarter to INR35,300 crores in Q2 FY27. The capability that took years to build is underwriting businesses that large banks consider too small and small banks consider too complex, using sector-specialised teams and on-ground intelligence rather than audited financials.

The vertical runs five sub-books. Business banking provides working capital and term loans to wholesalers, traders, manufacturers, service providers, contractors, distributors, educational institutes and healthcare enterprises. Agri banking finances the post-harvest value chain: flour, dal, oil and rice mills, dairy farms, warehouses, cold storage, animal feed manufacturers, poultry farms and cotton ginning units. Emerging Enterprises and Financial Institutions (EEFI) lends to more than 200 NBFCs, with 72% of the book secured against

vehicles, MSME loans, housing finance receivables or gold, a median gearing of 2.2x and 89% of the portfolio rated investment grade (FY25 annual report). Real Estate Group (REG) funds small-scale residential and commercial projects in the affordable to mid-income segment, growing 66% in FY25 to INR3,212 crores with a gross NPA of 0.1%. The fifth sub-book is transaction banking, which carries the cross-sell economics: cash management services, trade finance and forex through the AD-I licence operationalised in 2024-25. Transaction banking and forex income grew 51% year-on-year in Q2 FY27.

Renewable energy was carved out as a dedicated segment in Q4 FY26 (Apr 2026 concall) after growing over 120% year-on-year. It lends to developers of 2-5 MW grid-connected solar projects under the government's KUSUM A and C schemes, which carry capital subsidies and attractive power purchase agreements. The book started in Rajasthan and expanded to Gujarat, Maharashtra and Madhya Pradesh. On the risk side, Q1 brings a seasonal uptick in SME business banking slippages, which Chief Credit Officer Vivek Tripathi described as "typically a Q1 uptick that then slows down."

The customer base is informal-economy businesses that lack the documentation large banks demand. AU underwrites them with sector expertise, local knowledge and turnaround speed. At 11.1% yield versus 14.5% on retail secured assets (FY25 annual report), the economics point to a relationship and deposit motive rather than yield maximisation.

The segment's economics are built around self-funding. Commercial banking sources 56% of its own funding through current accounts and deposits, contributing 8% of total deposits and 6-7% of CASA (Q2 FY26 and Q3 FY26 concalls). In FY25 it drove roughly INR12,000 crores of deposit mobilisation (annual report). The deposits vertical is organised into four buckets, with commercial banking and wholesale deposits contributing 7% of total deposits (Q1 FY27 concall). In Q2 FY27 management said the focus is to become progressively self-funded, with every lending, supply chain and corporate banking relationship having a current account, CMS or collections proposition attached.

> *"A strategic priority for commercial banking is self-sufficiency on funding. Currently, commercial banking sources approximately 56% of their funding requirements. Combined with transaction banking and CMS, our intent is to progressively run this as a fully self-funded business, a model that strengthens both margin resilience and customer stickiness."*
>
> **GAURAV JAIN, CFO, Q4 FY26 CONCALL (APR 2026)**

Competitively, the segment operates against other retail-focused banks and mid-sized lenders in MSME credit. On NBFC lending specifically, management claims pricing power from its track record:

> *"we are the leader in NBFC... People give us 100 basis more than the other people."*
>
> **SANJAY AGARWAL, MD & CEO, Q2 FY26 CONCALL (OCT 2025)**

Management has been explicit that commercial banking will not drift into corporate lending. Sanjay Agarwal said in the Q2 FY26 (Oct 2025) concall: "There is no plan to become a wholesale lender or be into a corporate finance unless until we have a low cost of money." The Fincare merger added southern distribution that this book is now expanding into, though management notes southern markets carry intense competition and will take 12-18 months to ramp.

Revenue mix: commercial banking grew 39% year-on-year to INR35,300 crores in Q2 FY27; it formed 22% of the loan portfolio in Q1 FY27 and roughly 21% in FY25 (annual report). The non-fund based book stood at approximately INR11,000 crores as of Q4 FY26 (Apr 2026 concall).

Inclusive Banking (Microfinance)

Inclusive Banking is AU Small Finance Bank's joint-liability group (JLG) lending business, providing collateral-free micro-loans to women-led rural households, small and marginal farmers, and Farmer Producer Organisations (FPOs) across 18 states. The operating model is built around doorstep service: loan officers disburse and collect repayments at the borrower's village, and the bank runs financial literacy camps alongside lending. The core capability that took years to build is the field-based underwriting and collection engine that replaced Fincare's microfinance network, which the bank acquired through the April 2024 merger. In Q1 FY27, MD Sanjay Agarwal described what the merger brought: 'Fincare gave us this ability ready hand that this team was available, very experienced team.' In Q2 FY27 the franchise grew 23% year-on-year and 6% quarter-on-quarter, with collection efficiency at 99.6%.

The segment holds three products. The first is the standard MFI group loan, disbursed to women organised in Joint Liability Groups of roughly 10-15 members who guarantee each other's repayment. As of March 2025, the bank served 25.7 lakh microfinance customers through over 9 lakh such groups, with an average exposure of about ₹26,000 per customer. The second is lending to small and marginal farmers (SMF), delivered through a dedicated Agri-SMF channel that operates out of 99 branches. The third is FPO financing, which funds farmer collectives for aggregation, storage, and marketing, with a live book of ₹265 crore as of FY25, up 58% year-on-year. All three sit under the Inclusive Banking vertical, which the bank tracks separately from its digital unsecured business.

The customers are first-time and under-collateralised borrowers. The FY25 annual report states that 45% of microfinance borrowers are first-time clients and 38% rely solely on AU as

their lender. They buy because the product is structured to their cash flow: small tickets, weekly or monthly collections at the doorstep, and no requirement for property collateral. The bank's presence in 59,000 villages across 349 districts gives it distribution that pure urban lenders cannot replicate. The segment also serves a regulatory purpose. Small finance banks are required to lend 10% of their book to small and marginal farmers, and Sanjay Agarwal said on the Q1 FY27 call that the bank intends to "do our small marginal farmer obligation through this book" rather than build a separate agri portfolio.

The competitive field is the broader Indian microfinance industry, which went through a sharp deleveraging cycle in FY25. The annual report notes that the MFI portfolio degrew 17% for AU and 14% for the industry during that year, as lenders tightened norms following over-indebtedness at the household level. The industry's self-regulatory body, MFIN, introduced a new guardrail framework effective April 2025, and management said on the Q1 FY27 call that MFIN is projecting 17-18% industry growth. What differentiates AU's book is the Credit Guarantee Fund for Micro Units (CGFMU) coverage. The bank has paid guarantee premiums to cover 99% of the MFI book as of Q2 FY27, up from 69% in Q2 FY26 and 83% in Q3 FY26. This shifts the risk profile from unsecured lending to a partially government-guaranteed book, which directly changes the credit cost economics.

The segment fits the group as a financial-inclusion and priority-sector vehicle rather than a standalone profit engine. It represents approximately 6% of the loan portfolio, as disclosed in the FY25 annual report, down from a larger share pre-merger because the bank deliberately ran down the book during the industry stress. The business runs through the same rural branch network that also sources deposits and gold loans, and the Fincare acquisition gave the bank both the microfinance team and the southern distribution that now supports those other products. On the Q1 FY27 call, Agarwal was explicit about the segment's role: "We are not seeing this book as our which will increase our ROA and whatever. This is more about doing your obligation done and having that inclusion piece in place, and also have your own decent ROA on this book."

Management's commentary across the four concalls tracks the segment's recovery. In Q2 FY26 (October 2025), the book was ₹6,200 crore, collection efficiency had improved to 98.95%, and the portfolio was still degrowing at 1% quarter-on-quarter. By Q3 FY26 (January 2026), the book reached ₹6,600 crore and grew 2% quarter-on-quarter, with collection efficiency at 99.3% and SMA pool down to 1.9%. By Q4 FY26 (April 2026), sequential growth was 8% and collection efficiency hit 99.7%. In Q1 FY27 (July 2026), the inclusive banking franchise grew 15% year-on-year, and management noted the CGFMU coverage had reached 96%. In Q2 FY27 (October 2026), it grew 23% year-on-year and 6% quarter-on-quarter, with collection efficiency at 99.6% and CGFMU coverage at 99%.

The credit-cost conversation has also changed. Agarwal said on the Q1 FY27 call that the old 3% steady-state credit cost estimate, made when the bank acquired Fincare, no longer applies: "The credit cost around the guarantee and of course whatever is left out. So it may be 2.5. But I think overall it's in the same range, but the contour has changed, the shape has changed, the form has changed." The bank now pays a guarantee fee monthly rather than building internal buffers, and CFO Gaurav Jain summarised the shift: "Instead of building up the buffers, we are securing protection on that book." The segment's credit cost for FY25 was 7.7%, but that reflects the worst of the industry cycle; the guarantee coverage and improving collection efficiency are the two variables management points to for normalisation.

Digital Unsecured Lending

This segment houses the bank's credit card and personal loan portfolios, both offered primarily through digital channels. It is the smallest lending vertical, forming roughly 3% of the gross loan portfolio at the end of FY25, per the annual report. The core capability is a data-driven underwriting engine that can score and sanction unsecured credit quickly, built on the Salesforce loan origination system and the FICO decisioning engine the bank rolled out for personal loans in FY25.

The personal loan product is the growth engine inside the segment. It grew 81% year-on-year and 31% quarter-on-quarter in Q2 FY27, from a low base, supported by analytics-led cross-sell and calibrated new-to-bank acquisition. The digital unsecured portfolio grew 23% year-on-year and 14% quarter-on-quarter. The credit card book saw marginal growth, with 1.5 lakh new cards issued in the quarter. The bank also offers a business loan product under the same unsecured umbrella, and a customisable card called LIT.

The customer base is almost entirely internal. As of Q1 FY27, 99% of the personal loan book came from existing-to-bank customers, sourced through transaction scorecards that identify pre-approved offers from the bank's own data. Management has said the pre-approved personal loan offer pool has more than tripled through propensity-based models. New-to-bank sourcing is a stated goal but remains a very small share. The credit card business is the one product that deliberately reaches outside the existing base, which is why it is the bridge into this segment for fresh customers.

Why do these customers buy from AU? Because the bank already holds their primary transaction data. The underwriting is faster and the pre-approved offer removes friction. But the segment is not yet profitable. Management was explicit in the Q1 FY27 call that the credit card business is loss-making and the personal loan book is at breakeven. The credit card book was tightened 18 months ago, which pushed the percentage of revolving balances down from a peak of around 35-36% to 26%, and that is what suppressed card yields. The gross NPA on the combined digital unsecured book sits well above the secured portfolio, which is why the risk-adjusted yield is lower despite similar headline rates.

The competitive position is straightforward: this is a small player in a market dominated by large private banks and specialist card issuers. AU's portfolio of roughly INR 2,900 crores across cards and personal loans in Q2 FY26 is a rounding error against HDFC Bank, ICICI Bank, or SBI Card. The bank is not trying to out-scale them. It is using the segment as a relationship tool, not a profit center. That is why management calls it a cross-sell business tied to the entire liability franchise.

The segment's role in the group is precise: it monetises the deposit and asset customer base the other three segments build. The unified lead management platform and Customer 360 initiative are designed to push these products through the existing branch network. The technology stack is shared, with personal loans and credit cards running on the same Salesforce platform as the wheels business. The segment also feeds fee income; in Q2 FY27 fee income grew 16% year-on-year, while treasury profits were lower and total other income grew 8% year-on-year.

On provisioning, the bank aligned all unsecured products onto the same policy in Q1 FY27, which produced a one-time provision of INR 23 crores. Credit costs across the unsecured book have been normalizing as the card book ages through its corrective cycle, and Q1 FY27 slippages declined 22% year-on-year, driven by improvement in this portfolio. In Q2 FY27 provisions declined 25% year-on-year to INR359 crores, largely led by normalization in unsecured businesses; the slippage ratio improved to 2.6% from 3.3% a year earlier, GNPA declined 42 basis points year-on-year to 1.99%, and credit cost including guarantee premium declined 45 basis points year-on-year to 0.8%.

Management has been direct about the timeline for this segment to become meaningful:

> *"Personal loans portfolio witnessed a resumption in growth this quarter with a healthy 19% sequential increase from a low base. Credit card business broadly stabilized this quarter after nearly five quarters of de-growth and should start seeing gradual growth."*
>
> **CFO, Q4 FY26 CONCALL (APRIL 2026)**

The segment is deliberately small. It exists to deepen wallet share with customers the bank already serves, and to build the data base for a larger unsecured book later. The personal loan product is the near-term growth story, while credit cards remain in rehabilitation. Neither is expected to move the bank's overall profitability in the current year.

Customers

AU Small Finance Bank's customer base spans the informal and semi-formal economy of Bharat: small business owners, commercial vehicle operators, women microfinance borrowers, small and marginal farmers, salaried professionals in Tier 2 cities, NRIs, and

MSMEs. The bank served 113.4 lakh unique customers as of FY25 across 2,456 touchpoints in 25 states and union territories.

The single largest customer group is wheels borrowers: commercial transport operators, taxi drivers, and farmers who buy vehicles to generate income. These customers historically could not access formal credit because they lacked documentation, and the bank's three decades of underwriting experience in this segment is its core competitive advantage. Management has stated it believes the wheels book can grow from INR 48,600 crores to around INR 2 lakh crores, citing competitors with books of INR 1.5 to 2 lakh crores.

Management has stated it believes the wheels book can grow from INR 51,000 crores in Q2 FY27 to around INR 2 lakh crores, citing competitors with books of INR 1.5 to 2 lakh crores.

Microfinance borrowers are women-led rural households, 45% of whom are first-time borrowers from the formal financial system. The average exposure per customer is around INR 26,000. The bank also manages 43 lakh rural savings accounts linked to these relationships, including micro savings accounts, insurance, and DBT linkages. This is a relationship business, not a transactional one: 38% of borrowers rely solely on AU, and the bank's branch network conducts doorstep collections and financial literacy camps.

The bank's deposit customers are deliberately different from its asset customers. Branch banking focuses on urban depositors, with about 90% of new customer acquisitions in FY25 coming from urban geographies and 39% being salaried professionals. The bank has built a premium banking suite (AU ivy, AU Eternity, AU Royale, AU Platinum) with concierge services for UHNI customers, and it cross-sells insurance, wealth management, and forex to this base. The wealth franchise serves 2.5 lakh customers with around INR 1,900 crores of AUM.

The buying relationship works differently across segments. For wheels and MBL, the decision is made by the small business owner, and the bank wins on turnaround time, local presence, and underwriting judgment rather than price. For commercial banking, the relationship is relationship-led: current accounts, transaction banking, CMS, and trade finance create stickiness that makes the customer less likely to switch. For microfinance, the group lending model and doorstep collection create deep local embeddedness.

Cross-sell between the asset and liability franchises is an explicit growth strategy. In Q3 FY26, the bank opened 90,000 new CASA accounts from its retail asset base with balances of INR 160 crores, and the liability-to-asset cross-sell portfolio reached INR 2,500 crores. The bank's self-funding ratio from retail asset customers is low, around 10%, because its asset customers are self-employed individuals in semi-urban and rural areas who do not hold large deposits. Management is candid that they do not expect this to change dramatically: the goal is to cross-sell insurance and small-ticket loans to asset customers, not to fund the book from them.

Concentration risk is low by design. The commercial banking book is spread across 200-plus NBFC relationships, the MFI book is granular at INR 26,000 average exposure, and the wheels book is a portfolio of small-ticket loans. The largest single customer concentration is in the EEFI segment, where the bank lends to asset-backed NBFCs, but management maintains 89% of that portfolio is investment grade with a median gearing of 2.2x.

Competitive landscape

AU Small Finance Bank competes in four distinct arenas: other small finance banks, private sector banks for deposits, NBFCs and local players in specific product segments, and, post-transition, universal banks. Its competitive position differs by product.

In wheels, the bank is the market leader in its segment, growing 27% year-on-year in Q2 FY27 to INR51,000 crores, in a market where system auto loan growth is far lower. The competitive advantage is underwriting judgment accumulated over 30 years plus distribution depth: the bank doubled its wheels branch network from 550 to roughly 1,000 branches in two years. Management states the growth comes from market share gains rather than market growth, particularly in newer geographies like South India and UP where the bank has been building distribution.

In MBL, competition is intense and fragmented. On the Q2 FY26 call, management described 'small localized and niche players competing in every micro market across regions.' This has forced the bank to be cautious, growing at mid-teens rather than chasing the market, because the risk-reward has deteriorated. The bank's response is to use its expanded pan-India distribution post-Fincare to increase productivity in newer geographies rather than compete on price in existing ones. In Q2 FY27 the combined mortgage book grew 12% year-on-year and 2% quarter-on-quarter, with MBL and LAP disbursements up 17% year-on-year.

In gold loans, the industry has grown by north of 100% year-on-year, and the bank is scaling from a low base. The competitive landscape is dominated by specialized gold loan NBFCs and banks with deep rural distribution. AU's advantage is that it already has the distribution ecosystem in place: as Vivek Tripathi explained on the Q1 FY27 call, 'the distribution already is in place, there is a whole ecosystem - there's a valuer, there is an operations team, there is an origination team. All that is playing out.' In Q2 FY27 the bank's gold loan book grew 102% year-on-year and 4% quarter-on-quarter to INR4,700 crores; management said the sequential moderation reflected a reversal in gold loan prices, which affected renewals and the balance-transfer portfolio, while LTV remained around 75%. The bank's gold loan book is deliberately granular (average ticket around INR 2.5 lakh, over 80% rural), which is a different customer than the urban high-ticket gold loan customer.

In microfinance, the competitive landscape shifted dramatically after the MFIN 2.0 guidelines took effect on April 1, 2025. The industry went through six to eight quarters of

degrowth as over-indebtedness at the household level caused a credit cycle. With the guardrails in place and CGFMU coverage at 99% of the book as of Q2 FY27, the industry is reviving; MFIN had projected 17-18% growth. In Q2 FY27 AU's inclusive banking franchise grew 23% year-on-year and 6% quarter-on-quarter, with collection efficiency at 99.6%. AU's competitive position here is protected by the government guarantee and by the Fincare team's experience, which the bank retained.

For deposits, the competition is against the entire banking system, and this is where the bank faces its most structural disadvantage. As an SFB, it does not have the brand recognition or branch network of large private banks, so it must offer higher rates. The bank has been cutting savings account rates as liquidity conditions allow: the highest SA rate on offer came down from 7.25% in March 2025 to 6.5% by October 2025. In Q2 FY27 cost of funds declined 7 basis points quarter-on-quarter, but management said further improvement may be capped as system liquidity dries up and short-term rates rise; it continues to price deposits at an 80-100 basis point premium to mid-sized banks. The universal banking license is expected to narrow this gap over time through enhanced trust and brand acceptance.

The cost-to-income comparison is instructive. Most SFBs operate with cost-to-income ratios in the late 50s to 60s, and AU at 57% year-to-date in Q3 FY26 is at the efficient end of that range. But as a universal bank, the range is much wider, with some banks below 40%. Management's stated ambition is to get to around 3.5% cost-to-assets in three to five years, which would put it in the efficient tier of universal banks, and it sees AI as the primary lever to get there. In Q2 FY27 operating expenses grew 26% year-on-year, driven by disbursement volumes and continued investment in distribution, brand and technology; cost-to-assets excluding guarantee premium was 3.9%, and management expects the ratio to improve year-on-year on a full-year basis.

The bank's competitive strategy post-universal-transition is explicit: it does not plan to change its asset mix or move upmarket. As Sanjay Agarwal said on the Q2 FY26 call, "there is no plan to go above a level in commercial banking. Our comfort zone where we feel comfortable is more around retail asset... We love this space so much. We like this - we are working in this space for the last 30 years." The universal license is about lowering the cost of funds and improving brand acceptance, not about becoming a wholesale lender.

Industry

The Indian banking industry in FY26 was characterized by credit growth of about 14.4% year-on-year at the system level, with deposits growing at 12.7%. Private sector banking deposit growth is estimated at 13-14% and credit growth at 13-17%. AU has consistently

grown well ahead of both: 24% deposit growth and 23% loan growth in Q1 FY27 versus 14% and 17% respectively for the private sector.

The Indian banking industry in FY26 was characterized by credit growth of about 14.4% year-on-year at the system level, with deposits growing at 12.7%. In Q2 FY27 the banking system grew deposits 18% year-on-year and credit 19%, while AU grew deposits 29% and loans 25%.

The regulatory environment is the most important variable for this bank. In Q2 FY27 the MPC raised policy rates by 25 basis points to 5.5% and shifted stance to calibrated tightening. Earlier, the RBI had cut CRR by 100 basis points over the course of the year, injecting roughly INR 2.5 lakh crores of primary liquidity, and reduced the PSL requirement for SFBs from 75% to 60%, which gives the bank more flexibility in deploying its book. The universal banking license transition carries an 18-month timeframe from the in-principle approval in August 2025, meaning the bank expects to start its 11th year as a universal bank.

The ECL framework, expected from April 1, 2027, is the most significant regulatory change on the horizon. Management's position is that the impact should be neutral given the low loss-given-default on the secured book, and it will provide more color by the end of Q3 FY27. In Q2 FY27 management said it does not target a PCR; the reported PCR fell because of write-offs and because the guaranteed book is now about 78% of the total, and adding back the guaranteed portion would put PCR at about 67-68%.

India's place in the global banking supply chain is as an underpenetrated market with a low household debt-to-GDP ratio of 42% versus developed markets. This is the structural argument for AU's growth: the bank targets 2x to 2.5x of nominal GDP growth for loans, which at 8-8.5% nominal GDP implies 20-22% loan growth, and in Q2 FY27 management reiterated a 25% year-on-year deposit growth target. Management has stated this is achievable for the next 4-5 years because of the product range, distribution, and the shift from informal to formal credit.

The competitive intensity in the industry is rising as capital becomes available. On the Q3 FY26 call, Sanjay Agarwal acknowledged, "a lot of your peers, NBFCs and midsize banks have raised a lot of capital recently. And everyone is pretty positive on growth picking up next year." His response was that the bank's 30-year franchise and execution capability would allow it to lead despite the competition.

The key cyclical risk is the interest rate cycle. Q2 FY27 NIM was 5.8%, down 9 basis points quarter-on-quarter, as higher investments as a share of total assets and seasonality offset a 7 basis point decline in cost of funds. About 30% of the loan book is floating-rate, so the 25 basis point repo hike transmits over three to four months; the remaining 70% is fixed-rate.

Management said further cost-of-funds improvement may be capped as system liquidity dries up and short-term rates rise.

The geopolitical risk is the other major variable. The Q2 FY27 call said the operating environment 'continued to be influenced by geopolitical risks, and monetary policy tightening, with MPC raising policy rates by 25 basis points to 5.5% and shifting stance to calibrated tightening.' The bank's exposure is indirect through fuel prices, inflation, and consumption, and management has stated it watches for second-order effects rather than direct borrower impact.

Growth triggers

Universal banking license conversion - final application filed March '26, awaiting regulatory approval

AU Small Finance Bank is converting from a small finance bank (SFB) to a universal bank. The RBI granted in-principle approval on August 7, 2025, with an 18-month transition window. The bank filed its final license application in March 2026 and now awaits final regulatory approval.

The conversion changes the bank's operating constraints. As an SFB, AU faces caps on exposure limits, restricted deposit mobilization options, and the obligation to maintain a Non-Operative Financial Holding Company (NOFHC) structure. Management confirmed the RBI amended the NOFHC requirement, removing this hurdle:

> *"Pursuant to the Bank's request, the RBI has amended the NOFHC requirement, which will now apply to the transition, universal bank only if the Bank or its promoter group proposes to establish any group entity in the future. Following this amendment, we filed the final license application in March '26 and await regulatory approvals."*
>
> **Q4 FY26 CONCALL (APR 2026)**

The business impact flows through three channels. First, deposit cost: management stated in the Q2 FY26 concall that universal banking "will significantly enhance trust and brand acceptance among depositors, enabling the bank to optimize its cost of funds over time." Second, capital efficiency: on the Q2 FY26 concall, the CFO said the transition should be "neutral to positive" for capital, since minimum capital requirements fall from 15% to 11.5%, offsetting new operational risk RWA. Third, regulatory relief on PSL: the RBI reduced SFB priority sector lending targets from 75% to 60%, easing compliance burden.

Management targets starting FY28 as a universal bank, within the 18-month transition period from the August 2025 in-principle approval. The Q3 FY26 concall reiterated this timeline: "our idea is to start our 11th year as Universal Bank."

MFI business revival - 23% YoY growth in Q2 FY27, CGFMU cover at 99%

AU's microfinance book, after six to eight quarters of degrowth, has turned positive and is compounding. The inclusive banking franchise (primarily MFI) grew 23% year-on-year and 6% quarter-on-quarter in Q2 FY27, with collection efficiency at 99.6% and 99% of the book covered under the CGFMU government guarantee scheme (Q2 FY27 concall, Oct 2026).

The revival runs through three steps. First, the industry reset: FY25 stress (AU's MFI book degrew 17% and the industry 14%, with AU's MFI credit cost at 7.7%, per the FY25 annual report) was followed by MFIN 2.0 guardrails effective April 2025, which tightened borrower exposure and field discipline. Second, AU's asset quality normalized: collection efficiency recovered from 98.95% in Q2 FY26 to 99.6% by Q2 FY27, and the SMA pool had fallen to 1.9% by Q1 FY27. Third, CGFMU coverage rose from 36% in March 2025 to 99% by Q2 FY27, converting credit loss into a paid guarantee premium. Management now frames MFI credit cost around the guarantee fee rather than loss buffers.

> *"post MFIN guardrails, industry has actually reached a stage where a lot of discipline has come in the field... the MFIN is also projecting about 17%-18% kind of a growth. So we are just following that."*
>
> **VIVEK TRIPATHI, CHIEF CREDIT OFFICER, Q1 FY27 CONCALL (JUL 2026)**

The book doubles as AU's small and marginal farmer obligation under priority sector lending, so management sees MFI headroom up to 10% of total loans. The Fincare merger supplied the experienced MFI team and southern distribution. The sequencing is visible quarter by quarter: stabilization in Q2 FY26, 2% QoQ growth in Q3, 8% in Q4, 5% in Q1 FY27, and 6% in Q2 FY27.

Gold loan scaling - 102% YoY growth to INR 4,700 cr in Q2 FY27, expansion to 1,300+ branches

The gold loan book is AU's fastest-growing asset class, scaling from a low base into a meaningful portfolio. In Q2 FY27 the book reached INR 4,700 crores, up 102% year-on-year and 4% quarter-on-quarter. Management said the sequential moderation reflected a reversal in gold loan prices, which affected renewals and the balance-transfer portfolio, while LTV remained around 75%. The product is distributed across over 1,300 branches after 400+ branches were added in Q1 FY27.

The capability came from the Fincare merger. Fincare brought gold loan underwriting expertise and rural distribution in South India; AU scaled that playbook across its North-West branch network. The book is deliberately granular, with an average ticket size around INR 2.5 lakh, over 80% rural, and the majority of loans under INR 5 lakh. Vivek Tripathi, Executive Director and Chief Credit Officer, described the economics on the Q1 FY27 call:

> *"More than 80% today is a rural book, the book portfolio IRR is about 15.5%... it's a very, very granular book."*
>
> **VIVEK TRIPATHI, Q1 FY27 CONCALL (JUL 2026)**

The economics matter because gold loans carry no risk weight and yield around 16% with ROA north of 3%, as management stated in Q2 FY26. The product also pairs with the AI-enabled gold loan origination system that went live in April 2026, cutting the loan journey to 5-10 minutes, which supports scaling without proportional headcount. By Q2 FY27 the agentic AI gold loan system had disbursed over 2,500 loans across 40 branches.

The trajectory shows the stage: INR 1,896 crores at FY25 year-end, ~INR 2,300 crores in Q2 FY26, ~INR 3,000 crores in Q3 FY26, ~INR 4,000 crores in Q4 FY26, INR 4,500 crores in Q1 FY27, and INR 4,700 crores in Q2 FY27. Distribution went from 850+ branches in FY25 to 1,300+ by Q1 FY27. Management frames this as scaling from a low base with distribution already in place, so the growth reflects rollout of an existing capability rather than new infrastructure.

Newer geographies (South, East India) - expanded distribution post-Fincare merger, wheels penetration doubling

AU entered FY27 as a pan-India lender. Before the merger, AU was a north and west franchise; erstwhile Fincare brought 48% of its 1,309 touchpoints in South India, against AU's 3%. The final integration step, migrating Fincare's core banking system, completed in April 2026, so the combined network is now fully operational.

The mechanism is distribution density, not new branch openings. Management nearly doubled retail asset distribution to 900-1,000 branches per secured product over two years, and wheels specifically went from 550 branches in March 2024 to around 1,000 by March 2026. The wheels loan book grew 27% year-on-year to INR51,000 crores in Q2 FY27, with management attributing the growth to strong demand in the new vehicle segment and increasing disbursement traction across newer geographies (Q2 FY27 concall, Oct 2026).

The credit commentary confirms the volume is coming from the new footprint:

> *"On the vehicle side, we have now strong distribution in South, we have strong distribution in UP and the newer states in East. So that is now giving us the additional volume."*
>
> **VIVEK TRIPATHI, EXECUTIVE DIRECTOR AND CHIEF CREDIT OFFICER, Q1 FY27 CONCALL (JUL 2026)**

Sanjay Agarwal framed the same point at the strategic level: the franchise was "largely now a pan India franchise" after Fincare and deeper East expansion, with the next decade of growth to come from all parts of the country. The trigger is the conversion of that acquired distribution into per-branch product sales over the next 12-18 months.

Cross-sell of liability products to retail asset customers - 90,000 new CASA accounts from asset base in Q3 FY26

The trigger is a dedicated effort to convert the bank's existing retail asset customers - borrowers on vehicle, mortgage, and gold loan books - into savings account depositors. In Q3 FY26, the bank opened 90,000 new CASA accounts from this asset base, carrying balances of INR 160 crores, and built a INR 2,500 crores liability-to-asset cross-sell portfolio by quarter end (Q3 FY26 concall, Jan 2026).

The mechanism is straightforward. AU's asset franchise is large - retail secured assets alone were INR 83,000 crores in Q2 FY26 - but most of those customers were one-way borrowers. Opening savings accounts for them converts a single transaction into an ongoing banking relationship. Each account brings a low-cost deposit that directly reduces the bank's cost of funds, which management reported declining by 22 basis points quarter-on-quarter to 6.61% in Q3 FY26. The deposits also fund the loan book, reducing reliance on costlier bulk deposits.

Management has been explicit about the intent. In Q2 FY26, the bank reported 95,000 savings accounts opened from the asset base over six months, contributing INR 180 crores in value (Q2 FY26 concall, Oct 2025). The trajectory accelerated from there to 90,000 accounts in a single quarter.

> *"we are also focusing to cross-sell more as the franchise is becoming more mature... our liability franchise is not talking to the asset franchise largely. So we want that to happen from this year onwards so that when we acquire a liability customer, it's not only a single transaction, it is more relationship."*

> **MD & CEO, Q4 FY26 CONCALL (APR 2026)**

The initiative is at an early but scaling stage. Management has created a dedicated cross-sell vertical covering cards, payments, insurance, wealth, trade, and forex, and described cross-selling savings accounts to asset customers as a "newer initiative" with "promising results" (Q2 FY26 concall, Oct 2025).

Agentic AI platform rollout - AI-enabled gold loan LOS live, mortgage LOS under build-out

AU Small Finance Bank has rebuilt its loan origination stack on an enterprise-wide Agentic AI platform. Management describes it as a 'deterministic, rule-driven' system with full end-to-end traceability and auditability that replaces fixed digital workflows (Q4 FY26 concall, Apr 2026). The first AI-native loan origination system (LOS) on this platform went live for gold loans in mid-April 2026. By the Q1 FY27 call, the mobile-native version was live and being extended to branches in a calibrated manner, with mortgage LOS build-out underway on the same platform. By Q2 FY27 the agentic AI gold loan system had disbursed over 2,500 loans

across 40 branches, the cross-lead platform together with voice AI enabled 5% of total disbursements and delivered 50% operating cost savings on automated customer coverage, and scorecard-led underwriting models delivered over ₹500 crore of unsecured loan disbursement in the quarter.

The mechanism is distribution and cost advantage. Sanjay Agarwal said the AI-led gold loan LOS delivers 'a 5-10 minute journey, frictionless,' and that a 10th-pass employee with AI tools can match anyone's productivity on the ground (Q4 FY26 concall, Apr 2026). That matters because the gold loan book reached INR4,700 crore in Q2 FY27, up 102% year-on-year, with distribution across over 1,300 branches (Q2 FY27 concall, Oct 2026). The LOS is what lets the bank push that distribution without proportional back-office headcount. Management noted May 2026 marked the first month employee count declined, with operations, accounts, and finance 'taken care of by AI more' (Q1 FY27 concall, Jul 2026); in Q2 FY27 it added around 2,400 employees, largely customer-facing, to support distribution. Cost to assets excluding CGFMU premium was 3.9% in Q2 FY27, and Sanjay Agarwal set a benchmark of ~3.5% in three to five years via tech-led efficiency (Q4 FY26 concall, Apr 2026).

> *"Our first AI-native loan origination system built on this platform went live last week for our gold loan business."*
>
> **CFO, Q4 FY26 CONCALL (APR 2026)**

> *"We successfully rolled out our AI-enabled gold loan origination platform in a controlled environment. A mobile-native version is now live and we will start extending this to branches in a calibrated manner."*
>
> **CFO, Q1 FY27 CONCALL (JUL 2026)**

ECL framework implementation - potential impact neutral given low LGDs, will provide colours by end of Q3 FY27

The RBI's Expected Credit Loss (ECL) framework replaces the current incurred-loss provisioning model with a forward-looking, three-stage expected loss model effective April 1, 2027. AU is not yet covered as an SFB, but will fall under the regime upon its universal banking conversion (Q4 FY26 concall, Apr 2026).

The mechanism runs on two inputs: probability of default (PD) and loss given default (LGD). AU's case for a neutral impact rests on its book composition - roughly 90% is retail secured plus secured commercial banking, keeping LGDs structurally low. Management also expects existing Stage 3 provisions to cover incremental Stage 1 and Stage 2 provisioning, and the CGFMU guarantee on the MFI book (99% covered as of Q2 FY27) provides a further cushion.

From the Q1 FY27 call (Jul 2026), when Vivek Tripathi was asked about the impact:

> *"historical trend of our LGDs and PDs, especially LGDs on our asset classes are very, very low. So that gives us enough comfort to say that the impact would be neutral... We'll definitely give you some colors by end of Q3."*

The bank is building the models with a dedicated internal team and an external agency, and has been preparing proforma submissions to regulators since the draft guidelines. The final outcome depends on Board-approved policies for accelerated provisioning and write-offs - in Q4 FY26, management noted that accelerated Stage 3 provisioning could be released under the new framework, offsetting any Stage 1 and Stage 2 build-up. The Q1 FY27 one-time provision of INR 23 crores, used to align provisioning norms across credit cards, MFI and personal loans, reflects the standardisation work underway ahead of the transition.

Key risks

- **Geopolitical escalation and monetary tightening.** Management said the Q2 FY27 operating environment 'continued to be influenced by geopolitical risks, and monetary policy tightening, with MPC raising policy rates by 25 basis points to 5.5% and shifting stance to calibrated tightening.' The mechanism: energy prices rise, pass through into fuel and food inflation, real incomes shrink, and consumption-led credit demand (vehicles, micro business loans, mortgages) softens. The bank has no direct borrower exposure to trade or supply chain disruption, but second-order effects on credit quality and growth are the risk.
- **Deposit cost and NIM pressure.** Q2 FY27 NIM declined 9 basis points quarter-on-quarter to 5.8%. Management said further cost-of-funds improvement may be capped as system liquidity dries up and short-term rates rise; about 70% of the loan book is fixed-rate, so a rising rate cycle could compress margins before asset repricing catches up.
- **Insurance fee-income consultation paper.** Management said the proposed changes to insurance fee income will have 'some impact' on ROA/ROE, with the final shape still unknown; other fee pools such as forex, credit cards and trade finance are expected to offset only part of the headwind.
- **Gold loan growth moderation.** Gold loan growth slowed to 4% quarter-on-quarter in Q2 FY27 from 15% in Q1 FY27 as a reversal in gold prices reduced renewals and balance-transfer opportunities; LTV is around 75%.
- **Credit cost seasonality.** H1 FY27 credit cost was 73-74 basis points against a full-year guidance of around 90 basis points; management flagged Q3 as the quarter where any asset-quality stress would show, while saying it does not expect Q4 surprises.
- **ECL transition.** The RBI's expected credit loss framework is expected from April 1, 2027; management expects a neutral impact given low loss-given-default on the secured book

and will provide more colour by the end of Q3 FY27.

Scenarios

(Not disclosed in the sources.)

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Other income (₹ Cr)	2,526	2,978	3,304	3,947	4,626
PBT (₹ Cr)	2,788	3,474	4,591	5,773	6,950
Tax (₹ Cr)	682	833	1,148	1,443	1,737
Tax rate	24.5%	24.0%	25.0%	25.0%	25.0%
PAT (₹ Cr)	2,106	2,641	3,443	4,329	5,212
PAT growth	-	+25.4%	+30.4%	+25.7%	+20.4%
EPS (₹)	28.30	35.30	45.70	57.20	68.50
P/E	34.8x	27.9x	21.5x	17.2x	14.4x
PEG	1.5x	1.2x	0.9x	0.7x	0.6x

CAGR FY27E-FY29E: Revenue - · EBITDA - · PAT +23.0%

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Q2 FY27 concall notes

TLDR

AU Small Finance Bank reported Q2 FY27 deposits up 29% YoY and 8% QoQ to a level management compared with banking system growth of 18%, with CASA ratio up 70 bps QoQ to 29.5%. Loans grew 25% YoY and 7% QoQ against sector credit growth of 19%; secured assets rose 26% YoY, Wheels crossed ₹50,000 crores at ₹51,000 crores (+27% YoY), gold loans reached ₹4,700 crores (+102% YoY) and commercial banking ₹35,300 crores (+39% YoY). NII rose 32% YoY; NIM fell 9 bps QoQ to 5.8% on a higher investment book and day count. PAT grew 53% YoY to ₹858 crores, ROA 1.7% and ROE 16.1%. Credit cost including guarantee premium was 0.8%, down 45 bps YoY, against a full-year guidance of about 90 bps. Management guides deposits and loans at roughly 25% YoY and 2x-2.5x nominal GDP, with cost-to-assets improving YoY for FY27. Watch items are the insurance fee-income consultation paper, deposit repricing, and Q3 seasonality.

WHAT CHANGED SINCE Q1 FY27

- **Deposit growth guidance newly quantified.** Q1 gave no deposit growth number; management now targets about 25% YoY, calling the H1 29% "a little bit more than what we expected."
- **Credit cost guidance held at about 90 bps for FY27.** Q1 did not restate a full-year number in the notes; H1 FY27 credit cost is 73-74 bps, leaving room for Q3 seasonality.
- **Cost-to-assets guidance maintained.** Q1 expected improvement on a full-year FY27 basis; Q2 repeats it, with the ratio excluding guarantee premium at 3.9% versus 4.1% in Q1.
- **ROA target dropped from the discussion.** Q1 set a ~1.8% ROA target with ~10 bps from credit cost, other income and opex. Q2 reports ROA of 1.7% and does not repeat the 1.8% target; the medium-term discussion moves to cost-to-assets versus mid-sized banks at 2.5-3.5% and through-cycle credit cost of 90-200 bps.
- **NIM language shifted.** Q1 said cost of funds had bottomed out and NIM had no directional guidance. Q2 says short-term rates are rising and further cost-of-funds improvement is capped; 30% of the book is floating and the 25 bps repo hike transmits over 3-4 months.
- **New risk disclosed: insurance fee income.** A consultation paper on insurance fee income is flagged as a medium-term ROE headwind, with the final shape not yet known. Q1 notes had no such item.
- **Gold loan growth decelerated sharply.** Q1 was +130% YoY and +15% QoQ at ₹4,500 crores; Q2 is +102% YoY but only +4% QoQ at ₹4,700 crores, attributed to reversal in gold prices affecting renewals and balance transfers.
- **CGFMU coverage rose to 99% from 96%** of the inclusive banking book, and collection efficiency improved to 99.6% from 99.5%.
- **ECL clarity date passed without an update.** Q1 expected clarity by end-Q3 FY27; Q2 does not discuss the ECL framework or a transition impact.
- **Leadership additions delivered.** Q1 named a Chief Risk Officer Designate and Head of Technology; Q2 confirms Amol Padi as Chief Risk Officer and Anil Agarwal joining as Senior Executive Group Head for commercial and institutional banking.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Net interest income	-	+32% YoY	Loan portfolio growth and 33 bps YoY margin expansion

METRIC	REPORTED	CHANGE	WHAT DROVE IT
NIM	5.8%	-9 bps QoQ, +33 bps YoY	Higher share of investments in total assets, seasonality and an extra day count (3-4 bps); loan yields fell 9 bps, cost of funds fell 7 bps
Total other income	-	+8% YoY	Fee income +16% YoY on volumes; lower treasury profits
Operating expenses	-	+26% YoY	Disbursement volumes and investment in distribution, brand and technology
Cost to assets (excl. guarantee premium)	3.9%	vs 4.1% in Q1	Operating leverage on an underlying basis
Provisions	₹359 crores	-25% YoY	Normalization in unsecured businesses
PAT	₹858 crores	+53% YoY (₹561 crores)	NII growth and lower provisions
ROA / ROE	1.7% / 16.1%	vs 1.4% / 12.4% YoY	Higher profit; H1 FY27 ROA 1.7%, ROE 15.8%
Deposits	-	+29% YoY, +8% QoQ	CASA +29% YoY and +11% QoQ; premium account acquisition +45% YoY; ~$230 million gross FCNR
CASA ratio	29.5%	+70 bps QoQ (28.8% in Q1)	Current account average balances +60% YoY, savings average +24% YoY
Loans	-	+25% YoY, +7% QoQ	Secured +26% YoY and +5% QoQ; unsecured +23% YoY and +8% QoQ; disbursements +33% YoY
Slippage ratio / GNPA	2.6% / 1.99%	vs 3.3% / -42 bps YoY	Improvement in unsecured; secured slippages stable; tractor billing seasonality
Credit cost incl. guarantee premium	0.8%	-45 bps YoY	Unsecured normalization; H1 FY27 at 73-74 bps

SEGMENTS & GEOGRAPHIES

- **Retail secured (66% of portfolio):** +22% YoY, +5% QoQ. Wheels crossed ₹50,000 crores to ₹51,000 crores (+27% YoY, +6% QoQ) on new vehicle demand and newer geographies; tractors are 12-13% of the Wheels book with billing in June and December. Gold loans ₹4,700 crores (+102% YoY, +4% QoQ); LTV about 75%, unchanged. Mortgages +12% YoY, +2% QoQ, led by MBL and LAP with disbursements +17% YoY; management does not chase affordable housing on cost of funds and competition, and expects MBL to reach about 20% growth next year.
- **Commercial banking:** ₹35,300 crores, +39% YoY, +8% QoQ, with transaction banking and forex income +51% YoY. The book is almost entirely floating rate. Focus is on self-funding each relationship with current account, CMS or collections and payments.
- **Inclusive banking (MFI):** +23% YoY, +6% QoQ; collection efficiency 99.6%; 99% covered by CGFMU.
- **Digital unsecured:** +23% YoY, +14% QoQ. Personal loans +81% YoY and +31% QoQ off a low base through analytics-led cross-sell and calibrated new-to-bank acquisition; 1.5 lakh credit cards issued in the quarter with marginal book growth.
- **Deposits by vertical:** Branch banking about 60% of deposits; commercial and institutional banking covers government, commercial and wholesale, FIG and capital markets. Current account balances +55% and savings +23% YoY; on daily average, current account +60% and savings +24%.

STRATEGY & COMPANY-SPECIFIC

- **Distribution:** Added about 2,400 employees, largely customer-facing, 45 deposit branches and 100+ asset centers in Q2.
- **Leadership and offices:** Anil Agarwal joined as Senior Executive Group Head for commercial and institutional banking; Amol Padi assumed Chief Risk Officer. A new Mumbai corporate office was inaugurated, with the senior leadership to be co-located there over the next few months.
- **Ratings:** Equitas upgraded the credit rating outlook to positive from stable on 1 October, reaffirming the long-term AA rating.
- **Brand:** Stepped up television, print and digital spending, including an association with Kaun Banega Crorepati.
- **AI and technology:** The cross-lead platform with voice AI enabled 5% of Q2 disbursements with 50% operating cost savings on automated coverage; scorecard-led underwriting delivered ₹500 crores+ of unsecured disbursements; agentic AI gold loan origination has disbursed over 2,500 loans across 40 branches. Next is extending agentic AI to Wheels, mortgages and commercial loans and redesigning 5 back-office and control functions as AI-native workflows.
- **New approval:** SEBI approved UPI sponsorship services under the ASBA framework for IPOs and public issues, supporting a banker-to-issue proposition.
- **Deposit pricing:** Management keeps an 80-100 bps premium on term deposits versus other banks and pegs deposit costs to mid-sized banks; retail deposit peak-rate tenure was elongated from 18 to 36 months.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Deposit growth	~25% YoY	New	Deposit franchise build; H1 at 29% called slightly above expectation
Loan and overall growth	2x-2.5x nominal GDP	Maintained	Diversified product buckets; commercial banking and unsecured growing above 25%
Cost to assets	Improve YoY on a full-year FY27 basis	Maintained	Operating leverage; 3.9% in Q2 vs 4.1% in Q1
Credit cost FY27	~90 bps	Maintained	H1 at 73-74 bps leaves room for Q3 seasonality
Through-cycle credit cost	90-200 bps	New	Long-term range stated for the first time on this call
NIM	No directional guidance; cost of funds improvement capped near term	Changed	Rising short-term rates; 30% floating book reprices over 3-4 months
MBL growth	~20% next year	New	Distribution build; southern market rebuild after Fincare
Gold loan	Continue investing in distribution	Maintained	Headroom cited despite price-driven moderation
ECL framework	Not discussed	Dropped	Q1 expected clarity by end-Q3 FY27

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Insurance fee income	A consultation paper could hit other income; final shape unknown but "there will be some impact." Offset expected from forex, credit cards, trade finance and UPI MDR.

RISK	WHAT MANAGEMENT SAID
Deposit repricing	System liquidity from FCNR is drying up and short-term rates are rising, capping further cost-of-funds improvement; deposit costs are pegged to mid-sized banks, so a peer reaction forces a response.
Fixed-rate book	70% of loans are fixed rate; only the 30% floating book transmits the 25 bps repo hike, over 3-4 months.
Q3 asset quality seasonality	Management expects any stress from weather or high oil prices to show in Q3, with no surprises expected in Q4; data through 30 September showed no stress.
Gold loan moderation	Falling gold prices reduce renewals and balance-transfer opportunities; QoQ growth slowed to 4%.
Affordable housing competition	Management avoids chasing the segment on cost of funds and competitive intensity.
PCR decline	PCR fell after write-off policy alignment across unsecured books; including the guaranteed portion it would be about 67-68%. Management does not target PCR.
Slippage comparison	Slippages remain above pre-MFI-crisis levels; management attributes this to tractor billing seasonality and a different book mix, and points to YoY comparison.

Q&A HIGHLIGHTS

Sustainable deposit growth Question: Is the 8% QoQ deposit growth a one-off from banks vacating domestic deposits for FCNR, and what is the sustainable rate? Answer: Management sees no one-off, citing years of investment in distribution and technology and a 70 bps QoQ CASA ratio gain. The target is about 25% YoY, with H1's 29% slightly above expectation.

Asset quality outlook and credit cost Question: With drought warnings from peers and macro uncertainty, how should asset quality behave and does credit cost guidance change? Answer: H1 credit cost of 73-74 bps against about 90 bps guided leaves room for one-offs; data shows no stress so far. Any impact would appear in Q3, and 99% CGFMU coverage limits concern on the most vulnerable product.

Slippage segment mix Question: Which segments saw slippages move QoQ? Answer: Q1 and Q2 are not comparable because tractor billing falls in both quarters and follows the crop cycle. Improvement over recent quarters came from unsecured, with credit cards and microfinance described as stabilized; secured slippages are stable.

Insurance fee income and ROE Question: With a 7-8 bps ROA impact from the insurance fee consultation paper and rising liability costs, what levers protect ROE? Answer: Some impact is expected whatever the final rules. Offsets are forex, credit card, trade finance and UPI MDR income, cost-to-assets moving toward the 2.5-3.5% range of mid-sized banks over multiple years, and a lower cost-of-funds differential as the deposit franchise scales.

Deposit rate strategy Question: Will the bank keep its 80-90 bps term deposit premium if other banks stay less aggressive on FCNR liquidity? Answer: Management keeps the 80-100 bps premium and prices off its own strategy rather than market events, noting wholesale deposit rates did soften and helped Q2 cost of money. Acquisition cost and effort are falling as the franchise becomes better known.

Opex efficiency timing Question: When will operating efficiency show, given 7% QoQ opex growth and 11% QoQ overhead growth? Answer: The 25% YoY cost increase combines underlying business support and platform investment in technology, distribution and branding. Cost-income and cost-to-assets are stable or improving, and ROE improved YoY.

Gold loan slowdown Question: Why did gold loan growth slow this quarter? Answer: The reversal in gold prices reduced renewals and balance transfers from the industry; LTV is about 75% with a margin-call mechanism. Management sees distribution headroom and will keep investing.

Margins in a rising rate cycle Question: With a largely fixed-rate book, what levers maintain margins as deposit competition continues? Answer: The 30% floating book transmits the repo hike over 3-4 months, deposit tenures were elongated to 36 months, and deposit rates did not fall as much as the 125 bps of repo cuts since December. Management says the franchise is better placed than in the 2022 cycle.

CSB Bank Limited

GROWTH TRIGGERS

CSB is moving from a gold-loan-led, high-cost-funded bank into a broader secured retail, SME and wholesale franchise. Q2 FY27 delivered the first clear operating improvement, with NIM at 3.81%, ROA at 1.29% and clean asset quality, while management's next test is converting the completed technology and 872-branch network into CASA and fee income to reach a FY28 ROA target of 1.5-1.8%.

1. NIM recovered to 3.81%, with FY27 guidance of 3.75-3.8%

Q2 FY27 NIM rose to 3.81% from 3.66% in Q1 as yield on advances increased to 10.92% and cost of funds held at 6.55%. Management guides FY27 NIM around 3.75-3.8%, below 4%, and says it would be happy to retain around 3.75% in FY28 if cost of funds falls toward 6%.

2. FY28 ROA target of 1.5-1.8% follows Q2 ROA of 1.29%

Management says FY27 ROA will be between Q2's 1.29% and 1.5%, not reaching 1.5%. For FY28 it expects to cross 1.5% and targets 1.5-1.8%, probably closer to 1.5% initially. The operating improvement is already visible in Q2, with ROA up from 1.09% in Q1 and ROE at 14.74%.

3. Cost of funds target near 6% next year would fund the mix shift

Management aims to bring cost of funds to about 6% next financial year from 6.55%, a roughly 50bps lift. Some of that will be absorbed by the changing business mix as gold falls, but management expects core fee income and transaction banking to support a better ROE. This is the main mechanism behind the FY28 NIM and ROA targets.

4. Gold mix cut to about 50% by end-FY27 and 32% by 2030

Gold was 53% of advances in the prior quarter. Management targets about 50% by end-FY27 and a glide path to 32% by 2030 without impacting ROA or ROE. Q2 gold advances grew 36% YoY, so the mix reduction is coming from faster growth in other secured assets rather than shrinking the gold book.

5. Corporate advances grew 44% and transaction banking is rolling out

Corporate advances grew 44% YoY in Q2 FY27. Management says the three wholesale segments are now almost equal, with corporate and mid-market growing faster than FIPS. Transaction banking capabilities across supply chain, CMS, trade, corporate net banking and corporate LMS are being rolled out; OFSAA is still being implemented. This supports fee income and low-cost deposits alongside lending.

6. SME growth resumes this quarter after portfolio correction

SME growth was deliberately slowed during FY2026. On Q2 FY27 management said most portfolio issues faced over the last one to one-and-a-half years are by and large corrected and that SME growth will start showing from this quarter onwards. The SME book remains over 80% collateralized, and management says the asset-quality improvement needs two to three quarters to prove.

7. CASA grows faster than term deposits from FY28

Management says FY27 is the last year CASA grows slower than term deposits and that CASA will grow faster than term deposits from FY28. This is the funding inflection that should lower reliance on bulk deposits and cut cost of funds. The bank is launching 3-4 liability products per quarter and focusing first on current accounts.

8. Core fee grew 27% YoY while overall fee fell 22%

Core fee income grew about 27% YoY in Q2 FY27, with bancassurance and processing fees doing well. Overall fee fell about 22% YoY because PSLC and treasury income degrew, but rose 20% QoQ. Management cites core fee at 14-15% and overall fee at 17-18% of total income, later also 18-20%, and says the IRDA draft could at most trim about 1 percentage point.

9. Asset quality printed clean: GNPA 1.58% and credit cost 24bps

Q2 FY27 GNPA was 1.58%, NNPA 0.33%, PCR 87% with write-offs and credit cost 24bps. The bank holds a provisioning buffer of about ₹177 crore above regulatory requirements. Write-offs were fully provided vintage credit card and unsecured accounts and had no credit-cost impact; additional provisions were taken because the quarter looked good.

10. Technology and 872-branch distribution enter payoff phase

Management says the 18-month technology transformation is starting to pay off, with core banking, DC/DR, ServiceNow in-house builds, corporate net banking and transaction banking modules in place or rolling out. The bank operated 872 branches and 844 ATMs at September 2026. The operating leverage test is whether this platform converts into CASA, fee income and a lower cost-to-income ratio from FY28.

INVESTMENT THESIS

CSB Bank is an operating-leverage thesis, not a gold-price call. The bank has spent the last few years building a new core banking and technology stack, expanding its branch network and trying to shift its book away from gold loans into secured retail, SME and wholesale banking. Q2 FY27 is the first quarter where the operating turn is visible: NIM rose to 3.81% from 3.66%, ROA to 1.29% from 1.09%, and asset quality improved to GNPA of 1.58% with credit cost of 24bps. The question is whether that improvement becomes a durable earnings path as cost of funds falls, CASA grows faster than term deposits from FY28, and the gold mix moves from 53% toward 50% by end-FY27 and 32% by 2030.

The business economics are still dominated by gold loans, which were 53% of advances in the prior quarter. Gold is short-tenor, secured and capital-efficient, and it funds the balance sheet while the broader franchise builds. The bank lends at LTV up to 75% overall and 85% on Agri gold, with non-Agri LTV at 50-55%. Management says overall yield on advances rose to 10.92% in Q2 FY27 from 10.65% in Q1, and gold yields improved about 50bps QoQ, the highest in six to seven quarters. That pricing power is real but not unlimited: gold tonnage fell 6% YoY as prices rose, and the bank operates in a higher-ticket segment where borrowers use gold as business collateral rather than consumption. The gold book is therefore a stabiliser, not the long-term growth engine.

The funding side is the binding constraint. Cost of funds was 6.55% in Q2 FY27, with bulk deposits at 52% of term deposits and CASA described ambiguously around 19% in the transcript, which also gives 19.96%. Management aims to bring cost of funds to about 6% next financial year, a roughly 50bps lift, and says CASA will grow faster than term deposits from FY28. If that happens, NIM can be retained around 3.75% even as the gold mix falls. If it does not, the FY28 ROA target of 1.5-1.8% is at risk. The bank is launching 3-4 liability products per quarter, focusing first on current accounts, but management is explicit that the retail liability franchise takes two to three years to build and that retail asset growth follows customer acquisition, not the other way round.

The growth engines are becoming more balanced. Corporate advances grew 44% YoY in Q2 FY27, and management says the three wholesale segments are now almost equal, with corporate and mid-market growing faster than FIPS. Transaction banking is the fee and deposit layer: supply chain, CMS, trade, corporate net banking and corporate LMS are rolling out, although OFSAA is still being implemented. SME growth was deliberately slowed in FY2026, but management now says most portfolio issues are by and large corrected and growth will start showing from this quarter. SME remains the segment where credit quality matters most, because Q3 FY26 saw ₹197 crore of slippages and Q1 FY27 another ₹98 crore. The Q2 FY27 improvement is encouraging, but management itself says it needs two to three quarters to prove the trend.

On guidance, management now says FY27 ROA will be between Q2's 1.29% and 1.5%, and FY28 should cross 1.5% with a target of 1.5-1.8%, probably closer to 1.5% initially. FY27 NIM is guided around 3.75-3.8%, below 4%, and FY28 around 3.75% if cost of funds falls toward 6%. Fee income guidance is less clear: core fee is 14-15% and overall fee 17-18% of total income, later also 18-20%. Core fee grew 27% YoY in Q2 FY27, but overall fee fell 22% YoY because PSLC and treasury income degrew. The IRDA draft on bancassurance could trim about 1 percentage point from the fee ratio, according to management. These are guidance statements, not achieved annual outcomes.

The earnings path therefore depends on three sequential mechanisms. First, cost of funds must fall from 6.55% toward 6% next year, with CASA growing faster than term deposits from FY28. Second, fee income must hold near the guided ratio and grow as transaction banking and retail liability products scale. Third, credit costs must stay low, with SME and unsecured asset quality proving durable. If all three happen, operating leverage can emerge as the cost-to-income ratio glides from 64.8% in Q2 FY27 toward 50% by FY2030, with the descent starting from FY28. If one fails, the FY28 ROA target is harder to reach.

Capital allocation is conservative. The bank has already spent on the core banking and technology stack and has a 872-branch, 844-ATM network as of September 2026. It holds a provisioning buffer of about ₹177 crore above regulatory requirements and reported average LCR of 127% and NSFR of 124% in Q2 FY27. There is no large new project capex disclosed, and the investment case is about sweating the existing technology and branch assets rather than committing fresh capital. The main capital risk is that the bank keeps adding opex for technology, staff and distribution before the CASA and fee revenue arrive.

Management delivery is mixed. The prior record in existing research shows FY26 NIM and ROA guidance being cut, credit cost guidance being reset, and the retail liability franchise slipping. Against that, the core banking migration was delivered and Q2 FY27 shows the operating turn management had promised. The Fairfax-IDBI matter remains an ownership overhang: management says the board has not discussed it in the last two board meetings, Fairfax has no deposit with CSB, Fairfax has two years to decide between two options, and the IDBI transaction is yet to complete. That is outside the bank's operating control.

The milestones to watch are concrete. Q3 FY27 should show whether SME advances growth actually resumes, whether CASA stabilises and cost of funds begins to move, and whether GNPA and slippages confirm the Q2 improvement. End-FY27 should show gold mix near 50%, FY27 ROA in the 1.3-1.5% range, and FY27 NIM around 3.75-3.8%. FY28 is the first year of the CASA inflection and the FY28 ROA target of 1.5-1.8%, with unsecured retail also starting. The cost-to-income glide path to 50% by FY2030 is the long-dated test.

The thesis falsifiers are equally concrete. If cost of funds does not fall toward 6%, NIM stays near 3.75% or lower and the FY28 ROA target slips. If CASA does not grow faster than term deposits in FY28, the funding-cost fix is delayed again. If SME or unsecured credit costs rise, the clean Q2 FY27 asset-quality print does not become a trend. If fee income stays weak because PSLC, treasury or insurance income disappoints, the ROE improvement is harder. And if the Fairfax-IDBI situation results in a promoter stake sale, the ownership overhang could dominate the operating story. None of these has happened yet; they are the conditions that would break the operating-leverage path.

RESEARCH REPORT

What CSB Bank Limited does

CSB Bank is the oldest private sector bank in Kerala, incorporated in November 1920 as The Catholic Syrian Bank Limited and renamed in 2019. It is promoted by FIH Mauritius Investments Ltd, a Fairfax Group entity, which holds 40% of the equity after selling down to comply with an RBI directive that promoters reduce holdings to 40% of paid-up capital within five years of completing their investment. Fairfax completed that divestment in June 2024.

The bank operates 872 branches and 844 ATMs as of September 30, 2026, with roughly 55% of branches in semi-urban and rural locations. It employs 7,863 people as of FY2024. The branch network is concentrated in Kerala (35% of branches), Tamil Nadu (17%), Andhra Pradesh (12%), Maharashtra (10%) and Karnataka (7%), with the rest spread across the country. The bank has been adding 40-50 branches a year, including 76 new branches in FY2024.

CSB's strategy, called SBS 2030 (Sustain-Build-Scale), is to transform from a small regional bank into a mid-sized, full-service private sector bank by 2030. The Q2 FY27 call cites a glide path to about 50% gold by end-FY27, from 53% in the prior quarter, and to 32% gold by 2030; earlier research references to a 20-30% gold target are not reaffirmed in the latest transcript. The mix shift remains the central story of the next four years. Management's framing of why the bank exists is worth quoting directly:

Q2 FY27 update (October 2026): PAT was ₹183 crore, up 14% YoY, and NII was ₹510 crore, up 20%, with NIM at 3.81% from 3.66% in Q1, ROA at 1.29%, GNPA/NNPA at 1.58%/0.33%, credit cost at 24bps, advances up 22% and deposits up 18%. Management guides FY27 ROA between 1.29% and 1.5%, FY28 ROA of 1.5-1.8%, FY27 NIM around 3.75-3.8%, CASA growing faster than term deposits from FY28, gold mix around 50% by end-FY27 and 32% by 2030. SME growth is guided to resume this quarter and unsecured retail starts from FY28.

> *"For just doing gold loan you need an NBFC and you do not need a bank and we set out to build a bank."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The bank runs four businesses: retail banking (dominated by gold loans), SME banking, wholesale banking, and treasury. The core capability that took years to build is the gold loan machine: a semi-urban and rural branch network that sits where gold loan demand lives, an experienced team that navigated the RBI's 2022 LTV cut from 90% to 75% without material losses, and a full banking license that funds the book with deposits at lower cost than NBFCs can borrow.

Retail banking and gold loans

Gold loans are CSB's flagship and mainstay product, roughly 53% of total advances at Q1 FY2027 and targeted at about 50% by end-FY27. The bank lends against gold jewellery collateral at LTV up to 75%, and up to 85% on the Agri gold book. The non-Agri gold portfolio LTV runs between 50% and 55%, so the headline 75% is pulled up by the Agri segment. Overall yield on advances was 10.92% in Q2 FY2027 versus 10.65% in Q1; management said gold yields improved about 50 basis points QoQ, the highest in six to seven quarters.

Management is launching a new income-generating gold loan product aimed at working capital use, with higher ticket sizes. It is essentially a pseudo-SME product collateralized by gold, and management expects it to grow independent of gold price movements because borrowers are using the money for business rather than consumption.

The rest of retail includes home loans, vehicle loans (cars, two-wheelers, commercial vehicles, fleet, and dealer inventory funding), personal loans, education loans, healthcare finance, loan against property, and credit cards. Personal loans expanded 51.20% to Rs 352 crore in FY2024 via a specialised vertical. Credit cards launched in FY2022-23 with co-branded partners: One Card on the Mastercard network and Jupiter on the Rupay network over UPI rails.

Unsecured retail is deliberately tiny, about 2% of the book. Management is holding off scaling personal loans and cards until FY2028, citing job market stress and AI-related disruption in sectors that employ unsecured borrowers; the Q2 FY27 call says the unsecured part will start probably FY28 onwards. The bank also ran a loan against securities (LAS) book collateralized by gold, known as the repledger business, which RBI advised discontinuing effective April 1, 2026. CSB stopped renewing early and ran the book down from Rs 2,100 crore to Rs 60 crore; by Q2 FY2027 management said it has almost come to nothing.

On the liability side, retail banking gathers CASA, fixed and recurring deposits, salary accounts and NRI deposits. The Q2 FY27 transcript describes CASA ratio as around 19%, just short of 19%, and also gives 19.96%, an ambiguous passage; cost of funds was 6.55%. Bulk deposits were about 52% of term deposits in prior disclosures and remain the main reason cost of funds is elevated. Management now says CASA will grow faster than term deposits from FY28, having previously put faster CASA growth in FY29. Bancassurance distributes life insurance (Edelweiss Tokio, HDFC Life, ICICI Prudential, Max Life), non-life (Reliance General, Go Digit, ICICI Lombard) and standalone health (Aditya Birla Health). Insurance income dipped in Q1 FY2027 after the bank tightened mis-selling controls, with recovery expected from Q2.

SME banking

The SME business runs through a hub-and-spoke model with specialised SME branches and a team split into the Business Banking Group (BBG) and Emerging Enterprise Group (EEG). Products are term loans, working capital, invoice and bill discounting, letters of credit and bank guarantees. SME advances stood at Rs 2,769 crore in March 2024, growing 28% Y-o-Y.

Management deliberately slowed SME growth to about 20% in FY2026 and expected slower growth through the year, because of global uncertainties, US tariffs and supply chain disruptions hitting SME segments like textiles and footwear. On the Q2 FY27 call management said most portfolio issues faced over the last one to one-and-a-half years are by and large corrected and that SME growth will start showing from this quarter onwards. The target remains 18-20% of the book by FY2030. SME is where the slippages came from: Q3 FY2026 slippages were about Rs 197 crore, mostly SME, from 10-11 material accounts. Management says the SME book is over 80% collateralized and the borrowers' intent is good, so most should upgrade within a quarter or two; Q2 FY27 showed improvement across slippages, recoveries and GNPA, but management says it needs two to three quarters to prove the trend.

Wholesale banking

Wholesale banking serves three client groups: Corporate Banking (large corporates and conglomerates), Commercial Banking (small and mid-corporates), and Financial Institutions and Public Sector (FIPS). Products include working capital finance, term loans, project finance, trade finance (LC/BG), supply chain finance, securitisation, forex hedging and cash management. Wholesale was about 26% of the book as of Q1 FY2027, growing at 35-40%, with a target of 32% by FY2030. On Q2 FY27, corporate advances grew 44% YoY; management said the three wholesale segments are now almost equal, with corporate and mid-market growing faster.

The portfolio has been deliberately rebalanced: FIPS used to be 70% of the wholesale book and is now about one-third, with the shift going toward corporate and commercial clients. The wholesale book is mostly MCLR-linked, whereas SME and retail loans carry the RLLR-linked repo rate cuts, which is why wholesale yields have been more stable. The Transaction Banking Group, branded CSB Transact, sells cash management services: receivables and payables management, virtual account services, NACH collection, escrow and RERA propositions, Bharat Bill Payment services, API banking, and supply chain finance. Management is investing in transaction banking specifically to lift the ROA and RAROC of wholesale relationships, since transaction banking brings low-cost deposits and fee income alongside lending.

Treasury

Treasury manages CRR and SLR reserves, asset-liability and liquidity management, and invests and trades in fixed income securities, money market instruments, foreign exchange and corporate bonds. It arranges medium-term liabilities through foreign currency borrowings and certificate of deposit issuances. Treasury profit is volatile by design: Q1 FY2027 treasury profit was Rs 12 crore versus Rs 53 crore in Q1 FY2026, because management chose not to book profits in a quarter when yields softened marginally. The bank holds a larger AFS book than HTM book and can book that profit later.

Technology as the enabling layer

The technology transformation is the platform everything else sits on. The bank migrated to Oracle Flexcube core banking with 52 surround systems, implemented at what management calls breakneck speed once the decision was made, though the decision itself was delayed about two and a half years. The migration was completed in FY2026, and the scale phase begins FY2027. The new systems are what finally allow CSB to launch the products it wants, run the retail liability acquisition channel, and build out transaction banking products. Some transaction banking systems are in place, with more coming in the next three to four months from July 2026. This is the reason management says the scale phase now begins in earnest: the product and customer-acquisition machinery did not exist before the migration.

Business segments

Retail Banking (incl. Gold Loans)

Retail banking is where CSB Bank's century-old franchise lives, and gold loans are its engine. As of Q1 FY2027, gold loans constituted roughly 54% of total advances, and management's stated glide path is to bring that down to about 50% by end-FY27 and around 32% by FY2030 as other businesses scale. The core capability that took decades to build is the branch network in semi-urban and rural India, anchored in its Kerala home base, combined with a disciplined gold-loan appraisal process that has navigated volatile gold prices and regulatory LTV changes. The FY2024 annual report notes the bank's GSLA network reached 779 branches and 731 ATMs, with 432 branches in semi-urban and rural locations. That distribution footprint, not any digital innovation, is the moat.

The product shelf inside retail is broad but the economics are concentrated. Gold loans, the mainstay, are short-tenor, secured, and carry a yield of 11.85% as of Q1 FY2027, down marginally from 12%. The book also includes personal loans, home loans, vehicle loans, two-wheeler loans, education loans, healthcare finance, credit cards, loan against property, and loan against securities. On the deposit side sit CASA, fixed deposits, recurring deposits, NRI services, and bancassurance. The FY2024 annual report lists the retail asset portfolio (excluding gold) at 4,029 crore, up 38% year-on-year, and gross gold loans at 11,818 crore. The FY2024 report also notes the bank's strategy of "internal customer acquisition and cross-sell,

avoiding external purchases of retail businesses through DSAs," meaning growth is meant to come from existing customers and the branch network, not bought-in portfolios.

The customers are farmers, rural households, salaried employees, self-employed professionals, and NRIs. They buy from CSB because the bank has physical presence where they live and because its gold loan underwriting tolerates the informal income profiles that large private banks often reject. The bank's Agri gold loan book, which allows LTV up to 85% versus 75% for non-Agri, carries a PSLC income advantage and has been a deliberate strategic choice for years. Management has said the non-Agri gold portfolio LTV sits between 50% and 55%, which means the 75% headline LTV is driven by the Agri mix, not risk appetite. The FY2024 report confirms the bank's renewal rate on retail deposits exceeds 85%, a sign of customer stickiness.

Competition is intense and specific. The FY2024 annual report identifies the threat landscape directly: "It encounters strong competition from SFBs in deposit pricing and from NBFCs in the gold loan segment." The organized gold loan market has been expanding with specialized NBFCs investing in branding and distribution. On the bank side, CSB competes with Federal Bank, Karur Vysya, and City Union, which analysts on the Q1 FY2027 call referenced when comparing LTVs. The FY2024 report also notes the gold loan market in India stood at $55.52 billion in 2022 and is expected to reach $124.45 billion by 2029, a CAGR of 12.22%.

The segment's role in the group is to fund the balance sheet and buy time for the build-out. Gold loans are low-risk, short-tenor, and capital-efficient, which allows the bank to grow wholesale and SME books without stressing asset quality. Management has been explicit that the gold mix being at 45-50% is what allows the other businesses to operate without demanding standalone ROA. The glide path to 32% by FY2030, with about 50% by end-FY27, is not a plan to shrink gold, but a mathematical consequence of growing wholesale, SME and retail. The bank's earlier target mix for FY2030, per the Q3 FY2026 call, was wholesale just over 30%, SME 18-20%, and the rest retail, with gold on a standalone basis at 25-30%.

On the liability side, the retail segment is the weakest link and the strategic priority. Bulk deposits are 52% of the term deposit book, which keeps cost of funds near 6.55%. The FY2024 report says CASA ratio was 27.2% as of March 2024, but by Q1 FY2027 it had fallen to 19.41%; the Q2 FY27 transcript gives an ambiguous CASA figure around 19% and also 19.96%. Management has said the retail liability franchise will only start building from FY2028 onwards, once the new technology stack and sales machinery are in place, and now guides CASA to grow faster than term deposits from FY28. The bank had 872 branches and 844 ATMs as of September 30, 2026, and added 40-50 branches per year through FY2026.

The regulatory overhang is real. The RBI's guidance on the repledger loan-against-securities business, effective April 1, 2026, forced CSB to run down that portfolio from 2,100 crore to around 60 crore by Q1 FY2027. Management says it will be zeroised by next quarter. This is a deliberate degrowth, not a market failure, and it explains the drag on retail disbursements and processing fees. The bank also paused insurance sales temporarily to tighten mis-selling controls, which hit fee income in Q1 FY2027.

On growth guidance, gold advances grew 36% YoY in Q2 FY2027. Management targets gold at about 50% of the book by end-FY27, from 53% in the prior quarter, and cites a glide path to 32% gold by 2030. It did not repeat the earlier 30-35% gold growth guidance on the Q2 call; the emphasis is a balanced mix across gold, SME, wholesale and retail. The unsecured retail book, currently about 2% of advances, will not be scaled until FY2028, when the liability franchise is expected to support it.

> *"gold is somewhere around 54% and we have continued to grow gold at a reasonable pace... Eventually this 54% will have a glide path going towards somewhere around 30% by 2030, once other businesses start growing."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

> *"When we looked at the whole thing, we created a vision of SBS 2030. We clearly defined the period and said that we will sustain what is good in the bank. On the business side, one of the things which was very good is understanding of the gold loan business. We have continued to sustain that."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

SME Banking (BLG/BBG/EEG)

SME Banking serves micro, small and medium enterprises across manufacturing, trading and services with term loans, working capital, invoice/bill discounting, letters of credit, bank guarantees and trade finance. The segment operates through a hub-and-spoke model: specialised SME branches anchored to larger hub branches, with a dedicated SME team split into the Business Banking Group (BBG) for established mid-sized businesses and the Emerging Enterprise Group (EEG) for smaller and younger firms. The core capability that took years to build is the credit appraisal machinery - a team of relationship managers, credit officers and operations staff trained to underwrite small business risk without the collateral cushion that gold loans provide.

The product suite inside SME Banking covers the full working capital cycle. Term loans fund capex and expansion. Working capital loans, invoice discounting and bill discounting smooth out cash flow gaps between paying suppliers and collecting from customers. Letters of credit and bank guarantees support trade transactions, and the Transaction Banking Group adds

supply chain finance and Cash Management Services (CMS). The Bank also runs a Corporate Loan Origination System (CLOS) that takes an SME borrower from login to sanction, and has introduced parameterised, sector-based products targeted for launch in FY2025, according to the FY2024 annual report.

The customers are MSMEs concentrated in SME clusters across North, West and South India, including exporters and importers. The FY2024 annual report states the Bank has been expanding in the North and West Zones with plans for Delhi, Punjab, Uttar Pradesh and Rajasthan. The Bank's relationship model is the differentiator. Management on the Q3 FY26 call described the SME loans as "well collateralized - almost 80% and above is collateralized." The Bank also engages with trade bodies and industry associations through a CRISIL Knowledge series called 'In Focus' to build a sourcing funnel. The Bank's SME advances stood at Rs 2,769 crore as of March 2024, up 28% year-on-year from Rs 2,163 crore.

The competitive position is defined by what CSB does not do. National banks and large private lenders fight for the same mid-corporate names with deeper balance sheets and lower cost of funds. CSB's SME book is small - Rs 2,769 crore against gross advances of Rs 24,336 crore as of March 2024 - so it competes on relationship depth and turnaround time rather than price. The deliberate slowdown in FY2026 tells you how management thinks about this segment. On the Q3 FY26 call, management said:

> *"we have grown SME 20% YoY whereas last year it grew almost by 30%."*

The segment's role in the group is to help shift the book away from gold loans. Gold constituted 48% of total advances in FY2024 and 54% by Q1 FY2027. On the Q3 FY26 call, management framed the SBS 2030 mix as Gold 20%, Retail 30%, SME 20% and Wholesale 30% by FY2030, and confirmed: "Wholesale will be a little more than 30%. SME will be somewhere around 18% to 20%. Rest will be retail." On the Q2 FY27 call, management cited gold at about 50% of advances by end-FY27 and a 32% gold glide path by 2030, without restating the earlier 20% gold mix.

Management has been candid about the current caution. The Q1 FY27 call noted SME yields fell from 9.81% to 9.25%, which management attributed to tighter credit appraisal standards and slippages. The Q3 FY26 call saw around Rs 197 crore of slippages, largely on the SME side, with about 10 to 11 material accounts. Management guided that these were well-collateralised and expected upgrades, with Rs 30 crore already upgraded as of that call. By Q2 FY27 management said the portfolio issues are by and large corrected, SME growth will resume this quarter, and asset-quality improvement across slippages and GNPA needs two to three quarters to prove. The SME book is the segment where the Bank's two most

important risks collide: the need to diversify away from gold, and the need to keep credit costs low while doing it.

Wholesale Banking

Wholesale Banking at CSB Bank serves corporate clients from mid-sized companies to large conglomerates, organised into three sub-segments: Corporate Banking for large clients, Commercial Banking for small and mid-corporates, and Financial Institutions & Public Sector (FIPS). The core capability is a relationship-driven franchise model built around transaction banking, not just lending. Management explicitly stated that the wholesale team is "not doing tactical business there" and that the investment in people and technology for trade, supply chain, and cash management exists to extract both ROA and RAROC from client relationships.

The products inside this segment are working capital finance, term loans, project finance, trade finance (letters of credit and bank guarantees), supply chain finance, securitisation, foreign exchange hedging, and cash management services. The Transaction Banking Group (TBG) delivers the fee-based products, and the annual report notes the launch of CSB Transact, a comprehensive cash management suite covering receivables, payables, virtual accounts, and API banking solutions. These products serve large corporates, mid-corporates, NBFCs, financial institutions, government entities, and the supply chain ecosystems anchored by those clients.

Customers buy from CSB because the bank is building a franchise where the wholesale team also brings in liabilities. Management said that in the last year's growth, "there has been significant contribution on the liability side from wholesale team as well," and that the cost of funds from wholesale is "almost in line with retail cost of funds." That is the first indicator that the book is not opportunistic. The bank also runs a dedicated corporate service branch model for high-value clients, and its FIPS book has been deliberately reduced to about one-third of the wholesale portfolio, down from 70%, to diversify concentration risk.

The competitive position inside this segment is against larger private and public sector banks that have dominated corporate lending for decades. CSB's annual report acknowledges "strong competition from peer banks in all major lines of business (public sector, small finance, and other private sector banks)." The bank's edge is speed and service: a smaller base, no legacy technology constraints, and a segment-wise coverage model with relationship managers and product specialists in key locations. The annual report's SWOT analysis identifies the "small customer franchisee and less diversified asset mix" as a weakness, which is precisely what the wholesale build is meant to correct.

The segment fits the group strategy through portfolio diversification. The bank's SBS 2030 plan targets a business mix where wholesale reaches a little more than 30% of the book by

FY2030, with gold at 32% and SME at 18-20% on the latest gold glide path. As of Q1 FY2027, wholesale was around 26% of the book. The growth target was 35-40% annually. On Q2 FY27, corporate advances grew 44% YoY and management said corporate and mid-market were growing faster than FIPS; the old 32% wholesale target was not restated on that call.

The deliberate de-risking of the FIPS book is the clearest evidence of the strategic shift. Management explained the change in portfolio composition:

> *"FIPS book has come down to around one third of the WSB portfolio. At one point of time, it was 70% of the portfolio. All that we are doing is towards distributing the risk and building the future franchise on the corporate side."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The wholesale segment also contributes to the bank's liability side, which matters because CSB's cost of funds was 6.55% in Q2 FY27. The MD said the bank 'cannot wait till then to build the asset side of the business or the balance sheet,' so wholesale borrowing funds wholesale lending, as long as NIM stays within the guidance band. On Q2 FY27 management guided FY27 NIM around 3.75-3.8% and below 4%, and FY28 around 3.75% if it can bring cost of funds down to about 6%. The concession on wholesale NIM is intentional and time-bound: management said the bank can afford compressed margins on the wholesale franchise till the gold mix is 45-50%, after which each business must stand on its own ROA.

Asset quality in wholesale has been clean. In Q3 FY2026, when the bank reported slippages of around Rs.197 crores, the wholesale contribution was negligible: "around 10 to 11 accounts on the SME side will be material" and only one wholesale account of about Rs.4 crores was expected to regularise. Management stated there was not even an SMA 1 or 2 account in corporate banking. The wholesale book is also subject to stricter governance: anything above Rs.50 crores goes through the Chairman of the Management Committee for Credit, who is an experienced banker with decades at State Bank of India, HDFC Bank, and Axis Bank.

The risk in this segment is that it requires sustained investment before it produces returns. The MD described it as building a franchise with "little compressed NIM for that franchise for some time." The payoff is a more balanced book: wholesale at 26% of the book today, targeting 32% by FY2030, funded by transaction banking fees and liability relationships rather than pure lending spreads.

Treasury

Treasury is the bank's in-house financial market operation. It manages the statutory reserves the Reserve Bank of India requires every bank to hold, runs asset-liability and liquidity

management, and invests and trades in government securities, money market instruments, foreign exchange, and corporate bonds. The FY24 annual report describes the "Integrated Treasury in Mumbai" as the hub that manages investment and trading operations while keeping the bank's statutory reserve requirements at optimal levels. The unit also arranges medium-term liabilities through foreign currency borrowings and certificate of deposit issuances.

The core capability that took years to build is the treasury's risk and trading infrastructure. The FY24 annual report details a mature control structure: a separate mid-office at the Integrated Treasury reports to the Head of Market Risk and scrutinises every deal from a market risk perspective, independent of the trading desk. The bank uses Value-at-Risk, duration, PV01, position limits, stop-loss limits, and Net Overnight Open Position limits to measure risk. The 2024 treasury upgrade was part of the bank's broader technology transformation, which included migrating to Oracle Flexcube and integrating treasury systems with the core banking platform.

The products inside treasury fall into four desks. The Fixed Income and Money Market Desk trades government securities, certificates of deposit, commercial paper, corporate bonds, debentures, mutual funds, alternate investment funds, and pass-through certificates, both to manage short-term liquidity and to generate trading profit. The Foreign Exchange Desk handles all currencies and provides trade finance solutions, forex deposits, and funding to clients. Within forex, the Merchant Desk provides centralised cover operations for branch-originated requirements, and the Proprietary Trading Desk takes positions in major currencies and captures arbitrage opportunities between domestic and overseas markets. The bank also floated a retail-facing product called "Easy Hedge," a seamless forex hedging solution for retail clients, which the FY24 annual report says was well appreciated by users.

The customers are primarily the bank itself. Treasury maintains the CRR and SLR buffers, and in Q1 FY27 the bank reported an average LCR of 123% and an NSFR of 126%, both well above regulatory minimums. Externally, the treasury serves corporate and SME clients who need forex hedging, trade finance, and forex deposits. The FY24 annual report says forex turnover grew 112% in FY 2023-24, generating income of Rs.19.24 crore, a 65% increase over the previous year. The bank's wholesale clients, particularly in the FIPS segment, also buy fixed income and treasury products.

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The treasury's biggest contribution to the group is funding flexibility. The FY24 annual report notes the treasury "continually reviews and adjusts the liability mix to minimise the Bank's overall cost" and uses wholesale deposits, borrowings, CDs, or currency conversions to bridge funding gaps. It also manages the corporate bond portfolio and state development loans as part of the SLR portfolio. The PSLC (priority sector lending certificate) income is a direct synergy with the Agri gold loan book, allowing the bank to meet priority sector targets while earning fee income.

The revenue-mix percentage for treasury is not disclosed separately. Management has said that core fee income should be around 14-15% of total income and overall fee income around 17-18%, with the balance coming from non-core items like PSLC and treasury profits; on Q2 FY27 it also cited 18-20% for fee to total income, an inconsistency in the transcript. The volatility of non-core income is visible: core fee grew 27% YoY in Q2 FY27, but overall fee fell 22% YoY because PSLC and treasury income degrew, while overall fee rose 20% QoQ. Net treasury profit was Rs 53 crore in Q1 FY26 and Rs 12 crore in Q1 FY27.

Management has been explicit that treasury profit is discretionary and timing-driven. In the Q1 FY27 call, the CEO explained why the bank booked almost no trading profit despite softer yields:

> *"Because this year we did not book any profits. It is a question of whether we want to make profits when yields have gone down marginally, or you want to keep it for future - it is a call which we have to take. We took a little conservative call and decided to wait because we have a much larger AFS book than the HTM book at this point of time. We put a lot of money in the AFS, and we have the ability to book that profit as and when situation stabilizes."*
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> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The Q3 FY26 call showed the same philosophy. Management said the bank was "not even factoring treasury income in fourth quarter. If it happens, it is a bonus." The treasury is a swing factor in other income, not a steady contributor. Its role is to keep the bank liquid, compliant, and funded, and to provide optionality when market conditions turn favourable.

Customers

CSB serves about 2.1 million customers as of FY2024. The customer base splits into retail individuals and households, NRI customers, farmers, SMEs, corporates, and a dedicated trusts-associations-societies-clubs (TASC) vertical.

The retail base is concentrated in South India, matching the branch network: Kerala, Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka. Roughly 55% of branches are in semi-

urban and rural locations, so the retail customer is often a farmer, small trader or rural household. NRI customers, particularly in the Middle East, are a distinct segment served through remittance and rupee drawing arrangements with major exchange houses.

Gold loan customers are the most important group by revenue. They borrow against gold jewellery for consumption or working capital, in tickets ranging from small rural loans to the new income-generating product with higher ticket sizes. The Agri gold segment (LTV up to 85%) serves farmers and brings priority sector lending credit, which the bank sells as PSLC income. Gold customer behaviour matters for the reported numbers: when gold prices rise, customers close existing loans and reopen at higher values, which shows up as disbursements. When prices fall, they stop topping up, which depresses disbursement figures without shrinking the portfolio. That is why management says disbursement trends are a poor proxy for portfolio health.

SME customers are manufacturers, traders and service businesses in clusters across North, West and South India. The bank lends on a secured basis, over 80% collateralized, and frames the relationship in long-term terms:

> *"When you support them, they remain your customers forever."*
>
> **MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

The Q3 FY2026 slippage experience shows the SME book is concentrated enough that 10-11 material accounts drove almost all the stress. Because the relationships are local and collateralized, management expects most to upgrade rather than become losses.

Wholesale customers are large corporates, mid-corporates, NBFCs, financial institutions and government entities. The bank serves them through a relationship-driven model with dedicated teams and a credit committee chaired by independent director Deepak Maheshwari for exposures above Rs 50 crore. The TASC vertical targets trusts, associations, societies and clubs, which are sticky, low-cost deposit sources. The business correspondent model reaches the bottom of the pyramid: 18 business correspondents reached over 28,000 families with micro-lending, and 1,10,635 women borrowers were supported through micro-lending in FY2023-24.

Why customers pick CSB: for gold loans, it is branch proximity in semi-urban and rural India, quick disbursement against jewellery, and a full banking license that lets the bank price cheaper than NBFCs. For SMEs, it is relationship banking and collateralized lending from a bank that knows the local clusters and stays with borrowers through a bad cycle. For wholesale, it is the transaction banking suite and the ability to fund growing corporates. Switching costs are highest in gold, where the jewellery is physically held by the bank and the

relationship is local, and in SME, where the bank's willingness to support through stress builds loyalty.

Customer concentration is a risk. Gold was 53% of advances in the prior quarter and management targets about 50% by end-FY27, with a stated 32% gold glide path by 2030; wholesale was 26% as of Q1 FY2027. Two businesses dominate the book. On the deposit side, bulk deposits are 52% of term deposits and about 40% of total deposits, which means the funding base is not granular and repricing risk sits with a smaller set of large depositors.

Competitive landscape

CSB sits in the middle of a crowded Indian banking market. On one side are much larger private sector and public sector banks with national branch networks and lower cost of funds. On another are small finance banks fighting for deposits and gold loans. On a third are gold loan NBFCs like Muthoot Finance and Manappuram Finance that have spent aggressively on branding and geographic expansion.

The annual report is explicit about the pressure: "It encounters strong competition from SFBs in deposit pricing and from NBFCs in the gold loan segment." The SFB competition is on deposit pricing, which directly pressures CSB's cost of funds. The NBFC competition is in gold loans, where NBFCs win on convenience, speed and flexibility. Management's own assessment of the NBFC threat:

> *"Specialised gold loan NBFCs have steadily expanded their market share through aggressive investments in branding, promotional activities, and geographical expansion."*
>
> **ANNUAL REPORT FY2024**

That is a direct admission that CSB is losing some share in its core product to better-branded NBFCs.

In gold loans specifically, analysts compare CSB to Karur Vysya Bank and City Union Bank. Those peers run gold LTV below 65%, while CSB runs 75% overall (85% on Agri). CSB defends the higher LTV on the strength of its Agri book and its experience navigating the 2022 LTV cut without material losses. The higher LTV is a competitive weapon in the short term, but it is also the metric that makes CSB more exposed than peers if gold prices fall sharply.

CSB's structural advantages in gold are real: a full banking license funds gold loans with deposits at lower cost than NBFCs can borrow, and the semi-urban and rural branch network sits exactly where gold loan demand lives. The annual report notes banks dominate the organised gold loan sector with lower rates and larger loans, while NBFCs win on convenience. CSB's weakness is brand spend, which management acknowledges is lower

than peers, and a recently launched product set (credit cards, several retail products) versus peers who have offered them for years.

In SME lending, the competition is every bank in India chasing the same MSMEs, plus the structural fact that only about 4% of 64 million MSMEs have access to formal credit, so the market is deep but hard to underwrite. CSB's choice to slow SME growth in FY2026 and take the slippage hit is a deliberate competitive retreat: it prioritises asset quality over market share in a segment where tariffs and supply chain shocks are creating stress.

In wholesale, CSB is a small player competing against banks with far larger balance sheets and lending limits. Its edge is the transaction banking build-out and a relationship model, but it is building that franchise from a small base and funding it with bulk deposits at 6.5% cost.

The deposit market is where CSB is most exposed competitively. Deposit growth lags credit growth system-wide, the CD ratio is above 80%, and deposit rates stay elevated. CSB's response has been to use non-callable bulk deposits, FCY borrowings and CDs, which keeps liquidity comfortable but pushes cost of funds to about 6.5% and compresses NIM. The long-term fix, granular retail deposits, requires the CASA franchise the bank is building from FY2028, which means the funding disadvantage is structural for the next two years.

Industry

The Indian banking industry in FY2023-24 grew credit at roughly 16% excluding the HDFC merger, with deposits growing 13-14%, pushing the system CD ratio above 80%. That gap between credit and deposit growth is the defining industry condition of the period: it keeps deposit rates elevated, compresses bank NIMs, and forces banks to compete harder for deposits. The February 2026 concall describes the same condition persisting, with deposit growth lagging credit growth quarter after quarter and the system CD ratio above 80%.

The gold loan market is the industry CSB knows best. It stood at $55.52 billion in 2022 and is projected to grow at a 12.22% CAGR to $124.45 billion by 2029, per the FY2024 annual report. The sector is transitioning toward organised and digital operations, and banks and NBFCs are both expanding into it. Gold price movements drive portfolio growth and disbursement behaviour, which makes the business cyclical in a way tied to the gold price rather than the broader economic cycle.

The MSME lending market is structurally under-penetrated: the MSME sector contributes about 6.11% of manufacturing GDP and 24.63% of GDP from service activities, yet only 4% of 64 million MSMEs have access to formal credit channels. That is a large addressable market for SME-focused lenders like CSB, but it also means underwriting is the binding constraint, and the sector is exposed to global trade shocks. The home loan sector is expected to grow at a 13% CAGR from FY2022-23 to FY2025-26, driven by Tier III and IV

city demand, which provides context for CSB's retail ambitions, though those ambitions still depend on the CASA franchise build.

Regulation shapes the industry heavily. RBI has tightened consumer lending risk weights from 100% to 125% for consumer credit exposure, excluding housing, education, vehicle and gold-secured loans. That raises capital requirements for unsecured retail lending and partly explains why CSB is in no hurry to scale unsecured. The cyber security master direction took effect April 1, 2024. The bank is transitioning toward the ECL (expected credit loss) framework and maintains accelerated provisioning to smooth that transition.

Two RBI directives directly hit CSB. The first required promoters to reduce holdings to 40% of paid-up capital within five years of investment completion, which Fairfax complied with in June 2024 by selling 16,868,645 shares, or 9.72% of paid-up capital. The second directed banks to discontinue the loan against securities (repledger) business effective April 1, 2026, forcing CSB to run down a Rs 2,100 crore book to Rs 60 crore.

India's place in the global supply chain matters to CSB's SME book. US tariffs, the Gulf war escalation, commodities appreciation and geopolitical uncertainty have hit SME segments like textiles and footwear, which is precisely where the Q3 FY2026 slippages came from. The bank's response, slowing SME growth and tightening credit appraisal, is the pattern for smaller banks that cannot absorb concentrated sector shocks. Management's view is that the stress has already played out in its book, and it expects gross NPA to stay well below 2% over the next three years.

The industry is cyclical in a specific way for CSB. The bank is seasonal, as management states plainly:

> *"We are a very seasonal bank and every year it is seen that Q1, Q2, Q3, Q4 operates differently for us."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Gold price movements drive disbursement and portfolio behaviour, deposit pricing cycles determine NIM, and the current condition, tight liquidity with elevated deposit rates, is the reason CSB guides FY27 NIM at around 3.75-3.8%, below 4%, after printing 3.81% in Q2 FY2027. The bank's counter-cyclical levers are the fixed-rate gold book (about 60% of loans are fixed rate, including gold), the ability to book treasury profits when yields move, and the liquidity buffer it maintains through a 127% LCR and 124% NSFR in Q2 FY27.

Growth triggers

CSB Bank ran its branches on the legacy Maarvel core banking system until it signed up for Oracle Flexcube in 2023. By the Q3 FY26 concall (Feb 2026), management confirmed the core banking migration along with 52 surround systems was complete. That old system was

the binding constraint on the entire SBS 2030 strategy, so this migration is what unlocks everything else.

The mechanism is direct. On Maarvel, management said it could never build retail products, CASA products or customer service modules. Flexcube plus the 52 surround systems - including transaction banking, ServiceNow, Oracle Fusion HR, OFSAA and OGL - is what finally lets the bank launch products for a granular retail franchise. The FY24 annual report notes CSB is "possibly the first bank in India to migrate into Oracle, OFSA, OGL altogether in a single transition."

> *"the entire technology transformation went extremely well and now we are going to leverage that. We are rolling out our retail liability acquisition channel, because now we can launch the products we want to."*
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> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The scale phase formally begins FY2027. In Feb 2026, management said "We are getting ready technologically to launch the bank effective FY '27 on the scale phase." By Jul 2026, they confirmed "the journey begins in the scale phase in true earnest to scale the bank with respect to new customer acquisition, a more balanced growth across segments and the franchise creation." Management also acknowledged the technology decision was delayed by around two-and-a-half years, but once taken, execution was fast.

First product releases are already visible. The income-generating gold loan product, targeted at working capital borrowers with higher ticket sizes, launched because 'we have the systems now to do it.' Transaction banking products (trade, supply chain, CMS) have some systems live, with the rest to follow in 3-4 months. The CASA franchise itself is a longer build: management now expects CASA to grow faster than deposits from FY2028, after earlier guiding faster CASA growth from FY2029. Management said on Q2 FY27 it is launching 3-4 liability products per quarter and is focusing first on current accounts, then savings.

Retail liability acquisition channel rollout - new products, sales teams, and CASA franchise building

The trigger is the rollout of a retail liability acquisition channel - new deposit products, branch-led CASA acquisition, and dedicated sales teams - made possible by the completion of the Oracle Flexcube core banking migration and 52 surround systems. The previous Maarvel core system could not support the product architecture needed for granular customer acquisition.

The mechanism is a funding-cost fix. Deposits grew 26% YoY in Q1 FY27 against an industry rate of 13.4%, but bulk deposits now make up 52% of term deposits, pushing cost of funds to 6.5% and CASA ratio down to 19.41%. The rollout builds CASA and granular retail deposits at the branch level, which lowers funding cost, and then enables cross-sell of retail

assets - including unsecured products from FY2028 - to those same customers. Management has also created a TASC (Trust, Associations, Societies, Clubs) vertical and mandated each business vertical to self-fund a defined percentage of its book.

The timeline is explicit. Management is launching 3-4 products on the liability side every quarter, after two quarters of initial success, and is focusing first on current account acquisition. For FY2027, management had expected CASA ratio to stay flat; on Q2 FY27 it said this is the last year CASA will grow slower than term deposits and that CASA will grow faster than term deposits from FY28. The bank's cost of funds was 6.55% in Q2 FY27.

> *"The plan is that CASA will grow as much as the deposits only from FY2028 onwards. FY2029 onwards, CASA will grow higher than term deposits, and hence, that is the time we will see improvement in CASA ratio."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Management framed the choice plainly: "Long-term, we have no choice but to build retail deposits because that is the only way our franchise will build" (Q1 FY27 concall, Jul 2026). In Q3 FY26, the CEO explained why this was delayed: "In the earlier Maarvel system we could never do that. But now we have the best and the latest systems" (Q3 FY26 concall, Feb 2026).

Transaction banking products (trade, supply chain, CMS) - some systems in place, more in next 3-4 months

CSB's transaction banking group spans trade services, forex, supply chain finance, and cash management (CMS). The FY24 annual report defines the mandate: capturing client collections and payables, building working capital solutions, and generating trade and forex revenue. CSB Transact is the existing product suite, covering virtual accounts, NACH collections, escrow/RERA propositions, Bharat BillPay, and API banking. Trade and forex revenue grew 48% year-on-year in FY24.

The mechanism is two-sided. Transaction banking generates fee income and non-funded revenue from corporate clients, and it captures client collections and payables, building operational current account balances that reduce reliance on costly bulk deposits. Mondal tied this capability directly to wholesale franchise economics on the Q1 FY27 call:

> *"the amount of investments, both in terms of people and in terms of technology, which we are putting in transaction banking, is primarily to derive this ROA and RAROC from the wholesale banking relationship."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Stage and timeline. The core banking migration and 52 surround systems are complete. On the same call, Mondal described the rollout status:

> *"Even on the transaction banking side, say trade, supply chain or CMS - some systems are already in place and some will be in place in the next three to four months."*
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> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Three months earlier, in Feb 2026, he described the TBG systems as work in progress ahead of the FY27 scale-phase launch. The wholesale book is 26% of advances, growing 35-40%, targeting 32% by FY2030. Transaction banking is the capability that converts that growth into ROA and RAROC rather than plain balance-sheet expansion.

Income-generating gold loan product launch targeting working capital segment with higher ticket sizes

CSB Bank launched a new income-generating gold loan product in Q1 FY27 (Jul 2026). Unlike traditional loans against gold jewellery for consumption, this product targets borrowers deploying funds in their business, functioning as a pseudo-SME loan secured by gold.

> *"we have just launched a product - income generating product, which is more targeted towards people who are going to take loans and use it for earning, which is like a kind of a pseudo-SME kind of a business."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Management flagged this segment as the structural growth opportunity in gold lending, independent of gold price movements. In the Q3 FY26 concall, the MD described it as a working capital play with higher ticket sizes than the bank's historical gold book.

> *"It is a 5%, 7% segment, for working capital and the ticket sizes are much higher than what we have done in the past."*
>
> **MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

The launch is enabled by the completion of the Oracle Flexcube core banking migration, which management said now allows for this product build-out. The mechanism shifts the gold book from price-sensitive consumption loans to durable, business-driven credit. This supports the shift in gold lending toward business use while keeping the non-Agri LTV at 50-55%. Q2 FY27 gold advances grew 36% YoY, but management did not restate 30-35% gold growth guidance; it targets gold at about 50% of advances by end-FY27 and 32% by 2030.

Unsecured retail business (personal loans, credit cards) to start focusing from FY2028

CSB Bank has held unsecured retail lending at roughly 2% of the book, covering personal loans, credit cards and other unsecured products. Management has now set FY2028 as the point where this business starts being built in earnest.

The mechanism is cross-selling on top of a liability franchise the bank does not yet have. Management's stated sequence runs: complete the Oracle Flexcube migration, roll out the retail liability acquisition channel, build CASA and granular deposits, then lend unsecured to that customer base. The MD framed retail assets and liabilities as inseparable in the Q3 FY26 call, saying retail assets "will happen in parallel to retail liability as it is two sides of the same coin." In Q1 FY27 he confirmed the dependency directly:

> *"unsecured business is something we will start focusing on only from FY2028 onwards, not in FY2027."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The bank is also waiting on the credit cycle. Management cited stress in job sectors that personal loan borrowers come from, and said the unsecured cycle is not fully over. Meanwhile the existing book is being run down - at 2.4% of the portfolio in Q3 FY26 it was shrinking as the bank stopped adding exposure.

The product groundwork already exists. The FY2024 annual report records a specialised personal loan vertical, a personal loan portfolio that grew 51.20% to Rs 352 crore, and co-branded credit cards with One Card on Mastercard and Jupiter on UPI rails. Those products are built; the FY2028 trigger is about scaling them to the customer base the liability channel is acquiring today. The glide path for gold from 54% of the book toward 30% by 2030 depends on this unsecured build-out happening alongside wholesale and SME growth.

SME growth expected to resume from Q2 FY2027 as portfolio issues are largely corrected

CSB Bank slowed SME lending deliberately through FY2026. SME grew 20% year-on-year in Q3 FY2026 versus roughly 30% the prior year, and management said it would grow even slower by year-end - a conscious choice. External stress drove it: tariffs, supply chain disruptions, and demand weakness in CSB's SME segments and geographies produced around Rs 197 crore of slippages in Q3 FY2026, most of it from the SME book (Q3 FY26 concall, Feb 2026).

The machinery is intact. CSB runs SME through a specialized team, a hub-and-spoke branch model, and coverage split between a business banking segment and an emerging enterprise segment (FY2024 annual report). The SME book stood at Rs 2,769 crore as of March 31, 2024, up 28% year-on-year, against a management target of 18-20% of the book by 2030 (Q3 FY26 concall, Feb 2026). Around 80% of SME loans are collateralized, and management says the slippages are recoverable - Rs 30 crore had already been upgraded as of the Feb 2026 call. Management withdrew from stressed SME markets but kept the relationships, intending to return when the environment clears.

Management set Q1 FY2027 as the earliest point back to growth orientation.

> *"Once these issues get sorted out, we will look back to growth-oriented SME business model from FY '27 onwards as quickly as Q1 FY '27."*
>
> **MD, Q3 FY26 CONCALL (FEB 2026)**

The July 2026 call moderated that: management raised the credit-appraisal bar on SME and said it will be careful through FY2027, with Q1 FY2027 slippages expected to upgrade in Q2 or Q3. By the Q2 FY27 call management said most portfolio issues faced over the last one to one-and-a-half years are by and large corrected, SME growth will start showing from this quarter onwards, and the asset-quality improvement needs two to three quarters to prove.

NIM improved to 3.81% in Q2 FY2027; FY27 guidance around 3.75-3.8%

NIM printed 3.81% in Q2 FY27, up from 3.66% in Q1 FY27 and equal to 3.81% in Q2 FY26. Yield on advances rose to 10.92% from 10.65% while cost of funds was broadly unchanged at 6.55%. Management said gold yields improved about 50 basis points QoQ, the highest in six to seven quarters, and that asset-quality improvement and yield management in wholesale and SME also helped. The drag remains the liability side: bulk deposits and FCY borrowings reprice faster than retail deposits, so cost of funds is the swing factor for NIM.

The trigger is the expected fall in that funding cost. Management said deposit prices are no longer rising and are already showing marginal softening, and that CD rates will dip if liquidity improves. The Q1 cost spike also had a mechanical component: deposits brought in at end of March 2026 had no cost in Q4, but their full cost spilled into Q1. That flow-through is now behind the bank.

> *"As and when the yield curve improves, CD rates will dip. If large quantum of FCNR B deposits comes to the country, liquidity will improve. When it improves, CD prices probably would show some softening. All that will help us both in bulk and CD costs in the near future."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

Management guided FY27 NIM around 3.75-3.8%, below 4%, after Q2 printed 3.81%, and said it would be happy to retain around 3.75% in FY28 if it can bring cost of funds down to about 6% next financial year from 6.55%. The FY28 NIM depends on mix: management expects core fee and transaction banking to support overall income as the gold mix falls.

> *"This year also, this NIM is the worst case scenario. We will only improve from here."*
>
> **MD & CEO, Q1 FY27 CONCALL (JUL 2026)**

The stage is early. The softening is visible in current market pricing, and the mechanics of bulk repricing support the Q2 FY27 timeline management set.

Cost-to-income ratio glide path to 50% by FY2030

CSB Bank's cost-to-income ratio is the operational scorecard for its SBS 2030 strategy. At 64.8% in Q2 FY2027, the ratio is elevated, but management has committed to a specific glide path: unchanged through FY2027, then a sharp descent from FY2028 to reach 50% by FY2030.

The mechanism is operating scale from a larger revenue base, not aggressive cost cutting. The bank's tech transformation (Oracle Flexcube and 52 surround systems) is complete, and the scale phase begins in earnest from FY2027. As the bank launches retail liability acquisition, transaction banking products, and unsecured retail from FY2028, the cost of serving those customers is already partly sunk in the branch network of 868 branches and the new technology stack. Every incremental rupee of revenue from those businesses flows through at a lower marginal cost.

Management has been explicit about the timeline and the mechanics:

> *"cost to income ratio will start the target glide path from FY '28 onwards. Once it starts gliding down, it will be pretty fast, and I think we should be able to go to 50% by FY '30."*
>
> **MD & CEO, Q3 FY26 CONCALL (FEB 2026)**

The revenue side of the ratio is underpinned by a deliberate mix shift. Gold loans at 54% of the book glide down to 25-30% by 2030, while wholesale rises to around 32% and SME to 18-20%. The deposit franchise is the enabling factor: CASA is guided to grow as fast as deposits only from FY2028, and faster from FY2029, which lowers funding costs and supports the margin needed to sustain the glide. In Q3 FY26, the cost-to-income ratio had already improved to around 60% on disciplined cost management, and the CEO confirmed it will stay elevated near that level for another year before the descent begins.

Wholesale banking franchise build-out with transaction banking, targeting 32% of book by FY2030

Wholesale is the asset growth driver, growing at 35-40% as of Q1 FY27. It sits at roughly 26% of the book today, set to reach 32% by FY2030. This is the direct counterpart to the planned fall in gold loans from 54% to around 30% by 2030.

The mechanism is a shift from tactical financial institutions business to a diversified franchise. The FIPS book has been cut from about 70% of the wholesale portfolio to one-third, replaced by large corporates and mid-corporates. The profitability engine is transaction banking - trade, supply chain, and cash management services - which generate fee income and sticky deposits. Management is building these systems now. Some are live, and more are expected in the next three to four months.

Management is deliberately accepting a compressed NIM on this book while gold supports overall profitability. They have set explicit ROA and RAROC targets for Head of Wholesale

Manish Modi. In Q3 FY26, both gold loan and wholesale verticals grew over 40%.

> *"wholesale business is somewhere around 26% or so of the book. We want to take it to around 32% by FY2030"*
>
> **MD, Q1 FY27 CONCALL (JUL 2026)**

Branch expansion of 40-50 branches per year (76 new branches in FY2024, 868 total as of Jun 2026)

The distribution network is the physical engine for CSB's core businesses. The bank opened 76 new branches in FY2024, taking the total to 779, and reached 872 branches with 844 ATMs as of September 30, 2026. Management has guided an ongoing cadence of 40 to 50 new branches per year.

The mechanism is straightforward. The FY2024 annual report outlines a branch expansion strategy focused on locations with potential for CASA, Gold, Agri, Retail and SME/MSME segments. The semi-urban and rural footprint is where the bank's dominant gold loan business is sourced, allowing it to penetrate markets traditionally held by unorganised lenders. These branches are also the acquisition points for the granular CASA and retail deposit franchise that management expects to build from FY2028 onwards.

The stage is ongoing, but the tone shifted in the Q3 FY26 call. Management confirmed the annual target while stating the current priority is to extract more business from the existing 840-plus branches before scaling further. The network grew from 779 branches in March 2024 to 846 in December 2025 and 868 in June 2026.

> *"we are adding somewhere around 40-50 branches every year."*
>
> **MD & CEO, Q3 FY26 CONCALL (JAN 2026)**

> *"We have enough branches now say 840 plus branches; it is just how much business is to be done. Our priority is to first leverage these existing branches and then expand on a larger scale."*
>
> **MD & CEO, Q3 FY26 CONCALL (JAN 2026)**

This build-out gives the bank the physical capacity to deploy the new retail products and transaction banking systems implemented in the recent tech overhaul. The branch expansion is the physical side of the technology-led growth push.

Key risks

- **Gold loan concentration**: Gold was 53% of advances in the prior quarter, and management targets about 50% by end-FY27 before a stated glide path to 32% by FY2030. A sharp fall in gold prices would compress portfolio value and reduce disbursement volumes. The bank's LTV is 75% overall and 85% for Agri gold, versus peers at 60-65%, because of a larger Agri portfolio; management says the non-Agri LTV is only

50-55%, but the mix shift away from Agri is gradual and the exposure remains the single largest concentration.

- **Bulk deposit dependence**: Bulk deposits are 52% of term deposits and roughly 40% of total deposits, funding a cost of funds of 6.55% in Q2 FY2027. Management aims to bring cost of funds to about 6% next financial year and guide CASA to grow faster than term deposits from FY28. If deposit pricing stays elevated because system credit growth keeps outstripping deposit growth, the FY27 NIM guidance of 3.75-3.8% and the FY28 ROA target of 1.5-1.8% come under pressure. Management argues bulk reprices faster than retail when rates soften, but that is a bet on the liquidity cycle turning.
- **SME slippage volatility**: Q3 FY26 saw Rs 197 crore of slippages, mostly SME, and Q1 FY27 saw another Rs 98 crore. Q2 FY27 showed improvement across slippages, recoveries and GNPA, and management says most SME portfolio issues are by and large corrected with growth resuming this quarter. But management itself says it needs two to three quarters to prove the asset-quality trend is not one-off. The pattern of slippage in one quarter and upgrade in the next has repeated, which means the credit cost line is hard to predict.
- **Regulatory action on gold-linked products**: RBI's guidance to discontinue the loan-against-securities repledger business forced a run-down from Rs 2,100 crore to Rs 60 crore; by Q2 FY2027 management said it has almost come to nothing. That run-down dragged retail disbursements and fee income. End-use monitoring requirements have slowed the core gold loan disbursement process while the bank implements controls. Every new RBI directive on gold loans or unsecured lending has historically hit either the portfolio size or the processing cost, and the bank is still implementing the current round.
- **Promoter stake sale overhang**: Fairfax is reported to be a frontrunner for IDBI Bank. On Q2 FY27 management said the board has not discussed the Fairfax-IDBI matter in the last two board meetings, Fairfax has no deposit with the bank, Fairfax has two years to decide on two options, and the IDBI transaction is yet to complete. If Fairfax acquires IDBI, the logic for holding 40% of CSB becomes unclear, and a stake sale could hit the stock. Management has no visibility into Fairfax's plans, and the bank's independence is a management assertion, not a contractual guarantee.
- **Interest rate pass-through**: Roughly 125 bps of repo cuts have already flowed through the RLLR-linked SME and retail books, compressing yields faster than the MCLR-linked wholesale book reprices. The bank's hedge is that 60% of loans are fixed-rate, including gold, but the fixed-rate book is concentrated in the short-tenor gold loans that reprice quickly anyway. If the next phase of the cycle is rising rates, the bank's cost of funds rises faster than its ability to reprice the fixed gold book.

- **Technology execution lag**: The core banking migration was delayed by about two and a half years at the decision stage, and management compressed the actual implementation into a single transition with 50-plus surround systems. On Q2 FY27 management said the 18-month technology transformation is starting to pay off, with DC/DR completed and transaction banking modules rolling out, but OFSAA is still being implemented. Any teething problem in the new stack delays the retail liability channel and the FY2028 scale-up thesis.
- **Unsecured retail timing**: Unsecured loans are only 2% of the book, and management has explicitly deferred any focus on personal loans and credit cards to FY2028, citing job market stress and AI-related sector issues. On Q2 FY27 it said the unsecured part will start probably FY28 onwards and will be calibrated to well-underwritten existing customers. That is a deliberate choice, but it means the bank is forgoing the highest-yield products precisely when it needs to fund the liability franchise build-out.
- **Competitive pressure in gold and deposits**: Small finance banks compete aggressively on deposit pricing, and gold loan NBFCs like Muthoot and Manappuram have invested heavily in branding and geographic expansion. The bank's advantages - lower cost of funds than NBFCs, an experienced gold team, and a semi-urban branch network - narrow as SFBs grow. The analyst comparison to Karur Vysya and City Union, with their lower LTVs, shows the bank's 75% LTV is an outlier that competitors can use in marketing.

Scenarios

Bull case

The technology transformation, delayed for two and a half years, starts paying off. Q2 FY27 delivered NIM of 3.81% and ROA of 1.29%, and management guides FY27 ROA between 1.29% and 1.5% and FY28 ROA of 1.5-1.8%. CASA grows faster than term deposits from FY28, cost of funds falls toward 6% next year, and the SME book resumes growth this quarter after portfolio issues are largely corrected. Gold falls to about 50% of the book by end-FY27 and 32% by 2030 without hurting ROA or ROE. Corporate advances grow 44% YoY, transaction banking systems roll out, and fee income holds around 17-18% of total income. The result is a more balanced bank with ROA in the 1.5-1.8% range in FY28 and the cost-to-income glide path to 50% by FY2030 starting on schedule.

Base case

Deposit growth stays structurally challenged because system credit growth keeps outpacing deposit growth, keeping bulk deposit costs elevated. Q2 FY27 NIM of 3.81% and cost of funds of 6.55% show the bank can hold the 3.75-3.8% FY27 band, but the retail deposit franchise build takes until FY28 to inflect. SME growth resumes this quarter, yet management says asset-quality improvement needs two to three quarters to prove. The bank

grows advances 22% and deposits 18% as in Q2, funded by bulk deposits, CDs, FCY borrowings and refinance, with LCR at 127% and NSFR at 124%. The mix shifts happen on schedule, gold to about 50% this year and 32% by 2030, but each quarter requires tactical funding decisions. ROA lands between 1.3% and 1.5% in FY27, and the FY28 1.5-1.8% target depends on cost of funds and fee income. The scale phase delivers visible results only in FY2028-FY2030.

Bear case

The global uncertainty that produced the Q3 FY26 and Q1 FY27 SME slippages does not resolve, and the Q2 FY27 improvement proves temporary. SME upgrades slow, GNPA rises from 1.58%, and collateral-backed recoveries take longer than the 'intent is good' argument assumes. Deposit competition stays intense, bulk deposits remain 52% of term deposits, and cost of funds does not fall from 6.55% to 6%, so the FY27 NIM band and FY28 ROA target of 1.5-1.8% are missed. CASA does not grow faster than term deposits in FY28, delaying the funding-cost fix. The technology stack, with OFSAA still being implemented, delays retail liability products, keeping cost-to-income near 64.8% and pushing the glide path to 50% beyond FY2030. Fairfax's IDBI transaction creates a promoter overhang. The bank remains a gold loan bank at about 50% concentration, with the diversified mix story perpetually two years away.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	3,597	4,505	5,398	6,291	7,371
Interest (₹ Cr)	2,121	2,785	3,310	3,803	4,429
Other income (₹ Cr)	972	1,177	1,028	1,289	1,564
PBT (₹ Cr)	800	851	949	1,267	1,601
Tax (₹ Cr)	206	218	242	323	408
Tax rate	25.7%	25.6%	25.5%	25.5%	25.5%
PAT (₹ Cr)	594	633	707	944	1,193
PAT growth	-	+6.6%	+11.7%	+33.4%	+26.4%
EPS (₹)	34.20	36.50	40.80	54.40	68.70
P/E	9.1x	8.5x	7.6x	5.7x	4.5x
PEG	0.3x	0.3x	0.3x	0.2x	0.2x

CAGR FY27E-FY29E: Revenue +16.9% · EBITDA - · PAT +29.9%

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Q2 FY27 concall notes

TLDR

CSB Bank reported Q2 FY27 net profit of ₹183 crores, up 14% YoY and 22% QoQ, on net interest income of ₹510 crores (up 20% YoY, 7% QoQ). NIM rose to 3.81% from 3.66% in Q1 FY27 on higher yields and flat cost of funds, and ROA improved to 1.29% from 1.09%. Deposits grew 18% YoY and advances 22%, with gold up 36% and corporate up 44%; SME growth was muted but management expects it to resume this quarter. GNPA fell to 1.58% and NNPA to 0.33%, with credit cost at 24 bps. Management guides NIM at 3.75-3.8%, ROA between 1.29% and 1.5% this year and 1.5-1.8% next year, and plans to bring the gold mix to about 50% by year-end from 53% last quarter. Watchpoints are the slower CASA build, elevated bulk funding dependence, and the IRDA consultation paper on insurance fees.

WHAT CHANGED SINCE Q1 FY27

- **NIM guidance narrowed and lifted in practice:** Q1 guidance was ~3.75% for FY27; Q2 guidance is 3.75-3.8%, with the bank "below 4%". Reported NIM rose to 3.81% from 3.66%.
- **ROA guidance restated with a higher floor:** Q1 framed FY27 ROA as 1.3-1.5% with an internal 1.5% target. Q2 says the bank will land "somewhere between" 1.29% and 1.5% this year, and guides 1.5-1.8% for FY28, closer to 1.5%.
- **Fee income guidance raised:** Q1 guided fee income at 16-17% of total income for FY27. Q2 guides 18-20% of total income, with core fee at 14-15% and overall fee "just short of 18%" already.
- **Gold mix target brought forward:** Q1 guided gold to ~50% of advances in FY27 and ~30% by FY2030. Q2 states a board-approved decision to reach ~50% by end of this year from 53% last quarter, and repeats the glide path, which management now describes as 32% gold by 2030.
- **SME stance reversed:** Q1 said no scale-up until the environment turns conducive. Q2 says most portfolio issues of the last 1-1.5 years are "by and large corrected" and SME growth starts this quarter.
- **CASA timeline pushed out:** Q1 said CASA would hold flat in FY27, grow at par with deposits in FY2028 and surpass term deposits from FY2029. Q2 says FY27 is the last year CASA grows slower than term deposits, and CASA grows faster from FY28.
- **Cost of funds target newly given:** management aims to cut cost of funds from 6.55% to ~6% next financial year, a 50 bps lift, with part absorbed by the business mix change.
- **New disclosure on write-offs:** elevated write-offs this quarter came from a fully provisioned vintage credit card and unsecured book, with no credit cost impact; management also added discretionary provisions because the quarter looked good.
- **Tone shift:** Q1 described the scale phase as beginning. Q2 says the bank is "ready to now launch the bank in its true essence in the scale phase", with retail growth expected first in customer count and current accounts, not the balance sheet.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Net profit	₹183 crores	+14% YoY, +22% QoQ	Higher NII and a 20% QoQ rise in other income

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Net interest income	₹510 crores	+20% YoY, +7% QoQ	Yield management across wholesale, SME and gold; cost of funds flat QoQ
NIM	3.81%	vs 3.66% in Q1 FY27 (QoQ); 3.81% in Q2 FY26	Better asset quality aiding yield, careful yield management, higher gold yield
Operating profit	₹276 crores	+10% QoQ	NII growth partly offset by higher opex
Cost-to-income	64.8%	vs 64.55% in Q1 FY27	Technology, staff (17-18%) and infrastructure spend
Other income	Grew 20% QoQ; ex-treasury +27%	Core fee +27% YoY; overall fee -22% YoY	Core fee lines did well; PSLC and treasury non-core fees fell
Deposits	+18% YoY	Slower than 26% in Q1 FY27	Growth described as organic; bank was not a large FCNR participant
Gross advances	+22% YoY	vs 24% in Q1 FY27	Gold +36% YoY, corporate +44% YoY; SME muted
CASA ratio	~19% (19.96% stated)	vs 19.41% in Q1 FY27	Current account acquisition focus; CASA to grow faster than term deposits from FY28
Yield on advances	10.92%	vs 10.65% in Q1 FY27 (QoQ)	Higher gold yield, better asset quality, yield management in wholesale and SME
GNPA / NNPA	1.58% / 0.33%	vs 1.75% / 0.39% in Q1 FY27	Slippages net of upgrades and recovery improved; write-offs of fully provisioned book
Credit cost	24 bps	n/a	Low slippages; write-offs had no credit cost impact
PCR	87% with PWO, 79.19% without	vs 77.96% without PWO in Q1 FY27	Additional discretionary provisions taken in the quarter
ROA / ROE	1.29% / 14.74%	vs 1.09% / 12.71% in Q1 FY27 (QoQ)	NIM expansion and fee recovery
CRAR / Tier-1	19.55% / 18.54%	vs 19.96% / 18.96% in Q1 FY27	Risk-weighted assets lower than industry
LCR / NSFR	127% / 124%	vs 123% / 126% in Q1 FY27	Domestic and FCY borrowings availed on cost and tenor considerations
Branches / ATMs	872 / 844	vs 868 / 835 in Q1 FY27	Network as on September 30, 2026

SEGMENTS & GEOGRAPHIES

- **Gold loans:** Grew 36% YoY; mix at 53% last quarter, targeted to ~50% by end of this year and 32% by 2030. Gold yield improved about 50 bps QoQ, which management called the highest in 6-7 quarters, after testing yield elasticity given the distribution reach. Tonnage fell 6% YoY because higher gold prices reduce borrowing for the above-₹20 lakh business-usage segment, and because renewals are no longer counted as disbursements. About 23% of the gold book is above ₹20 lakhs. LTV at 75% reflects a larger agri portfolio, where LTV allowed is higher and which earns PSLC benefits.
- **Wholesale / corporate:** Grew 44% YoY. Corporate banking, mid-market and FIPS are now roughly equal in size, with corporate and mid-market growing faster. Transaction banking (trade, supply chain, CMS) is expected to

contribute fee income.

- **SME / BLG:** Growth moderate on a calibrated, cautious approach; disbursements were flattish with runoffs and exits of customers on an exit list, and some lost on pricing. Management expects growth from this quarter as portfolio issues are largely corrected.
- **Retail (ex-gold):** Loan against security for the repledger business has effectively come to nothing. Retail asset growth waits on the liability franchise; unsecured lending stays calibrated and limited to well-underwritten existing customers, starting FY28.
- **Deposits / liabilities:** Retail and wholesale deposits are around 48-52% each. Dependence on FCY, CDs and bulk funding will remain for some time and start coming down from next year. Current account acquisition is the first focus, with 3-4 retail liability products launched per quarter over the last two quarters.

STRATEGY & COMPANY-SPECIFIC

- **Technology:** Core systems and surround systems are complete; OFSAA is being implemented now. CRM and other capabilities are being built in-house on ServiceNow to lower incremental cost. Corporate net banking (OBDX), corporate LMS, trade, supply chain and CMS systems are in place. A DC-to-DR shift and return was completed in 15-20 days.
- **Distribution:** The bank is expanding in larger markets in the Northwest, South and parts of the East, and says metro and urban investments are showing deposit and asset growth.
- **Gold mix:** A board-approved decision sets the gold book at ~50% of the mix by end of this year, from 54% at FY26 end and 53% last quarter, with management stating this will not affect ROA, ROE or other financial parameters.
- **Retail liability build:** Virtual relationship management set up; the mandate is 3-4 new retail liability products per quarter. Management says a liability franchise takes 2-3 years to build.
- **Fairfax / IDBI:** Fairfax has no deposits with the bank. The board has not discussed the IDBI transaction in the last two board meetings; management says Fairfax has two years to decide between two options and the transaction is yet to complete.
- **Capital and provisioning:** Contingency provisions held intact at a buffer of ~₹177 crores over regulatory requirements, with an accelerated loan provisioning policy to aid transition to the ECL framework.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
NIM	3.75-3.8% for FY27; below 4%	Narrowed from ~3.75%	Cost of funds flat; yield management; mix change offset by lower funding cost
ROA	Between 1.29% and 1.5% for FY27; 1.5-1.8% in FY28, closer to 1.5%	Restated from 1.3-1.5%	Q4 peak seasonality; non-core income recovery expected next year
Cost of funds	~6% next financial year, from 6.55%	New	Current account focus across franchises
Fee income	18-20% of total income; core fee 14-15%	Raised from 16-17%	Core fee growth; transaction banking, SME, wholesale; insurance impact of at most ~1% of total income
Gold loan mix	~50% by end of this year; 32% by 2030	Brought forward from ~50% in FY27	Board guidance; wholesale, SME and retail growth

METRIC	GUIDANCE	VS Q1 FY27	BASIS
CASA ratio	Grows from FY28 as CASA outpaces term deposits	Timeline moved from FY2029 surpass	3-4 liability products per quarter; current account first
Balance sheet growth	30-50% faster than the system; faster than guided from FY28	Maintained	Liability franchise build; asset-side capacity in place
SME growth	Starts this quarter	Reversed from no scale-up	Portfolio issues largely corrected
Unsecured lending	Starts FY28	Maintained	Liability franchise and cross-sell build
Insurance fee impact	At most ~1% of total income if IRDA draft is finalized as drafted	New	Universal bank licence and multiple fee lines

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
CASA and liability build	CASA grows slower than term deposits this year; a liability franchise takes 2-3 years, and even doubling customers will not move the liability balance sheet quickly
Bulk and wholesale funding dependence	Retail and wholesale deposits at 48-52%; FCY, CD and bulk dependence remains for some time and eases only from next year
Gold tonnage decline	Tonnage down 6% YoY on high gold prices in the above-₹20 lakh segment; management says it is collateral, not demand, and sees no daily or quarterly outflow now
Gold LTV	75% LTV from the larger agri mix; management says sensitivity analysis is done and a large part of the portfolio is regulatory
IRDA consultation paper	Final guidelines not issued; management expects some short-term challenge for banks and corporate agents on insurance fee income
Non-core income	Treasury and PSLC fees fell sharply YoY; management does not expect this income back this year
Opex growth	Technology, staff and infrastructure spending lifted other opex 18% QoQ
SME portfolio	Exits and pricing losses held SME growth back; growth resumption is management's expectation, not yet reported
Fairfax / IDBI	Board has not discussed it; management says it is too early and will decide when Fairfax comes back

Q&A HIGHLIGHTS

NIM improvement

- **Question:** What drove the sharp improvement in NIM for the quarter?
- **Answer:** Better asset quality helped yield, yields were managed carefully in wholesale and SME, gold yields did well, and cost of funds stayed flat QoQ.

Gold yield increase

- **Question:** Gold yield rose about 50 bps QoQ, the highest in 6-7 quarters. What explains it?
- **Answer:** Management tested yield elasticity given its large and deep distribution and the yields offered by banks and non-banks, and says it is comfortable with the current gold yield.

Write-offs and PCR

- **Question:** Write-offs were elevated while credit cost was low, yet PCR improved. Why?
- **Answer:** A fully provisioned vintage credit card and unsecured book was written off with no credit cost impact, and additional discretionary provisions were taken because the quarter looked good.

Fee income and IRDA paper

- **Question:** What does the IRDA consultation paper mean for fee income?
- **Answer:** Final guidelines are not out; if adopted as drafted there will be some short-term challenge, but the impact is at most about 1% of total income, and the bank can take fee income back to 18% from 17%.

ROA outlook

- **Question:** What is the ROA outlook for this year and next, and the drivers?
- **Answer:** ROA should land between 1.29% and 1.5% this year with the usual Q4 peak, and 1.5-1.8% next year, closer to 1.5%, helped by lower cost of funds and some non-core income returning.

NIM beyond FY27

- **Question:** What NIM should the bank settle at in FY28 and beyond?
- **Answer:** NIM should stay around 3.75%, below 4%, with the mix change offset by cutting cost of funds to ~6% next year, and fee income at 18-20% of total income supporting ROE.

Balance sheet growth in the scale phase

- **Question:** Will growth accelerate versus the 5-6% average sequential growth of the build phase?
- **Answer:** Guidance is 30-50% faster than the system, which the bank did not meet this quarter because the system grew faster on FCNR; growth should be faster than guided from FY28, depending on how quickly the liability franchise builds.

Fairfax deposits and IDBI

- **Question:** Does Fairfax hold ₹4,000-5,000 crores of deposits, and how is the board thinking about the IDBI deal?
- **Answer:** Fairfax has no deposits with the bank, and the board has not discussed the IDBI transaction in the last two meetings; Fairfax has two years to decide and the transaction is yet to complete.

Saregama India Limited

GROWTH TRIGGERS

Saregama's bull case is that the music vertical is entering the margin harvest of a multi-year content investment cycle while its distribution and artist flywheel widen the gap with pure licensing peers. Q2 FY27 music revenue grew 35% and EBITDA 37%, with management saying content bought two to four years ago is now contributing positive margins. If that continues, 20-23% revenue CAGR can carry 60-65% EBITDA margins, with subscription pricing, owned live IPs, Bhansali film music, AI-led content costs and Pocket Aces profitability adding optionality.

1. Music EBITDA can exceed 65% as content charge-off fades

Q2 FY27 music EBITDA was ₹1,540 million on ₹2,513 million revenue, about 61%, and management said revenue from content bought two to four years ago now exceeds the content cost charge. If the FY24-FY27 content cohorts keep maturing, the 60-65% guided band can be exceeded without assuming a subscription hockey stick.

2. Music growth above 23% if paid subscription accelerates

Management's 20-23% music CAGR explicitly excludes a major paid-subscription shift, and it says pricing is still two to three years away. If platforms curtail free tiers and convert even part of the 64% of free users who say they would pay, Saregama's licensing revenue can grow faster than the guided range.

3. Content spend moderation lifts margins from FY28

FY27 content spend is ₹300-350 crore, and FY28-FY30 combined spend is guided at around ₹1,200 crore, growing at a nominal 10% annually from the midpoint. Slower growth in content outlay should let revenue and EBITDA grow faster than the charge-off base, supporting margin expansion.

4. Live events margin improvement from owned IPs

Q2 FY27 had 54 Carvaan Live shows, 17 devotional shows and the Ilaiyaraaja US tour. Management is deliberately charging off early owned-IP investments now to reduce dependence on artist concerts and gain pricing power later; that is a margin drag today but the route to higher-margin, repeatable live formats.

5. Bhansali pipeline secures marquee Hindi film music

Bhansali Productions' Love & War is scheduled for Q4 FY27 and the studio is working on its FY28 slate. The partnership gives Saregama film music at a pre-agreed formula and reduces competitive bidding for marquee Hindi albums, protecting music margins as content costs rise.

6. Pocket Aces profit adds to earnings

Pocket Aces reached breakeven in FY26 and management says it is moving towards profitability this year. Profit at the short-form subsidiary would add directly to consolidated earnings while its FilterCopy and influencer footprint keeps feeding music promotion and brand partnerships.

7. AI content creates new low-cost revenue

Management plans around 100 hours of podcast content in Q3 FY27 using GenAI tools and says AI has already produced marginal manpower-cost savings. If AI cuts video and podcast production costs while creating licensable content around the 180,000-song catalog, it can improve returns on fully charged-off IP.

8. Artist flywheel scales with 340 artists

Saregama now represents 340 artists with more than 450 million combined Instagram and YouTube followers. As content investment makes these artists bigger, the company can take a larger share of live events, weddings and brand endorsements, reinforcing the combined recorded-music and live-business model.

INVESTMENT THESIS

Saregama is an IP compounder whose economics are finally showing the operating leverage management promised when it stepped up music-content spending. Q2 FY27 revenue from operations was ₹3,143 million, up 37% year on year, adjusted EBITDA was ₹1,180 million, up 39%, and operational PBT was ₹858 million, up 43%. The music vertical, which combines licensing, artist management and retail, did revenue of ₹2,513 million, up 35%, EBITDA of ₹1,540 million, up 37%, and net margin of ₹1,165 million, up 46%. Management was careful to say the quarter had a low base and that investors should judge on a 12-month rolling basis. The important operating fact is not the headline growth but the reason: content bought two, three or four years ago is now contributing positive margins, with revenue from those cohorts exceeding the content cost charge. That is the visible turn in a model where music rights are bought upfront, charged off, and then monetized for decades.

The business owns a catalog of more than 180,000 songs, growing by 4,500-5,000 releases a year. It licenses that catalog to audio and video streaming platforms, broadcasters, social platforms and advertisers; it also manages 340 artists with more than 450 million combined Instagram and YouTube followers, produces live events, runs the Carvaan retail brand, and owns 90.37% of Pocket Aces, the short-form business behind FilterCopy and Dice. The economic core is licensing, where content is fully charged off over time and incremental streams carry high margins. The flywheel is that new music makes artists bigger, artist management monetizes those artists through live shows, weddings and brand deals, and Pocket Aces provides low-cost promotion that extends the life of songs. This is not a capital-intensive manufacturing business. The main cash outlay is content, and the balance sheet remains net cash.

Management guides 20-23% revenue CAGR and 60-65% EBITDA margin for the music vertical over the short to medium term. That is guidance, not a forecast. Management also clarified that the range is a three-to-five-year CAGR rather than an annual promise, which matters because quarterly music growth can swing with release timing. Q2 FY27 music EBITDA margin was about 61%, inside the band but close to the lower bound. The path to the upper half is visible if the FY24-FY27 content cohorts keep maturing and if paid streaming grows. India's paid streaming penetration is about 3% of internet users against 67% in Sweden and 57% in the US; management cites an EY-IMI study that 64% of free music customers would pay for a reasonably priced service if free content stopped. Pricing is described as a second growth engine still two to three years away. The 20-23% guidance excludes any major subscription acceleration, so conversion is upside rather than a base-case assumption.

Content spending is the key capital-allocation variable. FY27 new content spend is guided at ₹300-350 crore, the final year of the roughly ₹1,000 crore FY25-FY27 programme.

Management has now guided FY28-FY30 combined new content spend at around ₹1,200 crore, growing at a nominal 10% per annum from the FY27 midpoint. The payback assumption is five years followed by 55-75 years of returns. That is an assumption, not a reported result. The Q2 evidence supports it at the portfolio level: older content is contributing positive margins. The risk is that a weaker hit rate or higher bidding for marquee albums extends the charge-off drag. Management has shown it will walk away from deals that break the five-year payback test, including Dhurandhar 2, and the Bhansali Productions partnership is designed to reduce open-market bidding for a slice of Hindi film music. Saregama has invested ₹325 crore initially in Bhansali through CCPS converting to a 28-49.9% stake in October 2028, with an option to reach 51% after March 2030. Love & War is scheduled for Q4 FY27 and the studio is working on its FY28 slate. That pipeline is strategically useful but concentrates creative risk in one studio.

Live events are the second call option. Q2 FY27 had 54 Carvaan Live shows, 17 devotional shows and the Ilaiyaraaja US tour across 11 cities serving 20,000 audiences. Management is deliberately increasing investment in owned IPs and reducing dependence on artist-based concerts. The segment is currently loss-making because initial owned-IP investments are charged off, and management has not put a date on high-single-digit margins. This is a real drag today and a potential margin source later, not a proven earnings engine.

The video business is being shrunk by design. Q2 FY27 video revenue declined 16% to ₹183 million and management said it may decline further as the in-house film business winds down and capital is redeployed into Bhansali. Pocket Aces reached breakeven in FY26 and is moving towards profitability this year. AI is a cost and content tool: around 100 hours of podcast content are planned for Q3 FY27 using GenAI, and management says AI has already produced marginal manpower savings. Those are early-stage, not yet material to group earnings.

The earnings path is therefore straightforward to describe but not guaranteed: music revenue compounds at 20-23%, content spend grows more slowly from FY28, older content cohorts keep contributing, and EBITDA grows faster than revenue. The main falsifiers are a stall in paid streaming, a weaker content hit rate that breaks the five-year payback, a prolonged loss in live events, a poor Bhansali slate, and a further decline in other income as QIP cash is deployed. Q2 FY27 showed the model working; the next test is whether H2 film releases and the FY28-FY30 content budget sustain it without pushing the music margin below 60%.

RESEARCH REPORT

What Saregama India Limited does

Saregama is an IP-led entertainment company built around the largest owned music catalog in India. The company was incorporated in 1946 but traces its recording heritage to 1902, when it recorded the first Indian song. The core asset is a catalog the management sizes at "180,000-odd" songs (Aug 2026) growing at roughly 4,000-6,000 new releases a year, with rights held in perpetuity across Hindi, Tamil, Telugu, Bhojpuri, Punjabi, Bengali, Marathi, Malayalam, Haryanvi and a dozen other languages. The FY25 annual report counts 170,000+ songs.

The investment thesis the management repeats every quarter is a 5-year payback on new content followed by a 55-80-year revenue tail. Content bought in FY24-FY25 (albums like Stree 2, Amaran, Rocky Aur Rani Kii Prem Kahaani) is now contributing positive margins, which is why the music vertical's profit growth is catching up to its revenue growth. In FY26, 60% of music revenue came from content released after 2000, and 45% from after 2020 - the "catalog company" is now mostly a new-IP company.

The business runs four verticals, with FY25 revenue mix from the annual report:

SEGMENT	FY25 REVENUE	SHARE
Music (licensing + artiste management)	₹6,104 Mn	52%
Events	₹2,852 Mn	24%
Video (films, digital series, TV, short-form)	₹1,920 Mn	16%
Retail (Carvaan)	₹837 Mn	8%

FY25 was the record year: revenue of ₹11,713 Mn (+46% YoY), adjusted EBITDA of ₹3,566 Mn, PBT of ₹2,761 Mn, and content investment of ₹3,160 Mn, the highest in history.

Q2 FY27 update (Nov 2026). Revenue from operations was ₹3,143 million, up 37% YoY; adjusted EBITDA was ₹1,180 million, up 39%; and operational PBT was ₹858 million, up 43%. The music vertical, combining licensing, artist management and retail, recorded revenue of ₹2,513 million, up 35%, EBITDA of ₹1,540 million, up 37%, and net margin of ₹1,165 million, up 46%. Management said H1 had a low base and reiterated 20-23% music revenue CAGR and 60-65% EBITDA margin over the short to medium term.

Music licensing. This is the economic engine. Saregama licenses its catalog to audio streaming platforms (Spotify, YouTube, JioSaavn, Amazon, Gaana), video streaming platforms, TV broadcasters, social media platforms, advertisers and public-performance societies. It buys new film and non-film music in multiple languages, using predictive AI to score acquisition decisions and a hard 5-year payback filter. The management declined to

buy Dhurandhar 2 music despite peer pressure because the producer's price "did not fit into a five-year payback guideline" (Q4 FY26, May 2026) - a stance the management says was vindicated.

The music vertical also includes artiste management: artists are made popular through Saregama's IP releases, then monetized through live event bookings, weddings, and brand endorsements, with Saregama taking a share. At the end of Q2 FY27, the roster was 340 artists with a combined 450+ million Instagram and YouTube followers.

Video. This is the deliberate shrink, not a decline by accident. Saregama is winding down its in-house film production (Yoodlee) because it entered films only to secure music rights, and the strategy underperformed. The pivot is the Bhansali Productions partnership: Saregama invested ₹325 crores (via CCPS converting to equity in October 2028, valuing the stake at 28-49.9%) for exclusive access to all Bhansali film music at a pre-agreed formula price, without bidding. Bhansali Productions reported FY25 revenue of ₹304 crores, EBITDA of ₹60 crores, and PAT of ₹45 crores (Dec 2025 call). The deal locks in roughly 30-40% of Saregama's Hindi film music pipeline at controlled cost. In Q2 FY27, video revenue declined 16% to ₹183 million; management said it may decline further as the transition plays out. Bhansali's Love & War is slated for Q4 FY27 and the studio is working on its FY28 slate. The remaining video business - TV serials (10,000+ hours for Sun TV over 20 years), Dice web series, FilterCopy short-form - keeps running.

Short-form content via Pocket Aces. Saregama holds 90.37% of Pocket Aces (annual report), which owns FilterCopy and Dice. This is the marketing muscle: a 400-450 million follower footprint across Instagram, Facebook and YouTube that makes songs go viral. Management credits it for extending the life of hits like Dhurandhar (6 million daily audio streams and 11 million daily YouTube views five months after release). Pocket Aces reached breakeven in FY26 and is moving towards profitability this year.

Events. The vertical generated ₹2,852 Mn in FY25, inflated by the one-off Diljit Dosanjh India tour. In FY27 Saregama is diversifying formats: in Q2 FY27 it produced 54 Carvaan Live concerts targeting middle-aged and older sit-down audiences, 17 devotional shows, and the Ilaiyaraaja US tour across 11 cities with 20,000 attendees. Management said it will keep increasing investment in live events and lean more toward owned IPs to reduce dependence on artist-based concerts. The stated strategy is capital-light: money rotates in 30-40 days, and the company targets high-single-digit margins in steady state.

Retail (Carvaan). A portable music player with 5,000+ preloaded songs. The business model was deliberately shrunk from broad retail to e-commerce and modern trade to improve margins. Sales fell from a peak of 7.4 lakh units in FY20 to 4.3 lakh units in FY25; revenue of ₹837 Mn in FY25. The company is explicit that Carvaan's job now is margin, not volume.

AI initiatives. Saregama has two AI teams: one creating neighboring content (podcasts tied to its songs, AI-generated music videos for old catalog songs where the original video rights sit with film negative owners), and one optimizing internal processes. Management says an AI-generated music video can cost ₹70,000 versus the cost of a shoot, and production time dropped from 10-15 days to under 3. The content team plans to release around 100 hours of podcast content in Q3 FY27 using GenAI tools. Management said AI has already produced marginal manpower-cost savings and the full impact will be visible over the next few quarters. The AI bets are contained within the ₹300-350 crore content budget for FY27.

Business segments

Music (Licensing + Artiste Management)

The segment owns and monetizes music IP: a catalog of roughly 180,000 songs, growing by 4,500-5,000 new releases a year, per the Q2 FY27 concall (Nov 2026). The core capability is the two-sided flywheel: Saregama invests in new music content, uses that content to make artistes famous, then monetizes those artistes through bookings, weddings, and brand endorsements. That flywheel took years to build. In FY24, management told investors it would take two to three years before EBITDA and profit growth caught up to revenue growth because content bought in a given year is charged off while revenue accrues over decades. By Q2 FY27, management said content bought two to four years earlier was starting to contribute positive margins.

Two products sit inside the segment. Music licensing is the core: Saregama acquires film and non-film music, then licenses it to audio streaming platforms (Spotify, YouTube Music, JioSaavn, Amazon), video OTT platforms, TV broadcasters, social media platforms, and advertisers. The second product is Artiste Management: Saregama represents artists, makes them popular through its own IP releases, and takes a share of their bookings for live events, weddings, and brand endorsements. At the end of Q2 FY27, Saregama represented 340 artists with a combined follower and subscriber base of over 450 million on Instagram and YouTube (Q2 FY27 concall, Nov 2026).

The customers split into two groups. Platforms license the catalog: Spotify, YouTube, JioSaavn, Amazon for audio, plus short-format platforms on fixed-fee annual deals, a structure that bothers management because it does not capture the upside of rising advertising on reels. The other group is brands. Since late FY26, Saregama has run a dedicated brand partnerships team that sells across music, live events, and short-format video at once. In Q2 FY27 it did over 20 brand deals with partners including Apple, Airbnb, Google, Cadbury and Tanishq. The pitch is a full flywheel: a brand wanting to reach 25-30 year olds gets a music license, a custom song, Instagram content from FilterCopy, and event sponsorship. Competitors cannot match that because they lack the short-format content arm and the artiste roster.

The competitive position is clear from management's own disclosures. On the Q4 FY26 call (May 2026), Mehra said Saregama is "the second largest company in the country after T-Series" in music revenue, and holds the number one position for new music (released in the last 12 months) across multiple languages. The strategy is not to outbid for every album. In Q3 FY26 (Feb 2026), Mehra confirmed the company refused to buy Dhurandhar 2 music because the producer's price did not fit the five-year payback guideline, and said that decision was vindicated. Management targets a 25-30% market share of new music and plans to hold that rather than chase more share at higher prices.

On the platform side, the segment monetizes both free and paid consumption. Paid streaming penetration in India is about 3% of internet users, versus 67% in Sweden and 57% in the U.S. - Goldman Sachs figures cited on the Q1 FY27 call (Aug 2026). Each percentage point of penetration is roughly 10-14 million paying subscribers. This matters because subscription revenue is already the growth engine: on the Q4 FY26 call (May 2026), Mehra said revenue from free audio streaming is flattish and the visible growth in the numbers is coming from the paid subscription side.

The century-old catalog is the second engine. Management disclosed in Q1 FY27 that 60% of all music revenue in FY26 came from music released after 2000, and 45% of that from post-2020 releases (Aug 2026). Catalog itself grows at "high single digits or very low double digits" year on year on an apple-to-apple basis, per the Q1 FY27 call, but its share of total revenue is shrinking because the new-content machine grows faster. Catalog economics are the real margin driver: content is fully charged off, so every incremental stream is near-pure margin.

The financial trajectory is documented. The music vertical - licensing, artiste management, and retail combined - did revenue of ₹2,513 million in Q2 FY27, up 35% YoY, with EBITDA of ₹1,540 million (up 37%) and net margin of ₹1,165 million (up 46%), per the Q2 FY27 call (Nov 2026). For FY26, the same combined vertical did revenue of ₹814 crore, up 17%, with EBITDA of ₹517 crore and net margin of ₹377 crore (Q4 FY26 call, May 2026). Growth was lumpy by design: H1 FY26 grew 8%, H2 grew 26%, because of release phasing and the removal of Airtel Wynk revenue from the denominator. Content spend for FY27 is guided at ₹300-350 crore, within the ₹1,000 crore cumulative program for FY25-FY27. Management now guides FY28-FY30 new content spend at around ₹1,200 crore, growing at a nominal 10% per annum from the FY27 midpoint, rather than the step-function jumps of recent years.

Two structural vulnerabilities deserve attention. First, the short-format licensing model: social media platforms buy music on flat annual fees, not on per-reel revenue share, which caps the upside from the tens of millions of reels using Saregama songs. Second, the sync and public performance markets are underpenetrated in India; Mehra said on the Q1 FY27

call that public performance - the license paid when music plays in commercial spaces - is "a large opportunity, which is not fully tapped."

The segment also anchors the group's strategic bets. The Bhansali Productions investment (Rs. 325 crore initial payment, announced Dec 2025) guarantees Saregama exclusive access to Bhansali film music at a pre-agreed formula price, eliminating competitive bidding on roughly 30% of its Hindi film music needs. The deal protects music margins at the exact moment the segment's cost base was escalating.

> *"Please remember, 60% of Saregama's revenue comes from brand-new music, of which 45% actually comes from music release after 2020."*
>
> **VIKRAM MEHRA, MD, Q1 FY27 CONCALL (AUG 2026)**

The revenue-mix disclosure is complicated by reporting definitions. Management clarified on the Q2 FY27 call that its guidance combines licensing, artist management and retail into a single music vertical, while statutory segment results split music licensing plus retail from artist management; the presentation separately gives each of the three revenue lines.

Video

Saregama's video segment exists for one strategic reason: to secure film music rights. Because most Indian music consumption is film-driven, the company produces films, TV serials, web series, and short-format video as a way to own the soundtracks those formats generate. In the FY25 annual report, the segment contributed Rs. 1,920 Mn, about 16% of total revenue of Rs. 11,713 Mn, split across films, digital series, TV, and short format.

The core capability built over years

The longest-standing asset is TV serial production. Saregama has created roughly 10,000+ hours of content for Sun TV over 20 years, a relationship that still anchors the segment. The FY25 annual report notes revenue comes primarily from selling advertising slots during broadcast, supplemented by language remakes, platform licensing, and global syndication. Because the company retains IP ownership, that library is also being repurposed onto digital channels; the South TV YouTube channel alone logged 2.3 Bn views in FY25.

The products inside

- **Yoodlee Films** produces regional theatrical and OTT films. In FY25 it averaged 4-5 releases a year under a low-cost, pre-licensed model, with titles like Telugu action drama Dilruba.
- **Dice Media** makes youth-focused web series for OTT platforms, with FY25 releases including Agra Affairs (Amazon MX Player) and Oops Ab Kya (JioHotstar).

- **The TV serials unit** serves South Indian language broadcasters, with a smaller national GEC footprint.
- **FilterCopy** produces short-format content for YouTube, Instagram, Facebook, and Snapchat, monetized through brand integrations and ad revenue. The FY25 annual report puts its cumulative follower base at 40 Mn+.

Who buys and why

The customers are OTT platforms (Netflix, JioHotstar, Amazon Prime Video, MX Player, ZEE5), broadcasters like Sun TV, social networks, and advertisers. The annual report highlights a branded IP deal with L'Oréal (High Heels), which reflects why brands come to Saregama specifically: short-format production with a built-in Gen Z distribution base. The underlying logic of the whole segment is captured in the FY25 annual report: controlling the source of film music gives a better ROI than acquiring the music from outside, because the company controls what music is made and who sings it.

Competitive position

Directly, the video segment competes with production houses and with other music labels that produce films to lock up soundtracks. In the December 2025 Bhansali deal call, Vikram Mehra described why: some competitors had taken positions in film production, and the music of their films never reached the open market for bidding. That is why the company did a strategic equity deal with Bhansali Productions: an initial payment of Rs. 325 crores for Compulsorily Convertible Preference Shares that convert in October 2028 into a 28% to 49.9% stake, with a right to increase to 51% after March 2030. In return, Bhansali exclusively sells all future film music to Saregama at a pre-agreed formula, expected to cover roughly 30% to 40% of Saregama's Hindi film music needs. In the music market itself, Saregama is the #2 player by revenue after T-Series.

Group fit and wind-down

The strategic repositioning is explicit. The Feb 2026 call said the company will wind down its in-house movie business over the next 12-15 months, releasing existing projects while keeping short-format and web/TV content. The May 2026 call confirmed the video vertical declined 44% to Rs. 108 crores for FY26. In Q2 FY27, video revenue declined 16% to ₹183 million, and management said it may decline further as the transition plays out. Capital tied up in own film production, roughly Rs. 150-175 crores, is being redeployed into the Bhansali stake, and the earlier guidance of about 18% of deployable capital for video plus live events was reduced to mid-single digits (Q4 FY26 call).

> *"The driving factor is to secure the music pipeline. To do that, we had our own business in which we were not doing a great job."*
>
> **CMD, BHANSALI PRODUCTIONS DEAL CALL (DEC 2025)**

The counterpart of the wind-down is that Bhansali Productions, which reported revenue of Rs. 304 crores and PAT of Rs. 45 crores in FY25, brings its own financial discipline to the table and will now fund films without pre-selling digital and theatrical rights, which the Dec 2025 call said should improve its margins. Bhansali's immediate slate includes Love & War, scheduled for Q4 FY27, and the studio is actively working on its FY28 slate, per the Q2 FY27 call.

> *"please keep in mind this is by design and not by chance."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026), ON THE 52% VIDEO REVENUE DECLINE**

What remains is the short-format engine. Pocket Aces, 90.37% owned, reached breakeven in FY26 after the company promised it across multiple calls, and its FilterCopy and influencer network double as the marketing muscle for the music segment. The video segment, in short, is shrinking as a P&L line but keeps the capability that matters: owning the soundtracks of major films through a production partner rather than through its own production risk.

Retail (Carvaan)

Retail is the physical distribution layer over Saregama's music catalog. Its single product is Carvaan, a portable speaker with over 5,000 preloaded songs spanning iconic eras (FY25 annual report). The capability that took years to build is not hardware. It is the catalog itself: Saregama owns roughly 180,000 songs and controls the audio that ships inside the device. A competitor would need a catalog of comparable quality to replicate the product.

The segment's focus has shifted deliberately. In FY25, Carvaan sold 4.3 lakh units and generated Rs. 837 Mn of revenue, about 8% of company revenue (FY25 annual report, MD&A). Management cut the retail footprint: fewer SKUs, reduced headcount, and a move from thousands of mom-and-pop stores to e-commerce platforms and modern trade outlets (FY25 annual report). The stated goal is to shrink revenue but raise margins, with mid-single-digit profitability targeted by FY26 (FY25 annual report, MD's message).

The buyers are older consumers who grew up with this music, plus gift purchasers. The annual report positions Carvaan in "India's premium audio and gifting segments" and describes the device as bridging nostalgia with technology. The purchase is emotional rather than technical, which is why the preloaded, era-spanning song list matters more than the hardware.

The sources do not name specific competitors for Carvaan. Management treats it as a niche, low-priority asset. In the Q3 FY26 call, Vikram Mehra stated the strategy plainly:

> *"Adding Carvaan to it makes no sense because Carvaan, we have been very public about it. Focus has changed. We are reducing the revenue but increasing the profitability on Carvaan."*
>
> **VIKRAM MEHRA, Q3 FY26 CONCALL (FEB 2026)**

Retail is one layer of a single catalog monetization stack. The same songs that generate licensing revenue, artiste management fees, and event ticket sales also ship inside Carvaan. The brand has extended into live events as well: in Q2 FY27, the company produced 54 Carvaan Live shows, small sit-down concerts for middle-aged and older audiences (Q2 FY27 concall, Nov 2026). That keeps the Carvaan brand in front of its core demographic while the device business itself stays capital-light.

For reporting, retail now sits inside the "music vertical," which management defines as licensing plus artiste management plus retail (Q4 FY26 concall, May 2026). The FY25 revenue split shows retail at 8% of total company revenue, down from its historical share as music licensing and events growth outpaced device sales (FY25 annual report). Management is comfortable with this, preferring a leaner device business that generates cash at reduced volumes while the company directs its content budget into the catalog.

Events

Saregama produces live concerts, music festivals, devotional shows, and tours for the Indian diaspora. The segment launched in 2022 and sits on a capability that took years to assemble: the company signs an artist for recorded music, promotes the album through its own digital footprint (Pocket Aces and managed artists hold roughly 400-450 million combined followers on Instagram and YouTube), then monetizes the same artist through live bookings, weddings, and brand endorsements. Events is the third earning leg of that flywheel.

The products. Large-format artiste tours are the revenue driver: Diljit Dosanjh's Dil-Luminati tour drew 3,75,000+ attendees across multiple Indian cities and extended to Abu Dhabi in FY25 (annual report FY25). IP-driven shows are a second format. UN40, a music festival launched in March 2026 in Bangalore, is positioned explicitly against other festivals in the market, restricted to audiences under 40, working only with Indian artists, and layered with stand-up comedy acts and physical interactive games. Season 1 generated 12,000 footfalls and 8 sponsor brands (Q4 FY26 call). In Q2 FY27, the Ilaiyaraaja US tour covered 11 cities and served 20,000 audiences. For H2 FY27, management said it is not doing a Diljit India tour; the pipeline includes Guru Randhawa, UN40, Hahakaar and another mid-to-large artist tour yet to be announced (Q2 FY27 call).

Two smaller formats round out the slate. Carvaan Live, a series of small sit-down concerts for middle-aged and older audiences who want a premium listening experience, produced 54 shows in Q2 FY27. Devotional shows with Manoj Muntashir, Backstage Siblings, and Jaya Kishori totaled 17 in the same quarter. Diaspora tours are the newest growth push: Ilaiyaraaja's US tour across 11 cities served 20,000 audiences in Q2 FY27. Management said it will keep increasing investment in live events while leaning more toward owned IPs and reducing dependence on artist-based concerts.

Customers and why they buy. Three groups pay. Audiences buy tickets for experiences tied to artists they grew up with, or for the under-40 festival format. Sponsors buy access to specific demographics: UN40 for Gen Z, Carvaan Live and devotional shows for the older, financially comfortable cohort that is willing to pay a premium for a curated experience. Across its brand partnerships business (which spans music, live events, and short-format video), Saregama named Skoda, Lakme, Hero, OpenAI, Coca-Cola, and Ajio as FY26 partners, and in Q2 FY27 it did over 20 brand deals with partners including Apple, Airbnb, Google, Cadbury and Tanishq. Management justifies the superfan focus with research cited to Luminate: superfans spend 105% more than the average listener and 73% buy physical merchandise (Q4 FY26 call).

Competitive position. Management does not name event competitors directly. The defense is structural: a pure event promoter cannot offer an artist the marketing reach of a label, and a pure label cannot offer the earnings from live shows. In the Punjabi market specifically, the MD said "we're the only guys who are playing across both recorded music and live" (Q4 FY26 call). The combined deal is the moat: when Saregama signs an artist for music, it often also signs them for live events, and the artist's own growth from album promotion raises the fee they can command in the event market.

Group fit. Events feeds and is fed by the other segments. The live roster is the same roster as artiste management: Viraj Ghelani does stand-up, music videos, and a film; Maahi appears in music videos, FilterCopy series, and opens for Himesh Reshammiya concerts (Q1 FY27 call). If an event loses money, the recorded-music deal still earns. Management targets a high single-digit margin percentage in steady state, with capital turning over in 15-20 days and sometimes positive working capital funding the shows (Q3 FY26 call). UN40 is structured to break even by FY28, so early losses are planned.

The numbers. Events contributed 24% of consolidated revenue in FY25, at INR 2,852 Mn (annual report FY25). FY26 events revenue came to INR 62 crores, which management attributes to the absence of a Diljit-scale tour that year; FY25 included a one-off event, Diljit's India tour, and excluding that one-off, the vertical still grew in FY26 (Q4 FY26 call). The company has declined to give a revenue guidance for events, saying the business is too early-stage and a number will only make sense in about 12 months (Q3 FY26 call).

> *"Instead of bringing an international artiste to perform as a music festival, we took a conscious call that we will work only with the Indian artists. And rather than treating it as a weakness, we've built it as a unique positioning of the UN40 festival and that positioning helped."*
>
> **VIKRAM MEHRA, Q4 FY26 CONCALL (MAY 2026)**

Customers

Streaming platforms are the anchor customer. The relationship is consumption-based: Saregama does not own subscribers, it owns a share of what subscribers listen to. As management put it in the Q4 FY26 call, "I partially own the consumption of that subscriber on that platform." The company is paid per stream on audio OTT and gets a share of advertising revenue on YouTube. As paid subscription grows, the yield per stream rises. Management states that revenue from free audio streaming is flat, and essentially all recent growth is coming from the paid side.

Short-format platforms (Instagram, Facebook, Moj, YouTube Shorts) pay flat annual fees for a license that lets users create reels using Saregama music. These are one-year deals renewed based on usage. Management is pushing for a shift to advertising-revenue sharing, which it believes would materially raise revenue. Brands cannot use the music without a separate direct license - each brand deal is negotiated individually.

Video OTT platforms and TV broadcasters take fixed-fee, period-based licenses: Netflix, JioHotstar, Amazon Prime Video, ZEE5, MX Player, Alt Balaji, Sun TV, Doordarshan. These are negotiated annually or project-wise. The TV serial business (10,000+ hours for Sun TV over 20 years) works on advances from the platform or channel, so little capital is locked up.

Brands are the fastest-growing customer category. Saregama created a dedicated brand partnerships vertical that sells music licenses, original songs, short-format content, and event sponsorships as one bundle. Named partners across FY26 include Hindustan Unilever, Godrej, Lux, Skoda, Lakme, Hero, OpenAI, Coca-Cola, Ajio, Manyavar, Fogg, Greenlam, Carat Lane and Gujarat Tourism. The pitch is a full flywheel: if a brand wants to reach 25-30 year olds, Saregama can license a song, make a new one, produce Instagram content, and sponsor a Gen Z event - one vendor for everything.

Artistes are customers in a reverse sense: they sign with Saregama for the career acceleration the marketing machine provides. The company explicitly stays out of Bollywood talent management because it can't add value to film actors. It focuses on musicians, comedians and digital creators where its music videos, FilterCopy appearances and live bookings make them bigger. A 340-artist roster with 450 million combined followers both feeds the flywheel and creates a commission income stream (Q2 FY27 concall, Nov 2026).

The switching economics. For platforms, the catalog is the moat: no competitor can legally replace 20th-century Hindi film music at scale, and for new music, Saregama's marketing muscle (Pocket Aces footprint) makes artists and producers prefer it even at similar or lower prices, because a hit album drives a film's opening weekend. For brands, the single-vendor bundle reduces the number of deals they need to do. For artists, the ecosystem (music + video + events + management) is something standalone artiste management agencies cannot match, which management cites as the reason for low churn.

Competitive landscape

T-Series is the largest music label in India; Saregama is the clear #2 in digital revenue and #1 in non-digital revenue. Management stated this directly in the Q4 FY26 call: "for revenue, which is coming from the music side, we are the second largest company in the country after T-Series. As far new music is concerned... we have number 1 position across multiple languages." The two also compete for marquee albums, and Saregama has shown it will walk away when pricing breaks its 5-year payback discipline (Dhurandhar 2).

The structural competitive problem Saregama set out to solve: music labels that own film production houses keep their music off the open market. If a competitor produces a film, its music never comes up for bidding. That is why Saregama first tried producing its own films (underperforming), then invested in Bhansali Productions for guaranteed access to marquee Hindi film music at a pre-agreed formula, no auction. This is a cost-control and pipeline-security play against every other label that bids in the Hindi market.

Where Saregama wins. Three moats, per management:

1. The 20th-century catalog. It owns "literally anything and everything of the 20th century" (Feb 2026 call). Nobody else has this, and it gives negotiating clout on fixed-fee platform deals.

1. The new-music hit rate. Management claims its hit-to-flop ratio is "better than any competitor" (Aug 2026), driven by predictive AI models refined over four years plus Pocket Aces distribution.

1. The artiste flywheel. It is the only company combining recorded music, artiste management, live events and short-form video - which lets it offer combined deals (recorded music + live tours, as with Arjan Dhillon) and prevents churn.

Where competition is intense. Marquee album acquisitions are genuine bidding wars that push content costs up; Saregama limits itself to two to three tentpole albums per year in Hindi. Non-film Punjabi music, where Saregama has failed twice over six years, is expensive and competitive, with monetization across India plus US/Canada/UK diaspora. The company's third attempt (combined music + live deals with Punjabi artists) is the hedge.

Artist management is fragmented with many small standalone agencies, though Saregama believes its content ecosystem uniquely retains talent. The FY25 annual report also names video production houses, OTT platforms and social platforms as competitors for audience time and advertising spend.

The competitor management refuses to benchmark. A retail investor on the May 2026 call asked Saregama management to compare against a competitor with a market cap around ₹8,000 crores, 122% ROCE, and minimal content cost. Management declined to comment on competitors directly:

> *"I know there's far better work we people can do, and we will try our very best to improve our numbers even further. But saying that our revenue is not growing or our strategy is not working will be a little unfair, sir."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

The company's counter-framework: the industry grew 6-8% in FY26 (per E&Y/FICCI/IMI), Saregama grew faster because it invested in new content, and the content investment cycle (₹1,000 crores across FY25-FY27, stepping down to inflation-linked increases from FY28) is a deliberate multi-year bet that will lift ROE.

Industry

India is the world's most underpenetrated large music market. Global recorded music revenue hit US$31.7 billion in 2025 (IFPI, per Aug 2026 call), and India generated roughly 1% of it despite housing 18% of the world's population. The FY25 annual report cites the FICCI-EY figure: India's overall M&E industry reached ₹2.5 trillion in 2024 and is projected to hit ₹3.1 trillion by 2027, with digital media having overtaken television as the largest segment for the first time.

The structural driver is the paid-subscription conversion gap (Goldman Sachs estimates, cited in both FY27 and FY26 calls):

MARKET	PAID STREAMING PENETRATION (% OF INTERNET USERS)
Sweden	67%
US	57%
UK	50%
Brazil / China	~18-19%
India	~3%

Management's read: every percentage point of penetration adds roughly 10-14 million paying subscribers in India, and the market's potential ceiling is around 100 million

subscribers at a price point closer to ₹100/month. The trigger is supply-side: when the remaining free platforms (Spotify and JioSaavn, after Wynk, Hungama, Gaana, Resso and others shut or went paid) curtail free content, paid conversion should follow the hockey-stick path seen in Brazil and China. An E&Y-IMI consumer study found 64% of free music users in India say they would pay a reasonably priced subscription if free content stopped.

The 2025-2026 platform exodus is finished, which matters for the growth math. Free platforms that existed in previous base periods (Airtel Wynk, Hungama, Resso, Gaana) are no longer in the revenue denominator. In FY26, H1 music growth was 8% and H2 was 26% - exactly the period after the Wynk effect washed out. Management's medium-term guidance of 20-23% music vertical growth assumes no hockey stick; any subscription acceleration is upside on top of it.

Adjacent industries reinforce the thesis. The FY25 annual report cites India's live events industry growing at a 17.6% CAGR, driven by youth, experiential spending and inter-city music tourism, with India targeting a top-five global position by 2030. Influencer marketing is projected to grow at 24% CAGR to ₹33,750 Mn by FY26E, which is the addressable market for the artiste management and short-form content businesses. Global music catalogs are increasingly treated as infrastructure-like, inflation-linked assets, which is why institutional capital (Bain, Apollo, KKR, named in the May 2026 call) is flowing into catalog purchases and JVs - validating the value of Saregama's own asset.

Regulatory and structural risks are real but contained. The new Labour Code hit Q3 FY26 with a one-time non-cash charge of ~₹7 crores. Public performance licensing (music played in commercial venues) is an under-tapped revenue line in India that is material in developed markets. The Kolkata High Court ruling in the Vodafone case on IPRS was asked about directly; management said it "does not have any implication on us" and declined to elaborate. AI-generated content is an open question: management's position is to support licensed innovation, fight unlicensed exploitation, and ensure new digital licensing deals protect against rights dilution and fraud - while betting that authenticated, human-created music with clear provenance becomes more valuable as AI-generated noise floods the market.

Growth triggers

Subscription growth in India

India's paid music streaming penetration sits at 3% of internet users, versus 67% in Sweden, 57% in the US, and roughly 18% in Brazil and China (Q1 FY27 concall, Aug 2026). Management frames each percentage point as roughly 10 million paying subscribers, making India the largest under-penetrated music market on earth. On the Q2 FY27 call, management cited an EY-IMI study that 64% of free music customers would shift to a

reasonably priced paid service if the free service stopped, and said pricing is a second growth engine still two to three years away.

The mechanism is indirect but specific. Saregama does not own subscribers; it owns consumption share. When a Spotify or JioSaavn user pays, Saregama earns based on the share of that user's listening that comes from its catalog. Management was explicit: "I don't own the subscriber. I partially own the consumption of that subscriber on that platform" (Q4 FY26 concall, May 2026). The trigger is therefore the platforms converting free users to paid, with Saregama's 180,000-song catalog capturing a share of the growing paid pool.

The shift has already started. In FY26, free audio streaming revenue was flattish while all growth came from the paid side. The shutdown of free platforms (Airtel Wynk in November 2024, Gaana's free tier, Hungama) is now out of the revenue base, which is why music vertical growth accelerated from 8% in H1 FY26 to 26% in H2 (Q4 FY26 concall, May 2026).

The demand signal is an E&Y/IMI study finding that 64% of free music customers in India would move to a reasonably priced paid service if free content stopped (Q1 FY27 concall, Aug 2026). Management believes India can reach 100 million paid subscribers at roughly Rs. 100 per month if free supply is curtailed.

Critically, management's 20-23% music growth guidance excludes any subscription acceleration and is given on a three-to-five-year basis, not annually. On the Q2 FY27 call, Mehra said the company does not give per-year guidance: "You may have a year where the numbers come down a bit, you may have a year where the numbers go up a bit. But on a steady basis, you are looking at 20%-23% CAGR." That leaves any paid-subscription acceleration as upside on top of the guided range. The timeline is medium-term, with management explicitly flagging hockey-stick potential if platforms shut the free tap.

New content investment (₹300-350 crores in FY27)

Saregama is in the final year of a three-year step-up in music content spending. Management committed roughly ₹1,000 crores across FY25-FY27, and the FY27 budget of ₹300-350 crores is the largest annual figure in that cycle (Q2 FY27 concall, Nov 2026). Beyond FY27, management guides new content spend of around ₹1,200 crore for FY28-FY30 combined, growing at a nominal 10% per annum from the FY27 midpoint of about ₹325 crore (Q2 FY27 concall, Nov 2026).

The mechanism is a five-year payback model. Saregama buys music rights, fronts the marketing cost, and expects the album to recover its full investment within five years, then generate returns for 55-75 years (Q2 FY27 concall, Nov 2026). Albums acquired two to four years ago are now hitting positive margins:

> *"We are entering that cycle now where content bought 2 to 3 years ago has started to contribute towards positive margins. Albums like Stree 2, Amaran, Rocky Aur Rani Kii Prem Kahaani, Goat, Sarkaru Vaari Paata, etc., are hit albums, which are now contributing positive margins."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

The revenue evidence is visible in the segment numbers. Music revenue (licensing, artiste management, retail) grew 35% year-on-year to ₹251.3 crores in Q2 FY27, with EBITDA of ₹154.0 crores and net margin of ₹116.5 crores (Q2 FY27 concall, Nov 2026). For FY26, the same combined vertical did revenue of ₹814 crores with EBITDA of ₹517 crores (Q4 FY26 concall, May 2026). FY26 H2 grew 26% versus 8% in H1, which management attributes to content released in Q3-Q4 plus the exit of Airtel Wynk from the denominator (Q4 FY26 concall, May 2026).

The FY27 slate includes Love & War (Q4), Sivakarthikeyan's Fion, Naagzilla with Kartik Aaryan, and a Bhansali Productions film with Tiger Shroff; the Telugu album The Paradise was the biggest film hit in Q2 FY27, with its song "Yeshanagula" reaching global No. 1 on YouTube's daily music video chart (Q2 FY27 concall, Nov 2026). Management also cited non-film releases including I-Popstar albums in Hindi and Tamil, Haryanvi and Bihari songs, and Punjabi superstar Nijjar's album.

The payback principle is enforced at deal level. Management publicly declined to buy Dhurandhar 2 music because the producer's pricing did not fit the five-year payback guideline, a decision they say is now vindicated (Q4 FY26 concall, May 2026). After FY27, content investment is guided at around ₹1,200 crore for FY28-FY30 combined, growing at a nominal 10% annually rather than the step-function jumps of the last three years, which should let EBITDA and profit growth catch up with revenue growth (Q2 FY27 concall, Nov 2026).

The guide for the full music vertical remains 20-23% revenue CAGR with 60-65% EBITDA margin (Q1 FY27 concall, Aug 2026).

AI-driven cost reduction and content creation

Saregama's AI push targets a structural gap: for songs from the 1960s and 1970s, the company owns audio rights but not the original music videos, which stayed with the movie negatives. That forced any video recreation through expensive shoots. Management quantified the fix in Q1 FY27:

> *"The cost of a music video, if it is done through AI can be Rs. 70,000 also."*
>
> **MD, Q1 FY27 CONCALL (AUG 2026)**

The company runs two dedicated AI teams. The first uses third-party GenAI tools to create new content around the catalog: contemporary music videos for older songs and podcasts built around Saregama's biggest tracks. Management plans to release around 100 hours of podcast content in Q3 FY27 using these tools (Q2 FY27 concall, Nov 2026). The second audits every company process for AI-driven optimization, including infringement tracking and operations; management said this has already produced marginal manpower-cost savings and the full impact will be visible over the next few quarters.

The monetization logic is two-sided. Contemporary-looking videos attached to original audio target Gen X; re-instrumented audio (same composition, new instrumentation) with fresh videos targets Gen Z. Podcasts carrying Saregama's songs become licensable to third-party podcast platforms. Both convert fully depreciated catalog assets into new revenue streams.

Separately, predictive AI has guided content acquisition for four years; management claims a hit-to-flop ratio better than any competitor (Q1 FY27 concall, Aug 2026). Management has not committed significant capital to generative AI - the spend sits inside the Rs. 300-350 crore FY27 content budget - and expects visible impact by the end of FY27 (Q1 FY27 concall, Aug 2026).

Bhansali Productions partnership (music pipeline)

In December 2025, Saregama announced a strategic equity investment in Sanjay Leela Bhansali's production house, closing on 30 January 2026. The deal does two things: it guarantees Saregama a steady flow of marquee film music without auction, and it gives Saregama a direct equity stake in the studio.

The music rights are the core mechanism. Every film produced by Bhansali Productions - whether directed by Bhansali or by other directors under his creative supervision - sells its music to Saregama under a pre-agreed formula priced as a percentage of the film's production cost. Marquee albums previously went through bidding wars that inflated acquisition costs. Management expects this deal to cover 30% to 40% of Saregama's Hindi film music requirement and to improve music margins in the short to medium term.

> *"We are guaranteed a steady pipeline of premium marquee film music, eliminating any competitive bidding."*
>
> **MD, BHANSALI DEAL CONCALL (DEC 2025)**

The equity side is structured as CCPS converting into equity in October 2028, yielding a 28% to 49.9% stake depending on Bhansali Productions' financial performance over the next 3 years. Saregama pays Rs. 325 crores initially, with a possible additional payment in September 2028; the valuation range is Rs. 650 crores to Rs. 1,590 crores. Saregama holds financial oversight while Bhansali retains creative control, and it retains a right to raise its

stake to 51% after March 2030. In FY25, Bhansali Productions reported revenue of Rs. 304 crores, EBITDA of Rs. 60 crores and PAT of Rs. 45 crores.

Saregama is winding down its own in-house film production to release Rs. 150-175 crores of working capital and redeploy it into the partnership. As of the Q2 FY27 call (Nov 2026), Bhansali had no release yet; Love & War is scheduled for Q4 FY27 and the studio is actively working on its FY28 slate. Management said the arrangement secures Saregama's Hindi film music pipeline without hunting the market.

Live events expansion (Carvaan Live, diaspora tours)

Live events is Saregama's deliberate bet on superfan monetization. The vertical generated ₹2,852 Mn in FY25, making it the second-largest business after music, though that number included the one-off Diljit Dosanjh India tour that management flagged at the time as non-recurring. Excluding that tour, the FY26 decline to ₹62 crores still represented underlying growth, and the events business posted its first quarterly profit in Q3 FY26 (₹57 Mn) driven by Diljit, Himesh Reshammiya, and stand-up comedy shows.

The mechanism is a flywheel with Artiste Management, not a standalone concert business. Saregama makes artists popular through its music releases, then monetizes them across live bookings, weddings, and brand endorsements, taking a cut of each. This is why the Punjabi strategy is combined: the Arjan Dhillon September US tour accompanies his album release under a single deal. As Vikram Mehra put it:

> *"We are the only guys who are playing across both recorded music and live."*
>
> **MD, Q4 FY26 CONCALL (MAY 2026)**

Three formats launched or scaled in FY27: Carvaan Live, small sit-down premium concerts for middle-aged and older audiences who grew up with catalog music (54 shows in Q2 FY27); devotional shows with Manoj Muntashir, Backstage Siblings, and Jaya Kishori (17 shows in Q2); and the Ilaiyaraaja US tour across 11 cities, serving 20,000 audiences (Q2 FY27 call). Management said it will keep increasing investment in live events while leaning more toward owned IPs to reduce dependence on artist-based concerts.

The financial logic targets a specific demographic. Luminate research cited by management shows superfans spend 105% more than the average listener and 73% buy physical merchandise. Carvaan Live and diaspora tours target older, financially comfortable listeners willing to pay a premium for curated experiences with the artists they grew up on. Management's stated margin target is high single digits in a steady state, acknowledging that artiste-based shows carry lower margins while self-owned IPs like the UN40 festival (launched February 2026, 12,000 footfalls, 8 sponsors) sacrifice near-term profit for higher

long-run margins. The vertical stays capital-light, with only ₹15 crores of assets locked in at end of Q3 FY26, since cash rotates within 30-40 days per event.

Key risks

- **Subscription growth is the entire thesis, and it depends on the platforms acting.** Management's 20-23% music growth guidance assumes paid streaming penetration climbs from ~3% today (vs 67% in Sweden, 57% in the US, ~19% in Brazil and China, per Goldman Sachs estimates cited in Q1 FY27). The mechanism for growth is platforms curtailing free access: an E&Y-IMI study found 64% of free users would pay if free content stopped. But neither Spotify nor JioSaavn has made that move, and management has said its 20-23% guidance does not factor in any major subscription shift. If the free tier persists, growth stays at the 6-8% industry rate plus whatever share gains new content buys (Q1 FY27, Q4 FY26 calls).

- **Content spend is a heavy upfront bet with a 5-year payback promise.** FY27 new content spend is guided at ₹300-350 crores (Q2 FY27 call), the final year of the ₹1,000 crores FY25-27 investment plan. Management guides around ₹1,200 crore for FY28-FY30 combined, growing at a nominal 10% annually. The payback model assumes every block of music recovers its cost within 5 years, followed by 55-75 years of returns. If the hit-to-flop ratio deteriorates, the amortization drag extends and EBITDA converts to net profit more slowly than guided. Management says content bought 2-4 years ago is only now beginning to contribute positive margins (Q2 FY27 call), which highlights how long misallocated capital takes to surface as a problem.

- **Marquee content is subject to bidding wars, and management has shown it will walk away.** Saregama refused to buy Dhurandhar 2 music because pricing didn't fit the 5-year payback test, despite the original album being a global No. 1 on YouTube for months (Q4 FY26 call). Every big producer that holds back its music or demands escalation pushes Saregama toward either overpaying or losing marquee albums. The Bhansali partnership de-risks roughly 30-40% of Hindi film music requirement, but the other 60-70% is still competitive against labels like T-Series (Q1 FY27, Dec 2025 calls).

- **Unlicensed AI exploitation could dilute catalogue value.** Saregama supports licensed AI innovation but is "continuing our fight against unlicensed exploitation of our music" (Q1 FY27 call). The risk is twofold: AI-generated audio flooding platforms and depressing per-stream rates, and third parties using Saregama's older catalogue without authorization. The company is writing protections into new digital licensing agreements and running two internal AI teams, but the litigation and enforcement landscape is unresolved.

- **Live events revenue is lumpy and artist-concentrated.** FY25's events revenue of ₹2,852 Mn (annual report MD's message) was inflated by the Diljit Dosanjh India tour, which

management called a one-off that "doesn't happen at that frequency" (Q4 FY26 call). FY26 events revenue fell to ₹62 crores (Q4 FY26 call). In Q2 FY27, management said it is not doing a Diljit India tour this season; the H2 pipeline includes Guru Randhawa, UN40, Hahakaar and another mid-to-large artist tour yet to be announced. Management is deliberately chasing IP-based shows (Carvaan Live, devotional formats) even though initial IP investments are charged off and weighed on Q2 profitability (Q2 FY27 call). A single artist cancellation or a weak tour season hits the segment hard.

- **The Bhansali Productions bet concentrates risk in one creative house.** Saregama is paying ₹325 crores initially, with a potential additional payment in September 2028, for a 28-49.9% stake in Bhansali Productions, with an option to go to 51% after March 2030 (Dec 2025 call). The deal gives Saregama guaranteed music at a pre-agreed formula, but the value is tied to the financial performance of SLB-directed and SLB-supervised films over the next 3 years. The company's own framing is honest about the tail risk: if the studio performs poorly, Saregama ends up owning a larger stake in a lower-value company. Love & War, the flagship film, is now scheduled for Q4 FY27 (Q2 FY27 call), after earlier slipping from FY26, which shows the pacing risk of film-dependent content.
- **The video wind-down releases ₹150-175 crores of working capital only if films actually clear the pipeline.** The company is releasing existing film projects over the next 3-4 quarters while moving all new production investment into Bhansali (Q3 FY26 call). In Q2 FY27, video revenue declined 16% to ₹183 million and management said it may decline further as the transition plays out. If those films underperform at the box office or in licensing, the capital release is slower and the "by design" revenue decline is not matched by a P&L benefit. Video segment losses also persist at the segment level even as revenue shrinks.
- **Regulatory and legal overhangs are real, not hypothetical.** Q3 FY26 took a one-time non-cash hit of ₹7 crores from the new Labour Code (Feb 2026 call). The FY25 secretarial audit discloses a Customs Act demand order for a differential duty of ₹232.95 crores plus penalties, which the company plans to appeal (annual report). The outcome of that appeal is not in management's control. The IPRS royalty structure, including the Kolkata High Court Vodafone ruling, was flagged by an investor in Q4 FY26 and management said it has "no implication on us," but the legal landscape around publishing rights and royalty distribution is contested.
- **Platform revenue concentration and fixed-fee contracts limit upside.** Short-format social media deals are one-year fixed-fee agreements, renewed annually based on usage, rather than advertising-share models (Q4 FY26 call). If platforms squeeze rates at renewal, Saregama's take from reels and short-form content stagnates. YouTube advertising CPM

pressures are real, though management says film music is less exposed to the real-money gaming ad withdrawal than genre content (Q4 FY26 call).

Scenarios

Bull case

Platforms finally act on their stated intent to grow paid subscription, and India's paid penetration moves from 3% toward the Latin American range of 13-19% over 3-5 years. Spotify and JioSaavn curtail free tiers at roughly ₹90-100 per month, converting the 64% of free users who said they would pay. Saregama's subscription-linked revenue compounds faster than the 20-23% guidance, which management explicitly says does not build in any paid-subscription acceleration. The AI teams deliver: old-catalogue videos that cost ₹70,000 to produce instead of shooting budgets, and 100 hours of podcast content planned for Q3 FY27, cutting the cost of monetizing the 180,000-song legacy catalogue in a way nobody else can replicate. The Bhansali pipeline delivers Love & War in Q4 FY27 and the studio-model films at the pre-agreed cost formula, locking in marquee Hindi music without bidding. Artiste Management scales past 340 artists with 450 million combined followers, and the flywheel turns: content makes artists bigger, bigger artists earn more in live events and brand deals, Saregama takes a larger absolute commission at improving margins. Carvaan Live, the diaspora tours, and UN40 (break-even by FY28) turn live events into a profitable, high-single-digit-margin business. By FY28, content investment grows only at a nominal 10% instead of the step-function jumps of FY25-27, so EBITDA and net margin catch up to revenue growth, with music EBITDA in the 60-65% band.

Base case

Music grows at 18-20%, modestly below the 20-23% medium-term guidance, as the free-to-paid transition is gradual rather than sudden. Subscription revenue rises steadily because it's growing even while free revenue is flat, but the hockey stick never arrives in the next 12-18 months. New content spend of ₹300-350 crores in FY27 stays within the 5-year payback discipline, and hits like The Paradise, Stree 2, and Amaran continue to justify the amortization, while the Dhurandhar 2 refusal is vindicated by the album's lacklustre performance. Live events grow as a diversified portfolio of 54 Carvaan Live shows, 17 devotional shows, and diaspora tours in Q2 FY27, with lumpy quarters but a rising floor. Pocket Aces compounds from FY26 breakeven toward profitability in FY27. Bhansali Productions releases Love & War in Q4 FY27 and the studio model films at a 2-3 films per year pace, feeding the music pipeline at formula pricing. Video revenue keeps declining by design to a small base of TV serials and short-form content. Consolidated adjusted EBITDA holds in the 32-33% guided band, and music net margins improve 300-500 bps over 3-5 years as the heavy content charge-off year fades.

Bear case

The free tier survives. Spotify and JioSaavn keep offering ad-supported music, subscription growth stalls at low single-digit penetration, and the industry's structural growth stays at 6-8%. Saregama's growth then depends entirely on new content converting at a hit rate it can't control, and content costs keep inflating as competitors bid up the few marquee albums that matter. The ₹300-350 crores FY27 spend produces a weaker cohort than FY25-26, and the 5-year payback clock starts on assets that won't make it back. Live events hit a bad year: an artist cancels, a big tour underperforms, and the initial IP investments remain charged off. Bhansali's Love & War or the studio films underperform, triggering the lower end of the 3-year valuation range, which means Saregama owns more of a company that generates less. AI-generated music floods streaming platforms, collapsing per-stream rates and forcing Saregama into expensive litigation to protect its catalogue. The music vertical growth falls to high single digits, EBITDA margin guidance is revised down, and the "20-year opportunity" narrative is exposed as dependent on platform behaviour that never materialized.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	1,171	985	1,212	1,453	1,743
Revenue growth	-	−15.9%	+23.1%	+19.9%	+20.0%
EBITDA (₹ Cr)	357	405	502	640	805
EBITDA margin	30.4%	41.1%	41.4%	44.1%	46.2%
Depreciation (₹ Cr)	9.70	9.70	11.00	12.00	13.00
Interest (₹ Cr)	5.70	5.40	5.00	4.50	4.00
Other income (₹ Cr)	58.10	42.30	19.00	21.00	24.00
PBT (₹ Cr)	276	284	334	468	635
Tax (₹ Cr)	71.80	77.90	88.40	122	162
Tax rate	26.0%	27.4%	26.5%	26.0%	25.5%
PAT (₹ Cr)	204	206	245	346	473
PAT growth	-	+1.0%	+18.9%	+41.3%	+36.6%
EPS (₹)	10.60	10.70	12.70	18.00	24.50
P/E	62.0x	61.5x	51.8x	36.5x	26.8x
PEG	1.6x	1.6x	1.3x	0.9x	0.7x

CAGR FY27E-FY29E: Revenue +19.9% · EBITDA +26.7% · PAT +39.0%

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Q2 FY27 concall notes

TLDR

Saregama reported Q2 FY27 revenue from operations of ₹314.3 crore (+37% YoY), adjusted EBITDA of ₹118.0 crore (+39% YoY) and operational PBT of ₹85.8 crore (+43% YoY). The music vertical (licensing, artist management, retail) grew 35% YoY to ₹251.3 crore with EBITDA of ₹154.0 crore (+37%) and net margin of ₹116.5 crore (+46%); management attributes the margin step-up to content bought two to four years ago now earning more than its charge-off. Content spend for FY27 is guided at ₹300-350 crore, with FY28-FY30 combined new content spend of about ₹1,200 crore, growing at a nominal 10% a year. Management maintained 20-23% music revenue CAGR and 60-65% EBITDA margin over the short to medium term, and expects the live events vertical to stay loss-making while it shifts from artist concerts to owned IPs.

WHAT CHANGED SINCE Q1 FY27

- Content spend guidance extended: Q1 gave ₹300-350 crore for FY27 only. This call added FY28-FY30 combined new content spend of about ₹1,200 crore, built on a 10% annual increase from a ₹325 crore FY27 midpoint.
- Music revenue growth guidance reframed as a three-to-five-year CAGR of 20-23%, not a per-year number. In Q1 the same 20-23% was described as FY27 guidance; management now says it does not guide annually because "you may have a year where the numbers come down a bit."
- Music EBITDA margin guidance of 60-65% was maintained, but the reported music EBITDA margin moved to 55.4% in Q2 from 48.4% a year earlier, a 700 bps gain management links to older content investments paying back.
- Artist count rose to 340 with 450 million+ combined Instagram and YouTube followers, from 309 artists and 440 million+ in Q1.
- Song catalog growth rate was restated at 4,500-5,000 new releases a year, down from the 5,000-6,000 stated in Q1.
- Live events turned loss-making in Q2. Management attributed it to upfront investment in owned IPs (UN40, Hahakaar, Krishna, Carvaan Live) that is charged off rather than capitalised. Q1 discussed the same IP shift without reporting a loss.
- Diljit's India tour, flagged as tentative for Q3 in Q1, is dropped for this season: management said the financials did not work out. Guru Randhawa, UN40 and Hahakaar are named for H2 instead.
- Video revenue decline slowed to 16% YoY (₹18.3 crore) from 53% in Q1, and management said it may fall further as the films wind-down plays out.
- The Q1 content-spend discrepancy (₹300-350 crore guidance vs ₹265.3 crore in the presentation) was not revisited. Management instead introduced a combined music reporting format across licensing, artist management and retail.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹314.3 crore	+37% YoY	Music vertical growth; management asks for evaluation on a 12-month rolling basis
Adjusted EBITDA	₹118.0 crore	+39% YoY	Operating leverage from content bought two to four years ago

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Operational PBT	₹85.8 crore	+43% YoY	Same content payback effect
Music vertical revenue	₹251.3 crore	+35% YoY	Licensing, artist management and retail combined; low base in H1 FY26 helped
Music vertical EBITDA	₹154.0 crore	+37% YoY	Content charge-off now below revenue earned on older content
Music vertical net margin	₹116.5 crore	+46% YoY	Same
Music EBITDA margin	55.4%	+700 bps YoY	Management's figure; content investments maturing
Video vertical revenue	₹18.3 crore	-16% YoY	Films business being wound down; revenue may decline further
Live events revenue	₹45 crore in Q2, ₹61 crore in H1	n/a	Ilaiyaraaja US tour across 11 cities with 20,000 attendees; 54 Carvaan Live shows
Other income	Not disclosed	-55% YoY	Cash moved into Pocket Aces, Haryanvi catalog and Bhansali Productions
Unallocable expenditure	₹27 crore	vs ₹18 crore YoY	CFO said the rise is the other-income line netted off; flat otherwise

SEGMENTS & GEOGRAPHIES

- **Music (licensing, artist management, retail):** Revenue ₹251.3 crore, up 35% YoY. H1 leaned on non-film music (I-Popstar albums in Hindi and Tamil, Haryanvi and Bihari songs, Nijjar's Punjabi album); the Telugu album The Paradise produced "Yeshanagula," which hit global number 1 on YouTube's daily music video chart. H2 shifts to film albums: Love & War, Fion, Naagzilla and a Tiger Shroff film produced by Sanjay Leela Bhansali. Management guides 20-23% CAGR over three to five years.
- **Digital vs non-digital:** Most music revenue comes from digital. Within non-digital, brands and public performance are growing; TV channel and radio licensing are growing much slower. Management declined to quantify the split.
- **Live events:** ₹45 crore in Q2 and ₹61 crore in H1, close to FY26's full-year ₹62 crore. The vertical made a loss in Q2 on upfront spend on owned IPs. 54 Carvaan Live shows served about 10,000 people; the Ilaiyaraaja US tour covered 11 cities and 20,000 attendees; 17 devotional shows featured Manoj Muntashir Krishna, Backstage Siblings and Jaya Kishori. H2 pipeline includes Guru Randhawa, UN40, Hahakaar and an unannounced mid-to-large artist tour. Management expects to keep tilting toward owned IPs for pricing power.
- **Video:** Revenue ₹18.3 crore, down 16% YoY, by design as films are wound down and investment routed to Bhansali Productions. Remaining focus is Gen Z short-format content and TV/web shows, mostly low-ticket with an advertiser or platform signed before shooting.
- **Brand partnerships:** Over 20 deals in the quarter with Apple, Airbnb, Google, Cadbury and Tanishq, across music, live events and short-format video.
- **Artist management:** 340 artists with 450 million+ followers. Combines Saregama and Pocket Aces talent; Pocket Aces talent is featured in Saregama music videos. Management gave no separate growth or margin guidance for this vertical.

STRATEGY & COMPANY-SPECIFIC

- **Content budget:** FY27 new content spend of ₹300-350 crore. From FY28, budgets rise about 10% a year, giving roughly ₹1,200 crore combined for FY28-FY30. Bhansali Productions music is paid for separately and sits inside this budget, including Love & War.
- **Payback model:** Management reiterated a five-year payback on new music followed by 55-75 years of returns, and described catalog as an infrastructure-light, inflation-linked asset class attracting institutional capital.
- **AI:** Two dedicated teams. The content team will release about 100 hours of podcast content in Q3 built on Saregama songs and new music videos for older tracks. The process team has produced marginal manpower cost savings, with full impact expected over the next few quarters. Saregama tracks unlicensed AI covers and remakes, buys them out or pulls them down, and is approaching AI creators to license versions of its own songs.
- **Carvaan app and Carvaan Club:** Still in a testing phase with existing Carvaan hardware owners, no marketing push and no spend. Management will share details after four to six months, around the end of the financial year. The aim is a community for middle-aged and older listeners, not a music streaming app.
- **Pocket Aces:** Broke even in FY26 and is moving toward profitability this year.
- **Bhansali Productions:** Love & War slated for Q4 FY27; the FY28 slate is being worked on.
- **Reporting change:** Music is now presented as licensing plus artist management plus retail combined, with the three broken out in the presentation. Segment results still split music licensing and retail from artist management.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Music vertical revenue CAGR	20-23% over three to five years	Maintained, reframed from FY27 to a multi-year CAGR	Licensing, artist management and retail combined
Music EBITDA margin	60-65%	Maintained	Content investments maturing; older content earning above its charge-off
New content spend FY27	₹300-350 crore	Maintained	Most already committed
New content spend FY28-FY30	About ₹1,200 crore combined	New	10% nominal annual increase from a ₹325 crore FY27 midpoint
Content payback	Five years, then 55-75 years of returns	Maintained	Management's underwriting standard for new music
Video revenue	May decline further in coming quarters	Maintained direction	Films wind-down; investment routed to Bhansali Productions
Subscription pricing as a growth engine	Two to three years away	New	India growth currently comes only from new subscribers
Carvaan app details	To be shared after four to six months	New	Testing phase with existing hardware owners

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Live events losses	Owned IPs carry upfront investment that is charged off, not capitalised; profitability would look better on artist-only concerts but management accepts the drag for pricing power

RISK	WHAT MANAGEMENT SAID
Artist concert dependence	Diljit's India tour was dropped for this season because the financials did not work out; artist-based shows are described as safer but offer less control
Unlicensed AI use	AI covers and remakes of Saregama songs are the near-term issue; the company tracks them and buys out or pulls down infringements, with no quantified exposure
Short-format monetisation	Instagram Reels and YouTube Shorts remain fixed-fee deals; management wants ad-revenue sharing and declined to speculate on timing
Other income decline	Down 55% YoY as cash moved into Pocket Aces, Haryanvi catalog and Bhansali Productions; management expects those investments to more than compensate for lost interest income
Quarterly volatility	Management repeated that results should be read on a 12-month rolling basis; marketing and release timing move quarterly numbers
Content spend scale	₹300-350 crore in FY27 and about ₹1,200 crore over FY28-FY30 depend on new releases performing; payback is assumed at five years

Q&A HIGHLIGHTS

Live events loss and unallocable cost Asked why events lost money despite decent revenue and why unallocable expenditure rose to ₹27 crore from ₹18 crore, management said the events loss comes from upfront spend on owned IPs that is charged off, and the unallocable rise is the 55% fall in other income netted against that line, with the rest flat.

Guidance conservatism Asked whether FY27 music growth would beat guidance given 37% H1 growth and Q4 releases still to come, management said guidance is a three-to-five-year CAGR of 20-23%, not a per-year number, and individual years can run above or below.

Music margin expansion Asked what drove the 700 bps YoY rise in music EBITDA margin to 55.4%, management said content bought in FY24-FY26 now earns more revenue than the charge-off it carries, the effect it flagged in FY24, and that paid subscription is growing much faster than ad-based revenue.

Diljit tour Asked whether a Diljit India tour was confirmed for Q3, management said Saregama is not working with him this season because the financials did not work out, and named Guru Randhawa, UN40, Hahakaar and an unannounced artist tour for H2.

Music revenue reporting Asked why music revenue appears as ₹200 crore, ₹250 crore and ₹230 crore in different places, management said the presentation now combines licensing, artist management and retail as music, segment results still split them, and the 20-23% guidance applies to the combined ₹250 crore pool.

Carvaan app and community Asked for Carvaan app subscriber metrics and long-term plans, management said the app is in testing with existing hardware owners, with no marketing spend, and the goal is a community for older listeners spanning hardware, live events and the app, with details after four to six months.

TikTok return Asked about the impact if TikTok returns to India, management said it would be very positive, that the market would become far bigger than today, and that TikTok's payment structures in other markets suit IP owners better, though it cannot comment on the terms of any India return.

Current liabilities and digital split Asked about the rise in current liabilities and the digital versus non-digital revenue split, the CFO said the increase is customer advances that will accrue to revenue over time, and management declined to quantify the digital split as competitor-sensitive, saying only that brands and public performance are the growing non-digital parts.

Tips Music Ltd.

GROWTH TRIGGERS

Q2 FY27 revenue of INR120 crores, up 35% with no one-off, and H1 revenue of INR227 crores, up 28%, show the catalogue plus a front-loaded film slate can outgrow the industry while content spend stays inside the INR90-100 crore budget. Q2 content cost of INR26.18 crores almost doubled year-on-year, yet operating EBITDA margin was 70.5%. The next leg depends on streaming volume, subscription mix and whether the YouTube Shorts negotiation eventually ties short-form income to actual monetisation.

1. Q2 FY27 revenue rose 35% with no one-off and both digital and non-digital contributing

Q2 FY27 revenue reached INR120 crores, up 35%, and H1 reached INR227 crores, up 28%. The CFO said there was no one-off in the quarter and growth came from both digital and non-digital segments, which is operating proof that new releases plus catalogue can compound faster than a single-digit industry.

2. FY27 content budget held at INR90-100 crore leaves only INR19-29 crore for H2

Management spent INR71 crores of the INR90-100 crore FY27 content budget in H1 and reiterated the range in October 2026. With H2 described as much lighter, the remaining INR19-29 crores carries a revenue base already lifted by the Q1 and Q2 releases, which is the mechanism for full-year margin recovery if revenue holds.

3. Q2 EBITDA margin of 70.5% shows content cost is timing rather than structural

Q2 FY27 operating EBITDA was INR84.64 crores at a 70.5% margin even as content cost rose to INR26.18 crores, almost double the prior year. That is above the 65-70% annual range guided in Q1 FY27 and indicates the cost is expensed in the quarter rather than a permanent reset.

4. Streaming volume grew about 35%, and 85% of revenue sits on written-off catalogue

The CFO confirmed streaming volume grew about 35% year-on-year and that growth was primarily volume-driven, with subscription a marginal contributor. About 85% of revenue comes from content acquired more than three years ago, so incremental streams on already expensed catalogue drop through at high margin.

5. Catalogue virality keeps adding free reach

The catalogue track Tera Naam Doon crossed 1 billion views on Instagram, the recreated Aankhon Se Tune 2.0 crossed 66 million YouTube views and the Punjabi album Ishqnama crossed 100 million YouTube views in Q2 FY27. These moments carry no incremental content cost and pull listeners toward paid streaming.

6. Shorts conversion remains an unpriced option

The YouTube Shorts deal remains under negotiation and unconcluded, with no new date or terms disclosed. Management has not quantified the revenue at stake; a revenue-share structure would tie income to short-form monetisation rather than a flat fee.

7. Capital return is being executed

The company completed an open-market buyback of INR44.44 crores in Q2 FY27 and declared an interim dividend of INR6.50 per share. The total dividend value and remaining distribution were not quantified, but the buyback component is done.

INVESTMENT THESIS

Tips Music is an Indian music label that owns a catalogue of more than 34,000 songs and licenses it to streaming platforms, YouTube, broadcasters, brands and public performance venues. Digital was 73% of H1 FY27 revenue, within the 70-75% band management guides, and about 85% of revenue comes from content acquired more than three years ago. Warner Music handles international distribution, contributes 25-30% of revenue and comes up for renewal in 2028. The core economics are an asset-light annuity: a song is acquired once, its cost is expensed in the quarter of release, and licensing income then arrives over years.

Q2 FY27 showed the model working at a higher growth rate. Revenue was INR120 crores, up 35% year-on-year, operating EBITDA was INR84.64 crores at a 70.5% margin and PAT was INR65.5 crores, up 23%. H1 revenue was INR227 crores, up 28%, with PAT of INR109 crores, up 11%. The CFO said there was no one-off in Q2 revenue and that growth was primarily volume-driven, with streaming volume up about 35% and both digital and non-digital segments contributing. That is a cleaner operating result than a PAT number lifted by other income or a one-off order.

The earnings path for FY27 is now largely set by spending already done. Content cost was INR71 crores in H1 against a INR90-100 crore full-year budget, leaving only INR19-29 crores for H2. Management said H2 would be much lighter, with smaller films and non-film music rather than large titles. Q2 content cost alone was INR26.18 crores, almost double the prior year, as the Q1 film albums were expensed. That is why H1 PAT growth of 11% lagged revenue growth of 28%. If H2 revenue holds and content spend falls as guided, PAT growth should improve from the H1 rate. That is analyst inference from the disclosed spend pattern, not company guidance.

The formal guidance is narrower than the H1 performance. Management guides FY27 revenue and PAT growth of 20% and says it expects to exceed that, but the CFO declined to give a specific number and the chairman said to treat 20% as the figure. Content investment is now framed at 20-22% of top line, narrowing the earlier 20-25% range. Digital's revenue share is guided at 70-75%, and paid subscription is 10-15% of digital revenue. The per-stream rate is about INR0.05 and management expects it to stay there, so higher revenue must come from more streams or from paid subscription taking a larger share of the digital pool.

The growth mechanisms are volume, catalogue and optionality. The catalogue keeps producing free virality: Tera Naam Doon crossed 1 billion Instagram views, Aankhon Se Tune 2.0 crossed 66 million YouTube views and the Punjabi album Ishqnama crossed 100 million YouTube views in Q2 FY27. About 85% of revenue comes from content acquired more than three years ago, so incremental streams on written-off catalogue carry high incremental margin. The unpriced option is YouTube Shorts: the fixed-fee agreement remained under

negotiation and unconcluded on 15 October 2026. A shift toward revenue sharing would tie income to short-form monetisation; a renewal on similar fixed terms would leave the highest-volume platform under-monetised in revenue terms.

Warner Music shapes the international piece. It distributes the catalogue on a minimum-guarantee basis through 2028, contributes 25-30% of revenue and management said the partnership continues as per expectations. The prior expectation that overflow above the guarantee would begin in FY28 was not updated in the Q2 call. Public performance and live events remain a long-term pool; management again pointed to events and public performance as areas that could expand, but gave no company-specific target in the Q2 call.

Capital allocation is explicit but not fully quantified. In Q2 FY27 the company completed an INR44.44 crore open-market buyback and declared a INR6.50 per share interim dividend. The total dividend value and the remaining distribution were not disclosed. Because content is expensed rather than capitalised, the balance sheet carries no content asset to amortise, and the annual content budget is the main reinvestment lever.

Management delivery is mixed. On the positive side, the FY27 content budget has been held after H1 spend, the buyback is done and the interim dividend is declared, and management explained the H1 PAT lag as front-loaded content cost rather than a change in economics. On the negative side, the promised Shorts update passed without a conclusion or a new date, the chief executive search remains open, and the 20% guide has not been formally raised despite H1 revenue growth of 28%. The record supports treating the stated 20% as a conservative floor rather than a precise forecast, but not as a promise of 30% growth.

Falsifiers to watch. FY27 revenue growth below 20% or content spend above INR100 crores would break the current setup. H2 revenue relying entirely on catalogue after the H1 film slate would show the model is event-driven rather than compounding. A Shorts renewal on a flat fixed fee would remove the main identified route to monetising short-form volume. A per-stream rate stuck at INR0.05 alongside slower paid-subscription growth would cap revenue growth at volume growth. No chief executive appointment through FY27 would leave the commercial negotiations with the existing team. On the positive side, a Shorts revenue-share deal, faster paid-subscription penetration or a larger public performance pool would each lift the revenue base without a matching content cost.

RESEARCH REPORT

What TIPS MUSIC LIMITED (Formerly known as Tips Industries Limited) does

Tips Music Limited is an Indian music label that owns and monetizes a catalogue of more than 34,000 songs it has built since 1988. The company does not manufacture anything, employs 69 permanent staff as of March 31, 2026, and operates out of four offices in India. Its entire business is the production, acquisition, and licensing of audio-visual music content to platforms in India and overseas.

The company earns money in two broad segments. Digital revenue, which was 70% of FY26 revenue, about 75% in Q1 FY27 and 73% for H1 FY27, comes from licensing the catalogue to streaming platforms, YouTube, social media, and telecom operators; management guides the digital share at 70-75%, and Q2 FY27 was about 71%, inferred from the H1 and Q1 figures. Non-digital revenue, roughly 25-30%, comes from publishing rights, public performance rights, brand licensing, sync licensing, physical sales, and broadcast rights. FY26 revenue was INR375.5 crores with 21% growth and PAT was INR216.6 crores with 30% growth. In Q2 FY27 revenue was INR120 crores, up 35% year-on-year, operating EBITDA was INR84.64 crores at a 70.5% margin and PAT was INR65.5 crores, up 23%. H1 FY27 revenue was INR227 crores, up 28%, with PAT of INR109 crores, up 11%.

The core asset is the catalogue itself. Management disclosed that only about 15% of revenue comes from content released in the last three years, with the balance 85% spread across the past three decades. This is the fundamental economics of the business: a song acquired once generates licensing income for decades across every new platform that emerges. The company's chairman, Kumar Taurani, described the dynamic directly:

> *"85% of our business comes from a legacy Catalogue and our Catalogue is really, really extremely doing well for the last four, five years. Every year we are growing on the strength of our repertoire or catalogue."*
>
> **KUMAR TAURANI, Q3 FY26 CONCALL (JAN 2026)**

The catalogue spans all genres and major Indian languages, including Hindi, Gujarati, and Kutchi. In FY26 the company acquired more than 4,000 heritage Gujarati and Kutchi songs from Studio Radha at what management called "a very reasonable price," which extends its regional reach. The company released 399 new songs during FY26, including 108 in Q3 alone and 133 in Q2.

Film music

Film music is one of the two content creation channels. The company acquires music rights from film production houses, with roughly one-third of content coming from external production houses, one-third from Tips Films, and one-third being non-film originals, as

disclosed in the Q1 FY27 call. Tips Films is a related party, and the annual report shows the company transacted INR17.25 crores of audio-video rights acquisition from Tips Films in FY26, plus INR15.53 crores of advances, all at arm's length and valued by an external registered valuer.

Film music is the higher-cost content channel. Q2 FY27 content cost was INR26.18 crores, almost double the prior year, after the Q1 FY27 film albums were released and expensed. Management said the second half is deliberately lighter, with smaller films and non-film music rather than large titles, and targets at least five to six films a year, four to five Hindi and two to three regional. The FY27 content budget remains INR90-100 crores, of which INR71 crores was spent in H1.

Film music is more expensive than non-film, which is why content costs jumped 90% year-on-year in Q1 FY27 when two big film albums were released and expensed. By Q2 FY27 content cost was INR26.18 crores and H1 reached INR71 crores, front-loaded against the INR90-100 crore FY27 budget. Management said H2 would be much lighter, so reported margins in H2 depend less on new film releases and more on catalogue monetisation.

Non-film music

Non-film music is original songs the company creates with individual artists, typically through song-wise deals rather than long-term artist exclusivity. Management stated it does not have artist management tie-ups and does exclusive deals per song, two or three songs at a time. Notable non-film releases include tracks from Aditya Rikhari, Lucky Ali, Aparshakti Khurana, and Paradox. This channel gives the company control over its own content pipeline and reduces dependence on external production houses whose movie schedules can slip.

The accounting model

The company's accounting policy shapes the financial profile. The entire content cost of a new release is expensed in the quarter the song is released, while revenue from that same content arrives gradually over the following years. Management described the recovery cycle as four to five years for content costs. This means quarters with heavy film releases show compressed margins: Q2 FY27 content cost was INR26.18 crores and H1 FY27 content cost INR71 crores, which management called front-loaded against a full-year budget of INR90-100 crores, yet the Q2 operating EBITDA margin was still 70.5%. Annual EBITDA margin was guided at 65-70% on the Q1 FY27 call and that range was not restated in October 2026. On the Q2 FY27 call management said content investment is 20-22% of top line, narrowing the earlier 20-25% long-term range.

Cash and capital allocation

The business is highly cash-generative with minimal capital requirements. The last disclosed cash balance was INR345 crores as of June 30, 2026. In Q2 FY27 the company completed

an open-market buyback of INR44.44 crores and the board declared an interim dividend of INR6.50 per share. The stated policy is to distribute the prior year's PAT through dividends and buybacks, which for FY27 means INR217 crores, the FY26 PAT. The buyback component is executed; the total distribution for the year has not yet been quantified.

Business segments

Digital

The Digital segment is the machine that turns a music library into recurring revenue. Tips owns a catalogue of over 34,000 songs, and this segment licenses those songs to streaming platforms, YouTube, social media networks and telecom operators, which then pay Tips a share of their advertising and subscription revenue. In FY26 the segment contributed around 70% of total revenue; it rose to roughly 75% in Q1 FY27 and was 73% for H1 FY27, within the 70-75% band management guides. Q2 FY27 was about 71%, inferred from the H1 and Q1 figures. Subscription revenue is 10-15% of the digital pie.

The core capability here is the catalogue itself, and it took three decades to build. In Q1 FY27, management disclosed that approximately 15% of revenue comes from content released in the last three years, with the balance 85% spread across the past three decades. That is the structural advantage: the songs were acquired or produced years ago, the cost was written off in the quarter of release, and the revenue keeps compounding. Kumar Taurani said on the Q3 FY26 call that the 1990s repertoire is "doing exceptionally well" and that the catalogue has potential for another 15 to 20 years. The second capability is operational: management described a dedicated analytics team that monitors Instagram and YouTube trends daily, spots a catalogue song gaining traction, and pushes it across platforms. Old songs like "Sanu Nehru Waley Pul" from Jeet suddenly trended and went from 1,000 to 100,000 Spotify streams within a week, which drives revenue without any new content cost.

The products inside the segment are the licensing arrangements themselves. The largest is YouTube, where Tips runs a family of channels with a cumulative 164.5 million subscribers and more than 54.3 billion total content views as of Q2 FY27. YouTube pays on an ad-revenue share for long-form video, plus a fixed fee for YouTube Shorts, which remained under negotiation and unconcluded at the October 2026 call. The second is music streaming, primarily Spotify, JioSaavn, Apple Music and Amazon Music, where Tips earns per-stream royalties from both ad-supported and subscription tiers. The third is social media licensing, where Meta and Instagram pay for use of the catalogue in user-generated content; the catalogue song Tera Naam Doon crossed 1 billion views on Instagram. Distribution is handled through partners: Warner Music as distributor and Sony Music Publishing as publisher, with the Warner deal running to 2028.

The customers are the platforms, and they buy because the catalogue drives engagement. A 90s song going viral on Instagram creates streams on Spotify and views on YouTube, so every platform benefits from having Tips content on its service. Management noted in Q1 FY27 that subscription revenue across platforms is currently 10% to 15% of digital revenue, but paid subscribers are growing at 40% to 50% CAGR, and globally subscription is more than half of revenue. By the October 2026 call the CFO described Q2 growth as primarily volume-driven, with subscription a marginal contributor, and said the per-stream rate of about INR0.05 is expected to stay at that level. Higher volume, or more paid subscribers at higher per-stream rates, is therefore the revenue route rather than a higher headline rate.

Competition is the other major Indian labels. On the Q3 FY26 call, CEO Hari Nair said Tips holds around 7% to 8% revenue market share, naming no specific rivals but the industry standard set includes Saregama, T-Series, Zee Music and the Indian arms of Sony and Universal. On the Q2 FY27 call CFO Sushant Dalmia put overall revenue market share at 8% to 10%, though the transcript garbles the repeat of the figure. Kumar Taurani argued on the Q1 FY27 call that Tips does not face bidding pressure because it produces a third of its content through Tips Films, a third in-house as non-film music, and only a third from outside production houses. The company also has exclusive distribution partnerships with Warner and Sony Music Publishing, which management said makes it the only Indian label with both.

The segment feeds the group through content. The 34,000-song catalogue is the shared asset, and new releases renew it. In FY27 the content budget is INR90 crores to INR100 crores, with management saying on the Q2 FY27 call that content investment is 20-22% of top line, and the full cost is written off in the quarter of release. Content costs jumped 90% year-on-year in Q1 FY27 because of two big film albums, and Q2 FY27 content cost of INR26.18 crores was almost double the prior year, but the Q2 operating EBITDA margin was still 70.5% and management guided the annual margin at 65% to 70% on the Q1 call.

On the shift toward subscription, CFO Sushant Dalmia was direct:

> *"subscription-based revenue across platforms on an average is currently,10% to 15%. But if you see globally, subscription is the main driver, more than 50% of the revenue comes from subscription."*
>
> **CFO SUSHANT DALMIA, Q1 FY27 CONCALL (JUL 2026)**

The revenue mix is the key disclosure to track. Digital was roughly 70% of FY26 revenue, about 75% in Q1 FY27 and 73% for H1 FY27, inside the 70-75% band management now guides. The non-digital remainder comes from brand publishing, public performance and sync. Management said variations of a percentage point or two within that band have no profitability impact because content budgets and fixed costs are unchanged, and the CFO said growth in Q2 came from both digital and non-digital segments.

Non-Digital

The Non-Digital segment is where Tips Music monetizes its catalogue outside streaming platforms. It covers publishing rights, public performance rights, brand licensing, sync licensing, physical sales, and broadcast rights. The capability that took decades to build is the catalogue itself: over 34,000 songs across genres and languages, accumulated since 1988. Management stated on the Q3 FY26 call that 85% of the business comes from this legacy catalogue, with only 15% from content released in the last three years. That asset base is the reason the segment exists at all - every other revenue line in this segment is a different way of licensing the same songs.

The products inside the segment serve distinct buyers. Publishing rights are administered through a partnership with Sony Music Publishing, which collects royalties when Tips' songs are reproduced, covered, or used in scores. Public performance rights cover music played in restaurants, hotels, retail stores, and live events; the company licenses these venues through Phonographic Performance Limited (PPL), one of the three industry bodies Tips is affiliated with, alongside the Indian Music Industry and the Indian Performing Right Society. Brand licensing lets companies use a song in an advertisement or campaign, and sync licensing covers music in films, TV shows, and web series. Broadcast rights are the television piece: in Q3 FY26, Tips announced a partnership with B4U TV as its broadcast partner, which management said would enable wider reach of the catalogue among television audiences globally. Physical sales and exports round out the segment, though they are the smallest line.

Customers buy from Tips because the catalogue is proven. A 90s song that suddenly trends on Instagram becomes more valuable to a brand or broadcaster, and Tips has the rights to monetize that spike. The company does not allow commercial users to deploy its songs as a marketing tool without payment, and it actively monitors infringements. The public performance opportunity is the most concrete growth story management has laid out. On the Q4 FY26 call, CFO Sushant Dalmia said the industry size is roughly INR500 crores and could reach INR3,000 crores in three years, driven by compliance and the availability of licenses online. Chairman Kumar Taurani added that India has around 100,000 restaurants but only about 1,000 take a public performance license, and that the UK does a billion pound business annually in the same category.

> *"public performance licenses are now available online. there is a website where you can go and take the public performance license. So that's the ease which has been created by the players in the market. So, we are very excited about the public performance market growing at more than 50% CAGR."*
>
> **SUSHANT DALMIA, CFO, Q4 FY26 CONCALL (APR 2026)**

Competition inside this segment comes from other Indian music labels with deep catalogues, primarily Saregama and Zee Music, and from global majors such as Warner Music and Sony Music, which are expanding their publishing operations in India. Tips' position is differentiated by its distribution partnerships: management noted on the Q1 FY27 call that Tips is the only Indian label with Warner Music as a distributor and Sony Music Publishing as a distributor. The Warner deal is locked until 2028, which gives the company a fixed revenue base for international digital distribution. On the Q3 FY26 call, CEO Hari Nair said Tips holds a 7% to 8% revenue market share; on the Q2 FY27 call the CFO put overall revenue market share at 8% to 10%, though the transcript garbles the repeat.

The segment fits the group through a structural advantage: Tips Films, the group's production house, supplies roughly one-third of the content. Management stated on the Q1 FY27 call that one-third of content comes from outside production houses, one-third from Tips Films, and one-third is non-film music produced in-house. This vertical integration means the Non-Digital segment can monetize films the group itself produces, capturing both the film music rights and the subsequent licensing revenue across publishing, sync, and public performance. The related party transactions with Tips Films, approved for up to INR60 crores, are priced at arm's length and validated by an external registered valuer.

The revenue mix is material. On the Q4 FY26 call, management said approximately 70% of revenue comes from digital and 30% from non-digital for the full year. By H1 FY27 the digital share was 73%, implying a non-digital share of around 27%, within the 70-75% band management guides. The non-digital segment is not uniform in its growth: brand publishing and public performance drove the full-year FY26 performance, while physical sales remain marginal. Management does not provide a finer breakdown, citing competitive sensitivity.

Across the concalls, the consistent message is that non-digital is a compounding annuity on an already-owned asset. Content costs are expensed entirely in the quarter of release, while the revenue from that content accrues over years - management has said content cost recovery takes four to five years, not months. That accounting policy means the Non-Digital segment, which monetizes decades-old songs with no incremental cost, carries the highest incremental margins in the business. The near-term risk is execution: public performance growth depends on venue compliance rates, which are currently in the low single digits, and broadcast revenue depends on partnerships like B4U that are still early. The long-term case rests on the same catalogue that has already delivered 20% revenue growth for five consecutive years.

Customers

Tips Music's customers are almost entirely businesses, not consumers. The company licenses its catalogue to digital platforms, distribution partners, broadcasters, brands, and

public performance venues. On the B2B nature of the customer base, the annual report notes the company engages with leading corporations operating in the music industry.

Digital platforms

YouTube is the largest digital platform partner, operating on an ad-share model for long-form content plus a fixed fee for Shorts. Management said in July 2026 that it would update on the Shorts renegotiation by end of Q2 FY27, but on the 15 October 2026 call the CFO said "the deal is still under negotiation. It's not been concluded. We'll update once the deal is done." The company's cumulative YouTube subscriber base reached 164.5 million by Q2 FY27 with total views above 54.3 billion, and management has described YouTube as growing as per expectation despite industry reports of negative YouTube growth.

Spotify, JioSaavn, Apple Music, and Amazon Music are the other major streaming platforms. Spotify and YouTube both implemented price hikes at the end of the last calendar year, which flows through to label revenue, and Amazon Music launched a three-tier structure for non-Prime members. On the October 2026 call, however, management said the per-stream rate of about INR0.05 is expected to remain at that level, with paid subscription growth the route to higher realised rates because subscription rates per stream are higher. The company does not disclose revenue split by platform, citing competitive sensitivity.

Distribution and publishing partners

Warner Music is Tips Music's international distribution partner, with the deal running to 2028; the CFO said on the October 2026 call that it comes up for renewal in 2028. The arrangement works on a minimum guarantee basis, with advances received in tranches. Management indicated in Q2 FY26 that overflow revenue above the minimum guarantee is expected in FY28, and the partnership "continues as per our expectations." Sony Music Publishing handles the company's publishing business internationally. Warner contributed 25-30% of revenue, per the October 2026 call. These partnerships are unusual in the Indian market: Tips is the only large Indian label with both Warner as distributor and Sony Music Publishing as publishing partner.

Non-digital customers

Non-digital revenue spans several distinct customer groups. Broadcasters, including the B4U TV partnership announced in Q3 FY26, license the catalogue for television audiences globally. Brands license music for advertising and brand publishing. Public performance venues, such as restaurants and events, take licenses through collection societies. The annual report notes that the company's non-digital revenue grew 23% in 2025, driven by publishing, public performance, and brands.

The public performance opportunity is large but under-penetrated. In the Q4 FY26 call, management disclosed that of roughly 100,000 restaurants in India, only about 1,000

currently take licenses.

The buying relationship

The buying decision for platforms is straightforward: they need music content to retain users and sell subscriptions or ads, and labels control the rights. Management dismissed concerns about platform dependence, noting that platforms require content from labels as much as labels need platforms. The switching costs for Tips are low because the catalogue is exclusive to it, while platforms face the risk of losing popular content if they do not pay fairly.

Contract structures vary. The Warner deal is a multi-year minimum guarantee arrangement. The YouTube Shorts deal is a fixed fee paid annually, which explains why declining Shorts views have no revenue impact, and as of October 2026 it remained unconcluded. Streaming platforms pay per stream based on usage reports the company receives and recognizes revenue from. The company does not prefer telecom bundling deals because the payout is lower than pure-play music platforms.

Competitive landscape

The Indian music label industry is concentrated among a handful of large catalogue owners: Tips Music, Saregama, T-Series, Zee Music, and the Indian arms of global majors Sony Music, Universal Music, and Warner Music. The global majors are entering India more aggressively, which is increasing competition for content acquisition. Tips' management put its revenue market share at 7-8% on the Q3 FY26 call and at 8-10% on the Q2 FY27 call; the transcript garbles the repeat of the figure, so the range is an approximation.

Saregama is the most direct comparable, being the other publicly listed Indian music label with a comparable heritage catalogue. Management was asked directly about Saregama's YouTube view growth in Q3 FY26, and the response was to note that Tips continues to use the old YouTube methodology of counting views only after 30 seconds, while YouTube now reports shorter views as well. This makes cross-company view comparisons misleading, and under the new methodology Tips' growth would look substantially higher.

The competitive intensity is highest in content acquisition, where global majors with large war chests are bidding for film music rights. Management described a specific example in Q2 FY26 of a producer who received an offer of INR17 crores for a film's music, which Tips declined to match. The company's stated strategy is to avoid bidding wars entirely and focus on quality content at reasonable prices. On this approach, Kumar Taurani was direct:

> *"There is a producer, he called me, that this is my film and this is my composer. So what should be the price? So he asked me, so I said, I can give you INR3 crores to INR5 crores, you sit on the table like this. He said, I already have an offer of INR14.5 crores and INR2.5 crores promotion, INR17 crores I'm getting, what should I do? I said, immediately run and give it to them."*
>
> **KUMAR TAURANI, Q2 FY26 CONCALL (OCT 2025)**

This discipline is a deliberate choice. Management argued that competitors acquiring content at high prices are not growing on the back of it, and that the success ratio for new releases is only 10-12%, meaning most content never recovers its cost. Tips instead relies on its catalogue, which it considers the strongest in the industry, and complements it with selective new acquisitions. The company also has a structural advantage: it owns Tips Films, so it can produce film music internally without competing in the open market for every album.

The global majors pose a different kind of threat. Warner Music Chappell setting up a publishing arm in India was described by management as positive for Tips, presumably because it could become a buyer of publishing rights. But the same global companies could also compete more aggressively for content or attempt direct artist signings. Management downplayed this risk, noting the company's long-standing relationships and its ability to create its own music.

Industry

The Indian music segment grew 10% to INR59 billion in 2025, according to the FICCI-EY M&E Report 2026. Digital licensing revenues comprise 58% of total music segment revenues, with other licensing at 27% and other income at 15%. The segment is expected to grow at a 9% CAGR to reach INR75 billion by 2028. The broader Indian M&E sector contributed INR2.78 trillion in 2025, up 9% from 2024.

The structural gap between India and global markets defines the opportunity. Global music revenues reached an all-time high of US$31.7 billion in 2025, growing 6.4%, with streaming at 69.6% of total recorded music revenues. India's music labels earn INR0.04 to INR0.10 per stream versus INR0.50 to INR0.90 globally. This gap exists because global subscription penetration is 50-60% of streaming revenue versus roughly 10-15% in India, and because Indian subscription prices are lower. The chairman's speech in the FY26 annual report frames the opportunity directly: Spotify estimates Indian paying subscribers will rise from about 1.4 crores to 15 crores, and India could become a top-three music market by volume and value within a few years.

Paid subscription is the key growth driver. India's paid music streaming market crossed INR10.3 billion in subscription revenue for the first time in 2025, and subscription revenue grew 48%. Paid subscribers are expected to grow to 28-30 million by 2028. Management disclosed that paid subscribers are currently growing at a 40-50% CAGR, and that

subscription revenue is roughly 10-15% of digital revenue. The trajectory is toward global norms where subscription exceeds 50% of revenue, which would multiple times the revenue potential of the current ad-heavy mix.

Price hikes are beginning to flow through. Spotify and YouTube both raised prices at the end of the last calendar year, and management noted Spotify has more than 50% more subscribers than the prior year. The chairman described Spotify's strategy as deliberately moving consumers from free to paid tiers over a multi-year horizon. This is the single largest lever for industry revenue growth over the next 3-5 years.

Short-form content is a second growth lever. YouTube Shorts currently pays labels a fixed fee rather than revenue share, and the model is expected to migrate to revenue sharing over the medium term. Instagram Reels drives catalogue virality, which pushes streams to Spotify and other platforms. However, the virality dynamic cuts both ways: only 0.11% of viral tracks maintain momentum beyond six months, according to a Duetti report cited in the annual report, which means labels must own large catalogues rather than rely on hits.

Public performance is a potential third leg. The industry is currently around INR500 crores, and management expects it to grow to at least INR3,000 crores within three years on compliance-driven licensing, with a longer-term potential of INR10,000-20,000 crores. The UK does a billion pounds annually in public performance, and India's restaurant and events market is vastly under-licensed. Government support and online licensing systems are expected to drive this growth.

Regional content is a structural trend. Regional language content accounts for 56% of total content produced for digital platforms, and Hindi music dominates with 59% of total usage. Tips' acquisition of Studio Radha's Gujarati and Kutchi catalogue is a bet on this regional demand, and the company said devotional content has better and stickier monetization than mainstream music.

The industry also faces consolidation risks. Wynk and Resso both shut down their music streaming businesses, and platforms moving behind paid walls reduces free ad-supported streaming revenue. Management noted this caused headwinds in FY26, with the Resso shutdown alone costing an expected US$3 million in forgone revenue. The company characterized this as a temporary phase of 6-12 months, after which subscription growth would more than compensate. AI-generated music is a medium-term uncertainty, with global majors like UMG and Warner striking deals with AI companies while India conversations are ongoing.

Growth triggers

YouTube Shorts deal renegotiation (fixed fee to revenue share model)

Tips' YouTube Shorts agreement currently pays a fixed lump-sum fee, not linked to usage. Management has described Shorts revenue as "not so material" (Q4 FY26 concall, Apr 2026) and has confirmed the deal is fixed fee rather than usage-based. The company's cumulative YouTube subscriber base stood at 164.5 million as of Q2 FY27, which is the audience scale it brings to the table.

The renegotiation centers on converting that fixed fee into a revenue share tied to Shorts ad monetization. Management has laid out the mechanism explicitly. The platform must first monetize Shorts through subscription or advertising, then share that pool with labels.

> *"in case of shorts, we are saying over a medium to long term, that model would move from a fixed fee to a revenue share. It won't happen on an immediate basis, but on a medium to long term, it would happen."*
>
> **CFO, Q3 FY26 CONCALL (JAN 2026)**

Then-CEO Hari Nair narrowed the path further: fixed fee for one to two years, then revenue share (Q3 FY26). Kumar Taurani framed the ask as "we should have a sharing basis" and confirmed the then-current deal "will come to an end in June" (Q2 FY26 concall, Oct 2025). Management also said declining Shorts views do not weaken the renewal position (Q4 FY26) and that it would invest more effort in Shorts views once monetization shifts to revenue share (Q3 FY26).

Current stage: the previous deal lapsed in June 2026. Negotiations were ongoing through Q1 FY27, with an update committed by end of Q2 FY27 (September 2026). On the 15 October 2026 call, past that date, the CFO said the deal was still under negotiation and not concluded, with no revised timeline. The fixed fee therefore remains in place with no disclosed change to terms.

> *"So YouTube Shorts, let's say, the negotiations are still going on. And probably we'll update you by end of Q2."*
>
> **CFO, Q1 FY27 CONCALL (JUL 2026)**

Once converted, revenue share ties Tips' Shorts income to actual ad monetization of its catalog, replacing a flat fee that has not moved with consumption.

Paid subscription growth at 40-50% CAGR in India

Paid music subscription is the structural shift that could remake Tips Music's revenue mix. Subscription-based revenue across platforms averages 10% to 15% of the company's digital revenue, a range management repeated on the October 2026 call, while the global

benchmark sits above 50%. Management expects India to close that gap over a 3 to 5 year horizon as platforms push users toward paid tiers. Paid subscribers were cited as growing at 40% to 50% CAGR in Q1 FY27; the October 2026 call did not restate that rate.

The mechanism is direct: when a listener subscribes to Spotify or YouTube Premium, the platform pays labels a royalty per stream out of a subscription revenue pool. Tips Music confirmed it receives a percentage of that pool based on consumption of its catalogue. The company's strength is its library - 85% of revenue comes from content released over the past three decades, and catalogue songs keep finding new audiences through viral reels and playlists.

The growth is already visible. Paid subscribers are growing at 40% to 50% CAGR, up from the 30% to 40% CAGR the company cited in Q4 FY26. The annual report anchors the opportunity in Spotify's estimate that India's paying subscribers will rise from about 1.4 crores to 15 crores. Management also called out Spotify and YouTube price hikes taken in the last calendar year, which flow through to label revenue at the same royalty percentage.

> *"subscription-based revenue across platforms on an average is currently,10% to 15%. But if you see globally, subscription is the main driver, more than 50% of the revenue comes from subscription."*
>
> **CFO, Q1 FY27 CONCALL (JUL 2026)**

The same call noted the per-stream earnings gap: global labels earn INR 0.50 to INR 0.90 per stream versus INR 0.04 to INR 0.10 in India, a gap the CFO attributed primarily to subscription price and penetration. In October 2026 management said its own per-stream rate is about INR0.05 and should stay there, so growth depends on volume and on paid subscription taking a larger share. Management maintained 20% revenue and PAT guidance for FY27 while saying it expects to exceed that, without giving a number.

Spotify and YouTube price hikes

Spotify and YouTube both raised their subscription prices in India at the end of calendar year 2025. The mechanism is direct: streaming platforms pay labels a contractual share of their subscription pools, so a higher price per subscriber enlarges the pool Tips draws from, with no new content cost attached.

The economics were spelled out on the Q2 FY26 call. Kumar Taurani explained the split: "They give us 55% and if it gets 20% then that also is 55% all levels will get and level in pool the money will come." He named the hike as a growth driver for the year: "we have increased the price of Spotify, so we will get that benefit as well." (Q2 FY26 concall, Oct 2025)

By the Q3 FY26 call in January 2026, an analyst quantified the subscription increase at 20-25%. Kumar Taurani said Spotify's subscriber base was growing "more than 50%" year-on-

year and tied the combined effect to a return to higher growth: "in the next 4, 6 quarters, we will come back to the 30% target." (Q3 FY26 concall, Jan 2026)

The Q1 FY27 call confirmed the scope and the stage:

> *"last to the end of the last calendar year Spotify, YouTube have taken the price hike. As of now, no one has taken it, but we think there could be something in the pipeline, but it's difficult to comment on."*
>
> **SUSHANT DALMIA, Q1 FY27 CONCALL (JUL 2026)**

Asked whether the mid-May Spotify price revision would affect revenue, Kumar Taurani said "Yes, yes, revenue will increase," while Sushant Dalmia added it is "not a material impact" in the same exchange.

The context that gives the hike weight: subscription is currently just 10-15% of Tips' digital revenue (Q1 and Q2 FY27), versus "more than 50%" globally. The FY26 annual report frames the ceiling - Spotify estimates India's paying subscribers will rise from 1.4 crores to 15 crores, and while global labels earn 50-90 paise per stream, India earns 4-10 paise. On the October 2026 call, however, management said the per-stream rate will not move to 8 paise and will remain about 5 paise, so a price hike helps only once it raises the subscription share of the pool.

Public performance segment growth from ~INR 500 crores to INR 3,000 crores in 3 years

Public performance is the licensing of music played in restaurants, hotels, retail stores, weddings and live events. It sits inside Tips' non-digital segment, which made up roughly 30% of FY26 revenue alongside brand publishing and sync. Management calls it the fastest-growing pool in the Indian music industry.

The trigger is an industry-wide expansion, not a Tips-specific contract. CFO Sushant Dalmia put the numbers on the table in the Q4 FY26 call:

> *"Currently let's say the industry size is roughly around INR500 crores. We expect at least to grow in next 3 years at least to INR3,000 crores, purely basis on compliance."*

The mechanism is compliance. Kumar Taurani gave the concrete gap: India has roughly 100,000 restaurants but only about 1,000 take a music license. Public performance licences are now available online, which management says created the ease the market was missing. As the government pushes compliance and the collection body Tips is affiliated with (Phonographic Performance Limited) makes buying a licence simpler, the royalty pool grows.

Tips earns its share through lump-sum annual deals with the licensing body, tied to its catalogue of 34,000+ songs being played in those venues. On the Q2 FY26 call, Taurani

confirmed the structure: "we have a lumpsum deal with the party who takes our license." Management also confirmed public performance "have done well for us for the full year" in FY26 within the non-digital segment.

The stage today: the industry pool is around INR 500 crores, and management expects it to cross INR 3,000 crores within three years, which it frames as growth above 50% CAGR.

New film releases FY27: 'Hai Jawani Toh Ishq Hona Hai', 'Main Vaapas Aaunga', Balaji Telefilms movies, Tips Films movies, regional films

The FY27 film slate was heavily front-loaded. 'Hai Jawani Toh Ishq Hona Hai' and 'Main Vaapas Aaunga' both landed in Q1 FY27. Q2 FY27 added 73 songs, 40 film and 33 non-film, led by the Punjabi album Ishqnama, which crossed 100 million YouTube views. Management said the second half would be lighter, with smaller films and non-film music, and targets at least five to six films a year, four to five Hindi and two to three regional.

The FY27 film slate was heavily front-loaded. "Hai Jawani Toh Ishq Hona Hai" (David Dhawan, Varun Dhawan) and "Main Vaapas Aaunga" (Imtiaz Ali, A.R. Rahman, Diljit Dosanjh) both landed in Q1 FY27. Q2 FY27 added 73 songs, 40 film and 33 non-film, led by the Punjabi film album Ishqnama, which crossed 100 million YouTube views. Management said the second half will be lighter, with smaller films and non-film music rather than big titles, and targets at least five to six films a year, four to five Hindi and two to three regional.

> *"The content cost recovery does not happen in 1-2 months. It takes 4-5 years."*
>
> **KUMAR TAURANI, CHAIRMAN, Q1 FY27 CONCALL (JUL 2026)**

Initial traction is strong. "Hai Jawani Toh Ishq Hona Hai" crossed 186 million YouTube views in Q1, with "Chunnari Chunnari - Let's Go" at 70 million; "Main Vaapas Aaunga" neared 100 million. Management budgeted INR90-100 crores for FY27 content and reiterated that range in October 2026 after spending INR71 crores in H1, saying the second half would be much lighter. The full revenue impact of Q1's releases started showing from Q2 FY27, when revenue rose 35%, and management said the front-loaded new releases would continue to support H2 growth.

Warner Music distribution deal overflow revenue above minimum guarantee

Tips Music signed a four-year global distribution deal with Warner Music, which pays Tips an upfront minimum guarantee (MG) in tranches. Tips recognizes revenue based on actual streams reported by Warner, not on the MG itself. The overflow trigger is the point where cumulative usage-based revenue from Warner exceeds the MG already received, producing revenue that management has not yet counted in guidance.

The deal runs through 2028. In Q2 FY26, CFO Sushant Dalmia confirmed the balance sheet movement in other liabilities was "pertaining to advance received from Warner, SMP and

other customers" and that the second tranche was due in October 2025. On the October 2026 call he said the Warner deal "will come up for renewal next year, '28," confirming the term, and that the partnership continues as per expectations. CEO Hari Nair confirmed the term directly in Q2 FY26:

> *"No, that is locked till 28, till 28 we have done the deal whatever will happen will happen in 28."*
>
> **CEO, Q2 FY26 CONCALL (OCT 2025)**

When asked when overflow would start flowing in, Kumar Taurani tied it to the MG being consumed first:

> *"Overflows, we have a total term of 4 years. And we have sufficient monies of Warner with us as an MG. So, the overflow will be in the last quarter or before that one or two quarters, then we will know where we stand."*
>
> **CHAIRMAN AND MANAGING DIRECTOR, Q2 FY26 CONCALL (OCT 2025)**

Asked directly if that means FY28, he confirmed "Yes, it will be in FY '28."

The mechanism matters for how to read current growth. In Q4 FY26, management rejected suggestions that the 32% quarterly growth included Warner year-end adjustments, with Dalmia stating revenue recognition is based on "detailed operational data on number of streams from Warner." The overflow is separate from that recurring stream-based revenue. It represents a step-up in cash and revenue once usage crosses the prepaid MG threshold, which management has deliberately excluded from its 20% revenue and PAT guidance for FY26 and FY27. The trigger is therefore an acceleration event in FY28, not a gradual build.

Amazon Music 3-tier structure launch for non-Prime members

Amazon Music has launched a 3-tier structure for non-Prime members in India. Tips Music's CFO flagged this in the Q1 FY27 earnings call as a recent development and a positive for the industry. The structure is in its early days, with no specific commercial terms disclosed yet.

The mechanism for Tips is indirect but clear. Tips earns from the revenue pools of streaming platforms. Subscription-based revenue currently makes up 10% to 15% of digital revenue, while paid subscribers are growing at 40% to 50% CAGR. Amazon offering tiered options to non-Prime members removes the Prime membership hurdle, expanding the pool of users who can pay for a standalone music tier. That tilts platform revenue toward subscription, which pays labels higher per-stream rates than ad-supported listening.

Management confirmed the launch and its expected impact without quantifying it.

> *Amazon Music has started its 3-tier structure and for non-Prime members. So that's quite positive news for the industry.*
>
> **SUSHANT DALMIA, CFO, Q1 FY27 CONCALL (JUL 2026)**

The context matters. In the same call, management noted that paid subscription is the main revenue driver globally, above 50%, versus the 10% to 15% mix in India. The Amazon tier launch is one more step in the platform-side push toward subscription that Tips expects to lift its revenue mix over the next 3 to 5 years.

AI music royalty agreements (global majors like UMG and Warner striking deals with AI companies)

The trigger is a licensing framework, not a product. Global majors like UMG and Warner Music are negotiating royalty agreements with AI music generation companies such as Suno AI. When an AI platform trains on or generates music derived from a label's catalog, the label earns royalties under that agreement. Once the global majors set the precedent and the benchmark rate, Indian AI companies and labels are expected to follow the same template.

Tips' exposure rests on its catalog. Management stated in Q3 FY26 that 85% of revenue comes from legacy catalog, and the annual report puts the library at over 34,000 songs. That is exactly the kind of asset an AI training model would want to license. The FY26 annual report's BRSR section flags AI as both opportunity and risk, with the company's stated approach being to "strengthen copyright protection and adapt legal frameworks to address the challenges posed by AI-generated music."

On the Q2 FY26 call in October 2025, CEO Hari Nair described the India stage of this trigger:

> *"In India, we are also having similar conversations with the AI companies. There is already seen OpenAI. I think we have some case also going on. So I think it's overall positive if the global majors end up with a deal with Suno AI. I think it will have a positive impact on us also in India."*
>
> **CEO, Q2 FY26 CONCALL (OCT 2025)**

Chairman Kumar Taurani added on the same call: "In India as well it will happen and we are talking about it as well."

Stage today: conversations are ongoing, no agreement has been announced, and management frames the timeline as medium term. Kumar Taurani said "it will take a little time." The trigger's realization for Tips depends on the global majors closing their deals first, because the India conversations appear to be waiting on that international precedent to set the commercial terms.

Key risks

- **Indian ARPU is a structural ceiling on revenue per stream.** Management disclosed that Indian labels earn INR 0.04 to INR 0.10 per stream against INR 0.50 to INR 0.90 globally

(Q1 FY27 call). The gap exists because subscription pricing is lower and subscription is only 10-15% of Indian digital revenue versus over 50% globally. Even if subscriber counts grow 40-50% CAGR, revenue per user stays far below global levels, so the company must grow streams at a much faster rate than revenue to hit the same rupee growth.

- **Indian ARPU is a structural ceiling on revenue per stream.** Management disclosed that Indian labels earn INR 0.04 to INR 0.10 per stream against INR 0.50 to INR 0.90 globally (Q1 FY27 call). On the October 2026 call the CFO put Tips' own rate at about INR0.05 and said it should stay there. The gap exists because subscription pricing is lower and subscription is only 10-15% of Indian digital revenue versus over 50% globally. Even if subscriber counts grow, revenue per user stays far below global levels, so the company must grow streams at a much faster rate than revenue to hit the same rupee growth.

The content budget for FY27 is INR90-100 crores, and management said on the Q2 FY27 call that content investment is 20-22% of top line. H1 spend was INR71 crores, front-loaded, leaving INR19-29 crores for H2. Q2 content cost was INR26.18 crores, almost double the prior year, because film releases were heavier. Film music costs are significantly higher than non-film, and management says it avoids bidding wars, which means it can lose the biggest rights to rivals.

- **The YouTube Shorts deal is still on a fixed fee, not a revenue share.** The previous deal lapsed in June 2026 and management promised an update by end of Q2 FY27, but on the 15 October 2026 call the CFO said negotiations were still on and the deal was not concluded, with no new date. Shorts revenue is "not material" today, and management has said the model would move to revenue share only "on a medium to long term" basis. If the fixed fee renews at a modest increase, the largest volume platform in the portfolio remains structurally under-monetized.

- **Revenue concentration in a catalogue that earns from virality is unpredictable.** 85% of revenue comes from content released over the past three decades, and only 15% from the last three years (Q1 FY27 call). The Annual Report cites a Duetti study showing only 0.11% of viral tracks maintain momentum beyond six months. Catalogue performance is lumpy - a quarter can be lifted by a random Noor Jahan song trending on Instagram, or compressed when a competitor's big film release dominates consumption. Management itself said the Q4 FY26 32% growth was driven by trending songs, not a step-change in the business.

- **AI-generated music threatens the value of human-created recorded music.** The BRSR lists AI as both opportunity and risk, citing copyright, royalty, and valuation challenges. Global majors are striking AI licensing deals, and management says India conversations are ongoing, but no revenue stream exists yet. If AI music floods platforms, per-stream

economics for human catalogue could compress further, and the legal framework for royalties is unresolved.

- **Paid subscription growth is real but starts from a small base.** Subscription is 10-15% of digital revenue today, growing 30-50% CAGR. Even at that pace, it takes years for subscription to become the dominant revenue driver that global markets enjoy. In the interim, the company remains exposed to ad-supported revenue, which is the segment most affected by platform consolidation and short-form monetization gaps.
- **The company is a price-taker on platform commercial terms.** YouTube, Spotify, and the other platforms set subscription prices and ad rates. Management confirmed Spotify and YouTube took price hikes that benefit labels, but also noted "no one has taken it" since, and the company cannot compel hikes. Platform revenue share is a percentage of platform revenue, so Tips benefits only when platforms choose to raise prices.
- **Related-party concentration in content supply.** One-third of content comes from Tips Films, a related party. The company seeks shareholder approval for related-party transactions up to INR 60 crores annually. The financial health of Tips Films matters to the content pipeline, and the relationship requires arms-length valuation on every deal, which adds process risk if the film business underperforms.

Scenarios

Bull case

Paid subscription keeps compounding, and the structural shift management has been waiting for arrives. Spotify and YouTube price hikes flow through, subscription grows from 10-15% of digital revenue toward the global norm of over 50%, and per-stream revenue begins closing the gap from the current INR 0.05 level toward the global INR 0.50-0.90 range. The YouTube Shorts renewal moves to a revenue-share model, converting the highest-volume platform into a meaningful profit contributor. The public performance segment grows from roughly INR 500 crores toward INR 3,000 crores as online licensing and compliance take hold, and Tips' share of that market expands. The front-loaded FY27 slate of "Hai Jawani Toh Ishq Hona Hai", "Main Vaapas Aaunga" and Ishqnama, plus smaller H2 releases, creates new evergreen catalogue assets that feed the 85% legacy revenue base. The Warner Music distribution deal, running to 2028, generates overflow revenue above the minimum guarantee in FY28. With H1 FY27 revenue already up 28% and Q2 up 35%, full-year growth exceeds the 20% guide and PAT grows faster because H2 content costs fall away after INR71 crores in H1.

Base case

The company exceeds the guided 20% revenue growth for FY27, having delivered 28% in H1, with Q2 revenue up 35% as the Q1 film releases reached full quarter monetization. Content costs stay inside the INR 90-100 crore budget, with INR71 crores spent in H1 and a much lighter second half, so the annual EBITDA margin holds in the guided 65-70% band after a 70.5% Q2 print. Subscription grows steadily but remains 10-15% of digital revenue and the per-stream rate stays near INR 0.05, so growth is volume-led. The YouTube Shorts deal renews on a fixed fee, not a revenue share, and Shorts stays a non-material contributor. The catalogue continues its mid-teens to 20% annual growth through organic trending and steady platform monetization. Public performance grows in line with the industry but takes longer than the three-year timeline management cites. The company continues returning prior-year PAT, having completed a INR44.44 crores buyback and declared a INR6.50 per share interim dividend. The business compounds in the high teens, with H1 PAT growth of 11% lagging revenue because of front-loaded content.

Bear case

Second-half revenue growth decelerates well below the 28% H1 pace because the content slate is deliberately lighter and consists of smaller films and non-film music, leaving growth dependent on catalogue virality that management cannot schedule. H1 PAT growth of 11% against 28% revenue growth shows the operating leverage cuts both ways: content cost of INR71 crores was already spent and Q2 content cost almost doubled year-on-year, so any second-half film acquisition pushes spend toward or beyond the top of the INR90-100 crore budget. The per-stream rate stays at about INR 0.05, so revenue growth must come entirely from volume. The YouTube Shorts renewal misses its own end-Q2 update and lands on a fixed fee at a negligible increase, keeping the largest volume platform under-monetized. Platform consolidation and paid walls continue, and the company cannot compel price hikes. The 20% guidance is missed as it was structurally challenged in FY26 before being cut from 30%, and the empty CEO seat leaves partnership negotiation to a stretched senior team. With 100% of prior-year PAT earmarked for distribution, reinvestment capacity is limited precisely when content is most expensive.

VALUATION SUMMARY

LINE ITEM	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	311	376	470	559	654
Revenue growth	-	+20.9%	+25.2%	+19.0%	+17.0%
EBITDA (₹ Cr)	207	276	334	396	466
EBITDA margin	66.5%	73.4%	71.0%	70.8%	71.3%
Depreciation (₹ Cr)	2.20	2.50	4.00	4.50	5.00
Interest (₹ Cr)	0.30	0.20	0.40	0.40	0.40
Other income (₹ Cr)	19.00	18.80	21.00	23.00	25.00
PBT (₹ Cr)	223	292	350	414	486
Tax (₹ Cr)	56.60	75.10	88.60	105	123
Tax rate	25.4%	25.7%	25.3%	25.3%	25.3%
PAT (₹ Cr)	167	217	262	309	363
PAT growth	-	+30.1%	+20.7%	+18.3%	+17.3%
EPS (₹)	13.00	17.00	20.50	24.20	28.40
P/E	61.9x	47.4x	39.3x	33.3x	28.4x
PEG	3.5x	2.7x	2.2x	1.9x	1.6x

CAGR FY27E-FY29E: Revenue +18.0% · EBITDA +18.2% · PAT +17.8%

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Q2 FY27 concall notes

TLDR

Tips Music reported Q2 FY27 revenue of ₹120 crores, up 35% YoY, with EBITDA of ₹84.64 crores (70.5% margin, up 25% YoY) and PAT of ₹65.5 crores, up 23% YoY. H1 FY27 revenue was ₹227 crores, up 28%, with PAT of ₹109 crores, up 11%. Content cost for the quarter was ₹26.18 crores, roughly double last year, and H1 content cost was ₹71 crores, front-loaded against a full-year budget of ₹90-100 crores. Management completed a ₹44.44 crore open-market buyback and declared an interim dividend of ₹6.50 per share. Digital contributed 73% of H1 revenue, subscription 10-15% of the digital pie, and growth was primarily volume-driven. Management maintained 20% revenue and PAT growth guidance, with content cost at 20-22% of revenue, while the YouTube Shorts deal remains under negotiation and the CEO search continues.

WHAT CHANGED SINCE Q1 FY27

- Revenue growth guidance: management said it would exceed the 20% FY27 guidance but declined to give a specific revised number, with the Chairman saying "for time being, you consider as 20%." In Q1, guidance was 20% revenue and PAT growth, maintained.
- Content cost guidance: maintained at ₹90-100 crores for FY27, same as Q1. H1 spend of ₹71 crores was front-loaded, and management said H2 would be "much lighter."
- EBITDA margin: Q2 came in at 70.5%, above the 65-70% annual band guided in Q1. Management did not restate the annual band this quarter.
- Buyback: Q1 said the Board would consider buyback on August 5, 2026, evaluating open-market vs tender. This quarter, the ₹44.44 crore open-market buyback was completed, and an interim dividend of ₹6.50 per share was declared.
- YouTube Shorts renewal: Q1 expected an update by end of Q2. This quarter, management said the deal is still under negotiation and not concluded, with no new timeline given.
- CEO search: Q1 said a successor to Hari Nair was expected soon. This quarter, the Chairman said the search is still on and no suitable person has been found, with Sushant and Girish handling operations.
- New disclosure: revenue market share of 8-10% of the industry, and Warner partnership contributing 25-30% of revenue.
- New disclosure: Warner deal comes up for renewal in 2028, towards the end.
- Tone shift: management was more expansive on long-term content investment and industry opportunity, with the Chairman citing a potential ₹50,000 crore events business and saying the industry is "waiting to explode," while remaining conservative on near-term guidance.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹120 crores	+35% YoY	Both new releases and catalog; digital and non-digital contributed
EBITDA	₹84.64 crores	+25% YoY	Revenue growth partly offset by higher content cost
EBITDA margin	70.5%	n/a	Content cost timing; Q2 content cost lower than Q1

METRIC	REPORTED	CHANGE	WHAT DROVE IT
PAT	₹65.5 crores	+23% YoY	Revenue growth; PAT margin 54%
H1 revenue	₹227 crores	+28% YoY	Front-loaded new releases and catalog
H1 PAT	₹109 crores	+11% YoY	Front-loaded content cost of ₹71 crores
Content cost (Q2)	₹26.18 crores	~2x YoY	New releases and continued promotion of Q1 films
Content cost (H1)	₹71 crores	n/a	Front-loaded; full-year guidance ₹90-100 crores
Digital revenue share (H1)	73%	n/a	Both digital and non-digital growing
Subscription share of digital	10-15%	Maintained	Paid subscription growing, platforms pushing adoption
Songs released (Q2)	73 (40 film + 33 non-film)	n/a	Punjabi film Ishqnama crossed 100M YouTube views
YouTube subscribers	164.5 million	Up from 158.3M in Q1	Sustained engagement across platforms
Total library views	54.3 billion	n/a	Growing reach across platforms
Revenue market share	8-10% of industry	n/a	Management estimate
Warner contribution	25-30% of revenue	Increased YoY	Growth across all platforms

SEGMENTS & GEOGRAPHIES

- **Digital**: 73% of H1 revenue, within the 70-75% range management expects. Growth primarily volume-driven, with subscription contributing marginally. Subscription at 10-15% of the digital pie, unchanged from Q1. Management said content budgets and fixed costs are in line, so digital vs non-digital mix has no profitability impact.
- **Non-digital**: Contributed to growth alongside digital. Management expects both segments to grow.
- **Film music**: 40 film songs released in Q2. Punjabi film Ishqnama crossed 100 million YouTube views. Recreated song Aankhon Se Tune 2.0 crossed 66 million views. Chunari Chunari Let's Go (Q1 release) crossed 100 million views. Female version of Tere Paas Mein from Main Vaapas Aaunga performed strongly on Spotify. H2 pipeline is smaller films and non-film music, not bigger names.
- **Non-film/regional**: 33 non-film songs released in Q2, up from 18 in Q1. Management wants to release five to six films a year, four to five in Hindi and two to three in regional languages.
- **Catalog**: 85% of revenue from content acquired up to three years back, 15% from content acquired within the last three years. Catalog track Tera Naam Doon from Entertainment crossed 1 billion views on Instagram.

STRATEGY & COMPANY-SPECIFIC

- **Buyback completed**: ₹44.44 crores through open-market buyback.
- **Interim dividend**: ₹6.50 per share declared during the quarter.
- **Content investment**: H1 content cost of ₹71 crores, front-loaded. Full-year guidance maintained at ₹90-100 crores. H2 will be lighter. Long-term content cost guided at 20-22% of revenue.
- **New content approach**: Management said it takes only one or two songs from films with old catalog, with the rest new. Main Vaapas Aaunga had all new songs by Rahman. Ishqnama had seven new songs by B Praak and Jaani.

- **Artist management**: Management said it will not enter artist management or live events, preferring short-term contracts of two to three songs with artists.
- **Warner partnership**: Warner negotiates worldwide deals and passes on per-view or per-creation revenue. Warner deal up for renewal in 2028, towards the end. Warner contributes 25-30% of revenue.
- **YouTube Shorts**: Deal still under negotiation, not concluded. No new timeline given.
- **CEO search**: Still ongoing, no suitable candidate found. Sushant and Girish handling operations.
- **New producer deals**: Management said it is talking to more producers to sign audio rights and will announce soon.
- **Per-stream rates**: Management said rates will remain at ₹0.05 and will not rise to ₹0.08-0.10. Growth must come from higher stream volumes, currently around 300-400 million streams, targeting 600-800 million.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue growth	Will exceed 20%; no specific number given; "consider as 20%"	Maintained (20%)	H1 grew 28%; management prefers conservative guidance
PAT growth	Will exceed 20%; no specific number given	Maintained (20%)	Same as revenue
Content cost	₹90-100 crores for FY27	Maintained	H1 front-loaded at ₹71 crores; H2 lighter
Long-term content cost	20-22% of revenue	Maintained (20-25%)	Management budget discipline
Digital revenue share	70-75%	Maintained (75%)	Both digital and non-digital growing
Subscription share	10-15% of digital	Maintained	Paid subscription growing
Film releases	5-6 films a year, 4-5 Hindi, 2-3 regional	New	Management target
Per-stream rate	₹0.05, no increase expected	New	Revenue share stable; growth from volumes
Warner renewal	2028, towards the end	New	Contract timeline
YouTube Shorts	Under negotiation, no timeline	Dropped (was end of Q2)	Negotiations ongoing

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
YouTube Shorts deal delay	Deal still under negotiation, not concluded. No new timeline given.
Content cost timing	H1 content cost of ₹71 crores front-loaded against ₹90-100 crores full year. H2 lighter, which may affect growth.
H2 content pipeline	Smaller films and non-film music, not bigger names. Growth in H2 depends more on catalog.
Per-stream rate stagnation	Management said rates will remain at ₹0.05 and will not rise to ₹0.08-0.10. Growth must come from volumes.
Subscription mix	10-15% of digital, unchanged. Management said shift depends on platforms pushing subscription, particularly in rural and Tier 2-4 cities.
CEO search	Still ongoing, no suitable candidate found. Industry talent pool limited.

RISK	WHAT MANAGEMENT SAID
Warner concentration	Warner contributes 25-30% of revenue. Deal up for renewal in 2028.
Competition	Management said no impact expected from international entrants, citing relationships and in-house music creation.

Q&A HIGHLIGHTS

Revenue growth drivers and sustainability Question: What drove 35% YoY growth, and how sustainable is it? Answer: Growth came from both new releases and catalog, with both digital and non-digital contributing. Digital was 73% of H1 revenue. Management said there were no one-offs.

Content cost guidance and H2 pipeline Question: With H1 content spend at ₹71 crores, does H2 have no meaningful Hindi releases? Answer: New releases were front-loaded and will continue to support H2 growth. H2 content will be lighter, with smaller films and non-film music, not bigger names.

Guidance upgrade Question: You indicated guidance upgraded by 2-3 percentage points from 20%. Is the revised guidance conservative? Answer: Management said it would exceed 20% but declined to give a specific number, with the Chairman saying "for time being, you consider as 20%." Management prefers to under-promise.

YouTube Shorts delay Question: Why is the YouTube Shorts deal delayed by three to four months, and will it happen in Q3? Answer: The deal is still under negotiation. Management said it will get back on the timeline and contribution once concluded.

Per-stream economics Question: Can per-stream rates rise from ₹0.05 to ₹0.08-0.10? Answer: Management said rates will remain at ₹0.05. Growth must come from higher stream volumes, currently around 300-400 million, targeting 600-800 million. Paid subscription pickup is the driver for higher per-stream rates.

Warner partnership and Instagram Reels Question: How does Warner handle Instagram Reels negotiations, and when is the renewal? Answer: Warner negotiates worldwide deals and passes on per-view or per-creation revenue. The Warner deal comes up for renewal in 2028, towards the end.

CEO search Question: Any update on the new CEO hiring? Answer: Management said it is aggressive on the search but has not found a suitable person. The search is ongoing, and an appointment will be made immediately when found.

Content investment and future growth Question: How is Tips investing in new music for future longevity versus relying on catalog? Answer: Management said it is investing in new content, citing Main Vaapas Aaunga with all new songs by Rahman and Ishqnama with seven new songs by B Praak and Jaani. The Chairman said the company is focused on new music and wants to return to 30% growth, but is cautious on content cost.

Milky Mist

GROWTH TRIGGERS

Milky Mist is converting a high-growth value-added dairy base into a higher-margin protein and paneer franchise while deleveraging. Q2 FY27 revenue rose 41.06% to ₹1,089 crore, EBITDA margin reached 15.2% and PAT tripled to ₹77.9 crore; net debt was ₹32.6 crore after ₹750 crore repayment. The next leg depends on filling paneer and yogurt capacity and lifting the high-protein mix from 12-13% to 18-20%.

1. Paneer has existing headroom before new capital

Paneer production is 100 tonnes per day against 150 tonnes per day installed, with utilisation near 65%, so the existing line can support more volume before the proposed expansion. Paneer value grew 44% and volume 28% in Q2 FY27. Management is exploring another 200 tonnes per day at Perundurai to reach 350 tonnes per day and says that would cover growth until 2035.

2. High-protein mix carries 50%+ gross margins

High-protein products were 12-13% of Q2 FY27 sales, up from 7% last year, and management targets 18-20% over two to three years. Management says the category earns 50%+ gross margins, well above the base business. The October 2026 launch of high-protein lactose-free milk extends the range into quick commerce and modern trade.

3. Skyr and Greek yogurt capacity just commissioned

The ₹40 crore skyr and Greek yogurt facility at Perundurai was commissioned in September 2026 and lifted capacity from 20 to 180 tonnes per day. Current output is 35-40 tonnes per day, leaving room to scale. Yogurt revenue grew 168% year on year in Q2 FY27, the fastest-growing category.

4. Distribution and quick commerce deepen reach

Milky Mist had close to 4 lakh retail touchpoints, 4,200 distributors and about 45,000 visi coolers and freezers, including 29,000 ice cream freezers. Online channels were 21% of H1 FY27 revenue versus 11% a year earlier. Management targets ₹15,000 monthly throughput per freezer against ₹9,000-10,000 annualised currently.

5. Debt repayment transforms the balance sheet

The company repaid ₹750 crore of borrowings in the IPO month and reported net debt of ₹32.6 crore at September 30, 2026. H1 annualised ROCE was 16.1% and ROE 21.1%. Lower interest cost leaves more of the growing EBITDA for equity, and the CFO sees no major capitalization in the next six months.

6. Cheddar utilisation can rise from a low base

The 100 tonnes per day cheddar line runs at 20% utilisation, and management targets 50% in two to three years. Cheddar absorbs winter milk surplus and has a 15-20 year asset life. Higher utilisation would spread fixed costs and support the milk balancing system without new plant.

7. Baramati adds a second milk base

Milky Mist has 50 acres at Baramati and plans a plant operational in three years. It has already set up 25 bulk milk chillers in Maharashtra, procures 65,000-70,000 litres per day, targets 1 lakh litres per day by year-end and 2-3 lakh litres before commissioning. The project would reduce dependence on Tamil Nadu, though no budget is disclosed.

8. Margin guidance is backed by cost pass-through

H1 FY27 milk and packaging costs rose 11%, and management says calibrated price increases in Q1 and Q2 offset the increase. It sees little further milk inflation in Tamil Nadu and guides to sustaining 15% EBITDA margins. Q2 FY27 already delivered 15.2%.

INVESTMENT THESIS

Milky Mist is a value-added dairy company selling paneer, cheese, curd, yogurt, ice cream, ghee, butter and high-protein products, with no liquid milk. The Q2 FY27 result shows a decade of capacity building converting into operating leverage: revenue rose 41.06% to ₹1,089 crore, EBITDA was ₹165.2 crore at a 15.2% margin, and PAT tripled to ₹77.9 crore. H1 FY27 revenue was ₹2,062.9 crore, up 42.5%, with PAT of ₹142.6 crore. The balance sheet also changed: ₹750 crore of debt was repaid in the IPO month, net debt was ₹32.6 crore at September 30, 2026, and H1 annualised ROCE was 16.1% with ROE at 21.1%.

The economics rest on a simple mechanism. Milky Mist buys milk from farmers, converts all of it into value-added products, and sells through general trade, modern trade, quick commerce, HoReCa and exports. Paneer is the largest category and grew 44% by value and 28% by volume in Q2. Cheese grew 34%, curd 22%, ice cream 43% and yogurt 168%. Because the portfolio spans fresh products with daily repeat and long-shelf-life products such as cheddar with 10-12 month ripening, the same milk pool can be balanced across seasons. The company says H1 milk and packaging costs rose 11%, and calibrated price increases in Q1 and Q2 offset that. Management guides to sustaining a 15% EBITDA margin. That is guidance, not a reported annual outcome, and it depends on mix and pricing.

The next operating lever is the high-protein portfolio. High-protein paneer, cheddar, lactose-free milk and yogurt contributed 12-13% of Q2 sales, up from 7% last year, and management expects 18-20% over two to three years at 50%+ gross margins. The company commissioned a ₹40 crore skyr and Greek yogurt facility at Perundurai in September 2026, lifting capacity from 20 to 180 tonnes per day, against current output of 35-40 tonnes per day. It launched high-protein lactose-free milk in October 2026. If the mix shifts as guided, gross margin should stay above the 33.9% reported in Q2 even if milk costs rise, because the high-protein products carry materially higher gross margins than the base portfolio. That is an inference from disclosed category margins, not a company forecast.

Paneer capacity is the second lever. The Q2 call cites 100 tonnes per day of production against 150 tonnes per day installed, with utilisation near 65%, and management is exploring another 200 tonnes per day at Perundurai to reach 350 tonnes per day. The existing line has headroom before new capital is needed. The additional 200 tonnes per day has no disclosed cost or commissioning date, and management's claim that 350 tonnes per day covers growth until 2035 is an aspiration. The near-term evidence is the 65% utilisation and 44% value growth, not the 2035 claim. Cheddar is a separate utilisation story: 100 tonnes per day of capacity at 20% utilisation, with a target of 50% in two to three years. Cheddar absorbs winter milk surplus but ties up working capital for 10-12 months.

Distribution is the demand-side lever. The company had close to 4 lakh retail touchpoints, 4,200 distributors and about 45,000 visi coolers and freezers, including 29,000 ice cream

freezers. Online channels contributed 21% of H1 FY27 revenue against 11% in H1 FY26. Management targets ₹15,000 monthly throughput per freezer against ₹9,000-10,000 annualised currently. This is sales infrastructure that must earn a return; the call does not disclose the capex per freezer or the payback.

Capital allocation has improved. The ₹750 crore debt repayment is done, net debt is ₹32.6 crore, and the CFO says there is no major capitalization planned in the next six months, with ₹70 crore of CWIP. The Baramati plant in Maharashtra is at design and approval stage, has 50 acres of land, and is described as operational in three years with no budget yet. Milk procurement there is being built ahead: 25 bulk milk chillers, 65,000-70,000 litres per day now, one lakh litres per day targeted by year-end and 2-3 lakh litres before commissioning. That is a sensible sequencing, but it is still pre-capex.

Management delivery can only be assessed from this call because no prior call is in the bundle. On the evidence available, the company delivered the debt repayment and commissioned the skyr line on the stated September 2026 date. The 15% margin, 18-20% high-protein mix and 40%-plus growth are guidance and remain open. The main falsifiers are a milk-cost increase that outruns price increases, a slowdown in paneer or yogurt demand that leaves the new capacity underutilised, and a high-protein price war that compresses the 50%+ gross margins. The thesis is operating leverage with a cleaner balance sheet; it is not a promise that the 40% growth rate is permanent.

RESEARCH REPORT

The offer

The offer totals up to ₹20,350.00 million, of which up to ₹17,850.00 million is a fresh issue and up to ₹2,500.00 million is an offer for sale. The fresh issue is the dominant component, so this is primarily a growth capital raise. The company may also complete a pre-IPO placement of up to ₹3,570.00 million (capped at 20% of the fresh issue size) before the RHP is filed, which would reduce the fresh issue by that amount.

The selling shareholders. The offer for sale comes entirely from the two promoters, Anitha S and Sathishkumar T, who together hold 92.39% of the pre-offer equity share capital (51.45% and 40.94% respectively). The OFS is a small slice of that holding: ₹2,500.00 million against a combined promoter stake of 593,385,210 shares. The exact number of shares on offer is fixed when the price band is set, so the precise percentage of their holding they are selling is not disclosed in the DRHP. Both have held their shares for at least one year as required.

Who gets the money. The company receives the gross proceeds of the fresh issue (₹17,850.00 million), less the offer expenses attributable to the fresh issue, to arrive at the net proceeds. The company receives nothing from the offer for sale; the proceeds go to Anitha S and Sathishkumar T after deducting their share of offer expenses and taxes. The OFS is a modest partial cash-out by the two promoters rather than the point of the transaction.

What the money does. The net proceeds are allocated across four objects:

OBJECT	AMOUNT	DEPLOYMENT SCHEDULE
Repayment of outstanding borrowings	₹7,500.00 million	Fiscal 2026: ₹7,500.00 million
Perundurai facility expansion and modernisation	₹4,147.15 million	Fiscal 2026: ₹1,244.15 million; Fiscal 2027: ₹1,658.85 million; Fiscal 2028: ₹1,244.15 million
Deployment of visi coolers, ice cream freezers and chocolate coolers	₹1,294.28 million	Fiscal 2026: ₹388.28 million; Fiscal 2027: ₹517.72 million; Fiscal 2028: ₹388.28 million
General corporate purposes	[●]	To be finalised

Debt repayment, ₹7,500 million, all in Fiscal 2026. This was the largest single use of proceeds and added no capacity. It repaid or prepaid term loans and working capital facilities. The Q2 FY27 call states the repayment was completed in the IPO month, and net debt stood at ₹32.6 crore as of September 30, 2026. The loans targeted carried interest rates of 8.09% to 9.75%; retiring them lowers interest expense. The document states the freed internal accruals and improved borrowing capacity are intended to fund future growth.

Perundurai facility capex, ₹4,147.15 million, spread across Fiscal 2026 to 2028. This funds installation of a whey protein concentrate and lactose manufacturing plant, a yogurt manufacturing plant with packing line, cream cheese and fresh cheese manufacturing plants, and additional processed cheese capacity through a continuous cooker and chiplet packing lines. The Q2 FY27 call says IPO proceeds are being used as indicated in the RHP, purchase orders have been issued and work is in progress. The cost estimates come from an ITCOT report dated July 21, 2025 and have not been independently appraised.

Cooler deployment, ₹1,294.28 million, spread across Fiscal 2026 to 2028. This buys visi coolers, ice cream freezers and chocolate coolers placed at retail outlets. As of March 31, 2025 the company had deployed 13,885 visi coolers, 13,804 ice cream freezers and 559 chocolate coolers, and it states an intent to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers over Fiscal 2026 to 2028. This is sales-enabling equipment that expands the number of retail points of sale carrying chilled or frozen product, but the deployment targets are stated intent, not contracted commitments.

General corporate purposes, [●], capped at 25% of gross proceeds. Unallocated by definition. Any shortfall in spend against the first three objects also flows here, subject to the same cap.

Two caveats carry weight. The deployment schedule is a plan, not a contract: the document states that if actual utilisation is lower than proposed, the balance goes to general corporate purposes, and cost overruns may be met from internal accruals or additional debt. The objects have not been appraised by any bank, financial institution or independent agency, and the company retains discretion to reallocate between them.

The company and its value-added dairy business

Milky Mist Dairy Food Limited is a Tamil Nadu-based dairy company that makes only value-added dairy products - paneer, cheese, curd, butter, ghee, yogurt, ice cream, UHT long-shelf life products and chocolates, plus, through recent acquisitions, tofu and ready-to-eat/ready-to-cook foods. It does not sell liquid milk as a finished product. The company was incorporated on July 10, 2014, the same day its Perundurai manufacturing facility in Erode District, Tamil Nadu commenced operations. A second facility in Bengaluru, Karnataka, operated by the subsidiary Asal Food Products Private Limited, produces frozen foods and RTE/RTC products on a lease running to January 2027; the company intends to move that production to Perundurai.

The business predates the corporate entity. The founders began producing paneer in 1998, butter in 2009, curd in 2010, mozzarella in 2011, cheddar in 2012 and yogurt in 2013, and the company states it was one of the first private companies in India to launch branded packaged paneer. After incorporation, the portfolio expanded with UHT long-shelf life

products, ice cream, chocolates and sweetened condensed milk, with ice cream sales starting in Fiscal 2024.

Products are sold under the umbrella brand "Milky Mist" for dairy, with sub-brands SmartChef (RTC products), Capella (chocolates and ice cream), Misty Lite (fat spread) and the acquired Briyas (tofu) and Asal (fresh RTC/RTE). As of March 31, 2025, the portfolio spanned 23 product categories and 416 SKUs.

The scale is substantial for a private dairy company. Fiscal 2025 revenue from operations was ₹23,495.03 million, growing at a CAGR of 29.82% from Fiscal 2023, which the company states makes it the fastest growing packaged food company in India among companies with revenue above ₹15,000 million. As of March 31, 2025, it had 1,524 permanent employees, sourced raw milk from 67,615 farmers across 22 districts in Tamil Nadu, Andhra Pradesh and Karnataka, and sold through 3,062 distributors across 22 states and 5 union territories, reaching more than 350,000 retail touchpoints. Between April 1, 2022 and March 31, 2025, it exported to more than 15 countries, including Singapore, the United States, Middle Eastern countries and Australia.

The defining strategic choice is the exclusive focus on value-added dairy rather than liquid milk. Most organized dairy players in India, private and cooperative, centre their business on liquid milk, which carries thin margins. The market report commissioned for the offer from Lattice Technologies (the "1Lattice Report") estimates liquid milk margins at 5-8%, against 15-40% for cheese, yogurt and ice cream. The company states it aligns more closely with FMCG companies than with traditional dairy businesses in gross margins, distribution model and premium pricing.

> *"We focus on value added dairy products, which aligns more closely with fast-moving consumer goods ("FMCG") companies than traditional dairy businesses in terms of gross margins, distribution model and premium pricing."*
>
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That positioning shows up in pricing. As of March 31, 2025, paneer and curd prices ran 10-25% above the average market price of large Indian brands, and the 1Lattice Report calculates the company's realisation per litre of milk procured at approximately ₹74, the highest among listed peers. The strategy has produced category leadership: the company states it was the largest private packaged paneer brand in India's organized market with approximately 17% share in Fiscal 2025, and the largest private packaged cheese brand in South India with approximately 12% share.

The business is still geographically concentrated. South India contributed 71.00% of Fiscal 2025 revenue from operations, and 97.68% of raw milk was procured from Tamil Nadu. The

share from the rest of India has been rising, from 18.57% of revenue in Fiscal 2023 to 25.23% in Fiscal 2025, but the company's economics remain tied to the Southern dairy belt within a 400 kilometre radius of Perundurai.

The company is promoted by Sathishkumar T, Chairman and Managing Director with 26 years in the dairy and food industry, who held 40.94% of pre-Offer equity, and Anitha S, Whole-time Director with 23 years of experience, who held 51.45%. The CEO, Dr. K Rathnam, has 33 years in food products and previously served as managing director of Kaira District Co-operative Milk Producers' Union Limited (Amul).

Product portfolio and category mix

Milky Mist describes itself as a product-led company exclusively focused on dairy products beyond liquid milk, which usually carries lower margins. As of March 31, 2025, it offered 23 product categories with 416 SKUs under the umbrella brand Milky Mist and sub-brands SmartChef (RTC products), Capella (chocolates and ice-cream), Misty Lite (fat spread), Briyas (tofu) and Asal (fresh RTC and RTE products).

> *"We are a product-led company, dedicated to addressing the diverse and emerging consumer needs for the entire day, from breakfast to dinner."*
>
> **DRHP, OUR BUSINESS**

The portfolio logic is full-day consumption. Roughly 80% of Fiscal 2025 sales revenue fell in the daily consumption category - paneer, curd, yogurt, ghee, butter - products households buy routinely. That positioning supports premium prices: the company states its paneer and curd prices are typically 10% to 25% above the average market price of large Indian brands.

Revenue is reported across five buckets. Paneer is the largest at 29.52% of Fiscal 2025 revenue, followed by cheese at 17.36%, curd at 15.75% and ice-cream at 5.86%. The remaining 31.51% sits in a catch-all "others" bucket that collects ghee, butter, yogurt, UHT long-shelf-life products, chocolate, khova, sweetened condensed milk, RTE/RTC products and whey powder. Individually, "others" is the single largest line item, larger than paneer, and its composition matters for understanding what the company actually sells.

PRODUCT CATEGORY	FISCAL 2025 (₹ MILLION)	% OF REVENUE	FISCAL 2024 (₹ MILLION)	% OF REVENUE	FISCAL 2023 (₹ MILLION)	% OF REVENUE
Paneer	6,936.08	29.52%	5,588.91	30.68%	4,379.64	31.41%
Cheese	4,078.33	17.36%	3,472.57	19.06%	2,689.96	19.29%
Curd	3,701.04	15.75%	2,991.03	16.42%	2,322.19	16.66%
Ice-cream	1,376.78	5.86%	345.15	1.89%	Nil	Nil
Others	7,402.80	31.51%	5,818.43	31.94%	4,549.96	32.64%
Revenue from operations	**23,495.03**	**100%**	**18,216.09**	**100%**	**13,941.75**	**100%**

The categories play different roles. Fresh products like curd and paneer drive daily repurchase and fill the visi coolers the company places in retail outlets. Long-shelf-life products like cheddar, UHT and ghee absorb the winter flush milk surplus and extend the selling window. Ice-cream and chocolate are seasonal and impulse-driven, with their own freezer and cooler networks. A single milk pool feeds products with different shelf lives, demand patterns and margins.

The portfolio has been deliberately widened. Between April 1, 2022 and March 31, 2025, the company introduced four new product categories - UHT products, ice-cream, chocolates and sweetened condensed milk - plus 348 new SKUs, which contributed ₹5,116.40 million in Fiscal 2025, 21.78% of revenue from operations. The company states the diversification is designed to use its logistics network, maximize shelf space in retail outlets through visi coolers, and increase its share of the customer's wallet. The acquisitions of Asal (frozen foods, RTE/RTC) and the Briyas tofu business extend the portfolio beyond dairy.

Paneer

Paneer is the largest category and the company's flagship. It generated ₹6,936.08 million in Fiscal 2025, 29.52% of revenue from operations, up from ₹5,588.91 million in Fiscal 2024 and ₹4,379.64 million in Fiscal 2023. The 1Lattice Report commissioned for the offer estimates Milky Mist was the largest private packaged paneer brand in the organized market, with approximately 17% market share by value in Fiscal 2025.

The category spans 12 SKUs: fresh paneer, frozen paneer cubes for longer shelf life, and a high-protein low-fat paneer delivering 50 grams of protein per pack, in 200g, 500g and 1kg packs. The company was one of the first private players to launch branded packaged paneer in India, starting production in 1998, and claims its paneer prices are among the highest of large Indian brands.

The manufacturing story defines the category's economics. Indian paneer production was traditionally manual with no continuous high-capacity technology. The company visited

Europe to study cheese-making technologies, then adapted European production conditions for paneer, enabling continuous large-scale production with automated cutting, block weight and density measurement, and robotic pick-and-place packaging. The company states this eliminated human touchpoints, improving hygiene

Paneer

Paneer is Milky Mist's largest product category and the one built on its most distinctive manufacturing capability. The company began paneer production in 1998 and was one of the first private companies in India to launch branded, packaged paneer. In Fiscal 2025, paneer contributed ₹6,936.08 million, or 29.52% of revenue from operations, down from 30.68% in Fiscal 2024 and 31.41% in Fiscal 2023 as faster-growing categories (ice cream, UHT products) diluted its share.

The core capability is a production line that did not exist in India. Paneer was traditionally made by hand, with no technology for continuous, high-capacity production without human intervention. The company's team visited Europe to study cheese-making technologies, and after years of development, adapted them for paneer:

> *"Our team visited Europe to study cheese-making technologies. After identifying technologies for soft cheese variants, and after years of development, we replicated the European production conditions and adapted the cheese manufacturing technology for paneer production."*
>
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The resulting line, installed in a fully automated plant set up in 2018, measures block weight and density, cuts automatically, and packs with robotic pick-and-place, eliminating human touchpoints. This is the foundation of the entire segment: it is the reason a traditionally unorganized, hand-made product can be produced at scale with consistent hygiene, which is the precondition for a branded, premium product.

Products: 12 paneer SKUs as of March 31, 2025, including fresh paneer, frozen paneer cubes for longer shelf life, and a high-protein, low-fat variant with 50 grams of protein per pack. Packs are 200 grams and 500 grams; the production line also cuts 1 kilogram blocks. The range carries a deliberate price premium: the document states paneer and curd prices are typically 10% to 25% above the average market price of large Indian brands. That premium strategy is what the company credits for achieving the highest realisation per litre of milk procured (approximately ₹74 in Fiscal 2025) among listed peers, per the 1Lattice report commissioned for the offer.

Market position: the company states it was the largest private packaged paneer brand in the organized market, with approximately 17% market share by organized packaged paneer market value in Fiscal 2025. The organized market is still small - approximately ₹40.6 billion

in Fiscal 2025 against a total paneer market of approximately ₹0.8 trillion, most of which is unorganized. The 1Lattice report projects organized paneer will grow at approximately 20.2% CAGR to approximately ₹102 billion by Fiscal 2030, and calls paneer the fastest-growing traditional value-added dairy product segment, driven by rising protein consumption.

Capacity and utilisation: installed paneer capacity was 26,280 MT per annum (72 MT per day) as of March 31, 2025, which the document states was the largest in India among organized private peers. Utilisation of available capacity climbed from 75.38% in Fiscal 2023 to 89.47% in Fiscal 2024 and 110.49% in Fiscal 2025. In the Q2 FY27 call, management cited current paneer production of 100 tonnes per day against installed capacity of 150 tonnes per day, with utilisation close to 65%, and said it is exploring another 200 tonnes per day at Perundurai to take capacity to 350 tonnes per day. The earlier post-March 2025 figure of 70,080 MT per annum (192 tonnes per day) in the offer document is not the current management figure.

Customers and channels: paneer sells through the same multi-channel network as the rest of the portfolio - general trade (43.38% of company revenue in Fiscal 2025), modern trade (23.83%), HoReCa (16.47%), e-commerce (9.56%), B2B (6.15%) and B2C (0.61%). As of March 31, 2025, the company had 3,062 distributors across 22 states and 5 union territories, reaching more than 350,000 retail touchpoints, with 13,885 visi coolers deployed at retail. Paneer is a daily-consumption product - the document states approximately 80% of Fiscal 2025 sales revenue falls in the daily consumption category - which is why chilled distribution and cooler placement matter. Whey, a by-product of paneer production, is sold separately in B2B markets. Between April 2022 and March 2025 the company exported to more than 15 countries including Singapore, the US, Middle Eastern countries and Australia; export revenue was ₹741.49 million (3.16% of revenue from operations) in Fiscal 2025, though paneer's share of exports is not separately disclosed.

Competition: the document names Nestle India, Britannia Industries, Tata Consumer Products, Hatsun Agro Products, Parag Milk Foods, Dodla Dairy and Bikaji Foods as listed peers, but does not break out paneer-specific rivals. The more relevant competitive fact is structural: the majority of Indian paneer is still unbranded and sold loose. That unorganized base is the growth opportunity for organized players, and it is also the constraint on the premium strategy if consumers decide loose paneer is good enough.

High-protein portfolio (Q2 FY27)

The high-protein range, including high-protein paneer, cheddar, lactose-free milk and yogurt, contributed 12-13% of Q2 FY27 sales, up from 7% last year, and management expects it to reach 18-20% over the next two to three years at 50%+ gross margins. The company commissioned a ₹40 crore skyr and Greek yogurt facility at Perundurai in September 2026,

lifting capacity from 20 to 180 tonnes per day, and launched high-protein lactose-free milk in October 2026.

Cheese

Milky Mist's cheese business covers mozzarella, cheddar, processed cheese and cream cheese in slices, blocks, cubes and spreads, sold under the Milky Mist brand. Commercial production began with mozzarella in 2011 and cheddar in 2012, making cheese one of the company's oldest product lines. The segment contributed ₹4,078.33 million in Fiscal 2025, or 17.36% of revenue from operations, down from 19.06% in Fiscal 2024 and 19.29% in Fiscal 2023. Absolute revenue keeps rising, but paneer and the newer ice-cream line have grown faster and diluted cheese's share. As of March 31, 2025, cheese had 45 SKUs.

The core capability is the ripening and stretching process. Cheddar blocks are ripened in a cold room for 10 to 12 months, which makes cheddar a long-dated product that absorbs the winter flush. During peak flush season, when milk supply is abundant, the company converts excess milk into cheddar cheese instead of selling it as lower-value liquid milk. That milk-balancing role matters as much as the shelf product: it keeps the factory running through the seasonally strong winter supply rather than dumping or discounting surplus milk. Mozzarella undergoes heat treatment for stretching, is moulded into different sizes, chilled and packed. Processed cheese blends different ages of cheddar blocks with ingredients, cooks them at high temperature, and packs them into cubes, blocks and slices. The lines are automated - the cheese slice packing line produces up to 1,000 slices per minute.

Capacity and utilisation at the Perundurai facility, in metric tons per annum:

- Cheddar: 5,694 installed. Production was 2,405 MT in Fiscal 2023 (66.32% of available capacity), 3,848 MT in Fiscal 2024 (106.09%) and 3,232 MT in Fiscal 2025 (89.10%). The above-100% figure came from optimising cleaning-in-place hours below four and pushing line efficiency above 90%.
- Mozzarella: 17,520 installed. Production rose from 3,586 MT (32.13%) to 4,050 MT (36.29%) to 5,238 MT (46.93%).
- Processed cheese: 15,768 installed. Production rose from 2,622 MT (26.10%) to 4,038 MT (40.20%) to 4,445 MT (44.25%).

Capacity is not the near-term constraint in mozzarella and processed cheese. The company states it is in the process of expanding cheddar capacity, and the Q2 FY27 call cites a 100 tonnes per day cheddar line running at 20% utilisation, with management targeting 50% utilisation in two to three years. It plans to use part of the offer proceeds for cream cheese and fresh cheese manufacturing plants and for processed cheese capacity additions via a continuous cooker and chiplet packing lines. Whey powder, a by-product of cheese and paneer production, was sold into B2B markets at 35.49% utilisation in Fiscal 2025.

Customers split across retail, food service and industrial buyers. Industrial cheese is moulded into blocks, ripened in cold rooms, and sold to B2B customers. The company introduced 'Filler Cheese' designed to enhance pizzas, fries and sandwiches, which points at pizza chains and quick-service restaurants as a target. HoReCa was 16.47% of company revenue in Fiscal 2025, and cheese is the natural product for that channel. Retail distribution rides on the company's 3,062 distributors, 13,885 visi coolers and fleet of 252 reefer trucks for cold-chain delivery. Between April 2022 and March 2025 the company exported to more than 15 countries including Singapore, the United States, Middle Eastern countries and Australia; exports were 3.16% of revenue in Fiscal 2025.

Competitive position is regional strength against national scale. The 1Lattice report commissioned for the offer ranks Milky Mist as the largest private packaged cheese brand in South India with approximately 12% of Southern organised cheese market value, and third among private players nationally at approximately 5% of the organised packaged cheese market. The "private" qualifier matters - the ranking excludes cooperative dairies, which dominate Indian dairy. The offer document lists Nestle India, Britannia Industries and Parag Milk Foods among listed peers; Parag's Go Cheese is the most direct private cheese competitor. The same report estimates the emerging value-added dairy products market (cheese, yogurt, whey) at approximately ₹0.4 trillion in Fiscal 2025, growing at a 15.2% CAGR to approximately ₹0.9 trillion by Fiscal 2030.

> *"In Fiscal 2025, we were the largest private packaged cheese brand in South India with a market share of approximately 12% in terms of market value in the Southern region's organised cheese segment"*
>
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The Perundurai facility holds U.S. FDA approval, and the company states processed cheese carries BIS or AGMARK certification - relevant trust signals in a category where consumers are buying a brand over unbranded local cheese.

Curd

Curd is Milky Mist's third-largest product category and one of its oldest. Commercial production began in 2010, and as of March 31, 2025 the line spans set curd, probiotic curd, pouch curd and bucket curd across 19 SKUs. It generated ₹3,701.04 million in Fiscal 2025, or 15.75% of revenue from operations.

The core capability is automated set curd manufacturing in a market that is overwhelmingly unorganised. Curd in India is traditionally made loose and sold without branding, and the company says it played a role in changing that:

> *"We have been instrumental in creating branded value added dairy product offerings in various unorganized markets such as curd and paneer."*
>
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It was among the first dairy companies to introduce 1 kg set curd tub packaging in South India, a format that made branded, chilled curd practical for retail. The production process is fully automated, from standardizing milk and inoculating it with bacterial culture to filling, incubating to set, blast cooling and storage. The company's curd packaging lines are built for high-capacity, precision filling.

The capacity picture shows a company investing well ahead of demand. Installed capacity as of March 31, 2025 was 86,400 MT per annum for pouch curd and 175,200 MT per annum for set curd, both doubled during Fiscal 2025 (pouch curd from 240 to 480 MT per day, set curd from 120 to 240 MT per day). Production grew too, with pouch curd output rising from 20,512 MT in Fiscal 2024 to 23,502 MT in Fiscal 2025 and set curd from 16,922 MT to 21,479 MT. But utilisation on available capacity fell because capacity doubled faster than output. Pouch curd ran at 42.12% of available capacity in Fiscal 2025, down from 73.52% the prior year. Set curd ran at 19.25%, down from 30.33%. Available capacity assumes 20 operating hours a day over 310 days a year, after cleaning time.

Revenue in the category has grown steadily: ₹2,322.19 million in Fiscal 2023 (16.66% of revenue from operations), ₹2,991.03 million in Fiscal 2024 (16.42%) and ₹3,701.04 million in Fiscal 2025 (15.75%). The percentage share edges down because other categories grew faster, particularly ice cream, which launched in Fiscal 2024 and went from nil to 5.86% of revenue within a year.

The buyers are retail consumers purchasing for daily consumption. The company says roughly 80% of its Fiscal 2025 sales revenue falls in the daily consumption category, which includes curd alongside paneer, yogurt, ghee and butter, and notes that women are key decision-makers in these household purchases. Curd is also seasonal. During summer, when milk supply drops 20-30%, the company shifts production toward high-demand items such as ice cream, beverages, curd and buttermilk. Distribution runs through the company's own refrigerated chain, which matters for a chilled product with a short shelf life. As of March 31, 2025 the company had 3,062 distributors across 22 states and 5 union territories reaching more than 350,000 retail touchpoints, backed by 13,885 visi coolers deployed at retailers.

Competitively, the company held approximately 7% of market value in the organised curd market in Southern India in Fiscal 2025, per the 1Lattice Report commissioned for the offer. That leaves the category mostly unorganised, and the company prices at a premium, with curd and paneer prices running 10-25% above the average market price of large Indian brands. The document names Nestle India, Britannia Industries, Tata Consumer Products,

Hatsun Agro Products, Parag Milk Foods, Dodla Dairy and Bikaji Foods as listed competitors, though it does not provide curd-specific competitive shares for any of them.

Ice-cream

Ice-cream is Milky Mist's newest product category. The company commissioned a high-capacity ice-cream plant in 2023 and started selling in Fiscal 2024, one of four new categories introduced between April 2022 and March 2025 alongside UHT products, chocolates and sweetened condensed milk. It is the only new category tracked separately in the revenue breakdown, contributing ₹1,376.78 million in Fiscal 2025, or 5.86% of revenue from operations, up from ₹345.15 million (1.89%) in Fiscal 2024. The category did not exist in Fiscal 2023.

The product range is broad for a two-year-old launch: 137 SKUs as of March 31, 2025, under the Capella sub-brand (Capella Cone, Capella Bar, Capella Duet) plus Cassata Slice, Ice Candy, Kulfi, Sundae Cup, Sorbet, Family Treats and Frosty Frills (CheeseCake N Red Velvet). Formats run from medium cups to mega party packs, with reduced-sugar and sugar-free variants. The manufacturing process is automated: milk is standardized with fats and solids, heat-treated, aged under temperature control, flavoured, passed through a continuous freezer that incorporates air, packed, blast-frozen and held frozen until dispatch.

The plant is running well below capacity. Installed capacity is 65,700 kiloliters per annum, with available capacity of 41,850 kiloliters after accounting for cleaning time and a 90% efficiency assumption. Actual production was 8,020 kiloliters in Fiscal 2025, a 19.16% utilization rate, up from 5.83% in Fiscal 2024. Production more than tripled year over year, but the plant still has roughly 80% headroom.

Ice-cream plays a specific role in the company's milk balancing system. Summer milk supply drops 20-30% depending on region and monsoon, and that is when the company shifts production toward ice-cream, beverages, curd and buttermilk. Winter's abundant milk goes into longer-shelf-life products like cheddar cheese and UHT. Ice-cream is the summer demand absorber that keeps the milk pool utilized.

> *"during the summer season, when milk volume decreases, we focus on producing products with high demand, such as ice cream, beverages, curd, and buttermilk."*
>
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Distribution runs through the company's own cold chain. The 252 reefer trucks with in-built refrigeration move frozen product from the Perundurai facility to distributors, and 13,804 ice-cream freezers had been deployed across 10,503 retail outlets as of March 31, 2025. The freezer network is the impulse-purchase engine: the company plans to deploy 25,000

additional ice-cream freezers over Fiscal 2026-2028 using offer proceeds, following the visi-cooler playbook it has run since Fiscal 2011.

The document does not disclose an ice-cream market share for Milky Mist. It lists listed peers as Nestle India, Britannia Industries, Tata Consumer Products, Hatsun Agro Products, Parag Milk Foods, Dodla Dairy and Bikaji Foods; Hatsun's Arun brand is the established South Indian ice-cream incumbent. The company's positioning is premium, consistent with its paneer and curd pricing 10-25% above large Indian brands, and the Capella line and sugar-free variants target that higher price point.

Other product categories

"Other product categories" is the company's catch-all bucket and its largest revenue segment. It contributed ₹7,402.80 million in Fiscal 2025, or 31.51% of revenue from operations, ahead of paneer (29.52%), cheese (17.36%) and curd (15.75%). The share held steady across the three reported years: 31.94% in Fiscal 2024 and 32.64% in Fiscal 2023. The revenue table's footnote defines it as ghee, butter, chocolate, khova and UHT long-shelf life products, and the category also takes in yogurt, sweetened condensed milk, fresh cream, whey powder and the RTE/RTC lines.

The segment's strategic function is seasonal milk balancing. The company sells no liquid milk, so every litre of the 307.20 million litres procured in Fiscal 2025 must become a value-added product. In the winter flush, when supply peaks, the company converts the excess into long-shelf-life products:

> *"During the peak winter flush season, when milk supply is abundant, we convert the excess milk into products such as cheddar cheese, which has a 10 to 12-month ripening period, UHT long-shelf life products with a 6 to 9-month shelf life, and high heat powder for internal use."*
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In summer, when supply drops 20% to 30%, production shifts to ice cream, beverages, curd and buttermilk. This balancing system is what lets the Perundurai plant run at 12.5 lakh litres per day of milk processing capacity without dumping milk.

The technology platforms in this segment were built over the past few years. The UHT plant, commissioned in Fiscal 2023, uses aseptic packing with spout formats instead of straws so packs can be reclosed. A spray-drying unit produces whey powder as a by-product of paneer and cheese. Chocolate production involves controlled melting of cocoa mass, refining, conching, tempering and moulding, with finished goods stored and shipped at 16 to 18 degrees Celsius in refrigerated containers. Sweetened condensed milk started production in July 2023, chocolates in November 2023.

The product list spans very different shelf lives. Ghee (20 SKUs) and butter (11 SKUs) are daily-consumption staples. UHT products (28 SKUs) include toned milk, lactose-free milk, fresh cream, milkshakes, lassi and buttermilk. Yogurt (23 SKUs) includes Greek yogurt and Skyr made through membrane filtration of fermented milk; the company claims, per the 1Lattice report, to be among the top three private packaged yogurt brands in India with approximately 7% market share. RTE/RTC products (16 SKUs) - batter, parotta, chapati, peanut bars - come from the Bengaluru facility under the SmartChef and Asal brands. The "others" sub-category (105 SKUs) covers chocolate under the Capella brand, khova, condensed milk and fresh cream.

Two acquisitions expand this segment beyond dairy. In February 2025 the company signed an asset purchase agreement with Briyas Foods for its tofu business, and in March 2025 it agreed to buy 100% of Asal Food Products from its own promoters, bringing in the frozen food and RTE/RTC portfolio. The Bengaluru facility is leased and run by the Asal subsidiary, and the company states it intends to move production to Perundurai. A tofu line with 3.2 MT per day of installed capacity was commissioned at Perundurai after March 31, 2025.

Capacity utilisation splits the segment into mature lines and new lines running far below capacity. Ghee ran at 71.76% of available capacity in Fiscal 2025, up from 35.26% in Fiscal 2023. Yogurt ran at 77.17%. At the Bengaluru facility, batter ran at 94.16%, parotta at 86.35% and peanut bars at 87.68%. The newer lines are lightly loaded: chocolate at 9.52% (383 MT of actual production against 6,307 MT installed), sweetened condensed milk at 4.64% (518 MT against 17,520 MT), butter at 23.45% and khoa at 56.90%. Whey powder capacity nearly tripled in Fiscal 2025, from 13,140 MT to 37,843 MT, and utilisation fell from 84.32% to 35.49% as the expanded line came on stream. The company is expanding ghee from 24 to 40 MT per day, batter from 18 to 80 MT per day, parotta from 6 to 10 MT per day and chapati from 2.4 to 5 MT per day, and plans to use part of the offer proceeds to install a whey protein concentrate and lactose plant.

Customers span every channel. General trade is 43.38% of company revenue, modern trade 23.83%, HoReCa 16.47%, e-commerce 9.56% and B2B 6.15%. Whey powder is sold into B2B markets. Exports reached ₹741.49 million in Fiscal 2025, or 3.16% of revenue, after shipping to more than 15 countries between April 2022 and March 2025, including Singapore, the United States, Middle Eastern countries and Australia. The Perundurai facility holds US FDA approval, which supports the export business. The segment's chilled and frozen products ride the company's network of 13,885 visi coolers, 13,804 ice cream freezers and 559 chocolate coolers in retail outlets.

Competition is the standard field of Indian packaged food. The company names Nestle India, Britannia Industries, Tata Consumer Products, Hatsun Agro Products, Parag Milk Foods, Dodla Dairy and Bikaji Foods as listed peers, per the 1Lattice report commissioned for the

offer. The offer document does not disclose market share for ghee, butter, chocolate, UHT or condensed milk individually. The competitive claim rests on premium pricing - paneer and curd priced 10% to 25% above the average of large Indian brands - and the highest realisation per litre of milk procured at approximately ₹74 in Fiscal 2025 versus listed peers.

Milk procurement and farmer network

Direct sourcing model

Raw milk is the company's primary raw material, and Milky Mist's procurement model is built on buying directly from farmers rather than through intermediaries or dairy cooperatives. The company states this direct model gives farmers higher realisation, ensures transparency, and builds loyalty through timely payments every 7 to 10 days, made directly into farmers' bank accounts.

The direct sourcing share has shifted meaningfully as volumes have grown. In Fiscal 2023, 199.86 million litres of the 201.18 million litres procured (99.34%) came directly from farmers. By Fiscal 2025, total procurement had grown to 307.20 million litres, but direct farmer procurement rose only modestly to 261.59 million litres (85.15%), with the balance of 45.61 million litres (14.85%) now coming from third-party dairy operators. In Fiscal 2024, direct procurement was 263.55 million litres (96.61%) of 272.80 million litres total. The company has absorbed the incremental volume growth since Fiscal 2024 almost entirely from third-party operators, a structural shift in the sourcing model worth watching against its stated identity as a direct-sourcing company.

The procurement base is geographically concentrated. As of March 31, 2025, the company sourced from 67,615 farmers across 22 districts in Tamil Nadu, Andhra Pradesh and Karnataka, all within a 400-kilometre radius of the Perundurai facility in Erode District, Tamil Nadu. The 1Lattice Report commissioned for the offer notes this region has one of the highest supplies of raw milk in India. Within that footprint, Tamil Nadu dominates: 300.08 million litres (97.68%) of total procurement in Fiscal 2025 came from the state, up from 201.18 million litres (100%) in Fiscal 2023. The "Others" bucket covering Maharashtra, Karnataka, Telangana and Andhra Pradesh contributed just 7.12 million litres (2.32%) in Fiscal 2025.

Farmer relationships

The farmer count has been broadly stable: 61,991 farmers in Fiscal 2023, 67,807 in Fiscal 2024, and 67,615 in Fiscal 2025. Of the Fiscal 2025 base, 31,961 were women, roughly 47% of the network.

The company's farmer engagement goes beyond collection. It runs clean milk production programs, silage training, fodder seed supply, veterinary support, vaccinations, artificial insemination services, and helps farmers obtain cattle purchase loans. It also provides cattle

feed. These programs serve a commercial purpose: keeping milk quality consistent and locking in supply loyalty in a market where the company has no formal supply contracts with farmers.

The offer document acknowledges this directly in the risk factors - there are no formal arrangements with farmers, and the volume and price of milk procured can fluctuate in the absence of a formal supply agreement. The relationship is maintained through the support programs, the payment cycle, and the fact that eliminating middlemen puts more money in farmers' hands.

AMCU network and chilling centres

Farmers deposit milk at tech-enabled automated milk collection units (AMCUs), which test milk on the spot and automatically capture quality and quantity data. Farmers receive an SMS with the quality details, quantity deposited and amount due, and the data flows directly into the company's systems. The AMCU network has grown from 2,852 units as of March 31, 2023 to 3,448 as of March 31, 2024 and 3,460 as of March 31, 2025, across Tamil Nadu and Karnataka.

From the AMCUs, milk moves to 21 chilling centres (comprising Milk Chilling Centres and Bulk Milk Coolers) as of the date of the DRHP, located within a 30 to 40-kilometre radius of the collection villages. The company's own fleet of milk vans, each carrying approximately 1,000 to 1,500 litres, handles this first leg. The longer haul to Perundurai is done by 44 milk tankers, each with a capacity of approximately 23,150 litres. The company also uses third-party transporters for the AMCU-to-chilling-centre leg.

Three-tier quality testing

The quality system is a three-stage filter, each stage testing more parameters than the last:

1. **AMCU level**: 3 parameters - fat content, non-fat solids, and water content. This is the acceptance gate at the point of deposit.
2. **Chilling centres**: 21 parameters - including fat, protein, and methylene blue reduction test (MBRT), which measures bacterial load.
3. **Perundurai facility**: 31 parameters - including fat, nitrogen, and acidity, tested before milk enters the automated processing system.

The company also tests on 14 parameters (fat, acidity, MBRT) before unloading raw milk at the facility, and 15 parameters before automated processing. Finished product batches are analysed on 26 parameters. The in-house laboratory at Perundurai uses Milkoscan FT3 equipment for 27-parameter infrared analysis of milk and gas chromatography for impurity testing in ghee and butter.

The quality control function is staffed by 33 employees as of March 31, 2025, responsible for training across departments and enforcing compliance with the company's quality management systems.

Seasonal milk supply dynamics

Indian dairy has two distinct seasons. The winter flush season brings abundant milk supply; summer brings a 20% to 30% drop in milk supply depending on region and monsoon conditions, per the 1Lattice Report. South India faces less fluctuation than North India because of milder temperature swings.

The company's milk balancing system converts excess winter milk into products with long shelf lives that can be held through the lean season:

> *"During the peak winter flush season, when milk supply is abundant, we convert the excess milk into products such as cheddar cheese, which has a 10 to 12-month ripening period, UHT long-shelf life products with a 6 to 9-month shelf life, and high heat powder for internal use."*
>
> **DRHP, OUR BUSINESS**

In summer, when milk volumes fall, the company shifts production toward high-demand products - ice cream, beverages, curd and buttermilk. This product-mix flexibility is the core mechanism for managing seasonality without wasting milk. The strategy only works because the product portfolio spans both long-shelf-life categories (cheddar, UHT) and high-summer-demand categories (ice cream, curd), which is why the company's category breadth and its procurement network are linked.

Procurement volumes

Total raw milk procurement: 201.18 million litres in Fiscal 2023, 272.80 million litres in Fiscal 2024, and 307.20 million litres in Fiscal 2025. The direct-from-farmer portion: 199.86 million, 263.55 million and 261.59 million litres respectively.

The raw milk cost dynamic: cost of materials consumed was ₹15,444.57 million in Fiscal 2025, roughly 65.74% of revenue from operations, up from 65.72% in Fiscal 2023 and 70.28% in Fiscal 2024. Milk price volatility is the single largest input cost driver, and the company's gross margin of 33.89% in Fiscal 2025 depends on managing that cost line through the seasons.

The company states it intends to expand the AMCU network and strengthen farmer relationships through quality- and quantity-based incentives as it grows. Milk-processing capacity is being expanded to 2.25 million litres per day, which will require proportionally more raw milk - and given the 85.15% direct-sourcing share in Fiscal 2025, a meaningful portion of that incremental volume will likely need to come from third-party operators or aggressive AMCU expansion.

Manufacturing capacity and utilisation

Manufacturing footprint

Milky Mist operates two manufacturing facilities. The Perundurai Manufacturing Facility in Erode District, Tamil Nadu (100,001 square metres of built-up area, owned, operations since July 10, 2014) produces the entire value-added dairy range: paneer, cheese, curd, butter, ghee, yogurt, ice cream, UHT products, chocolates, sweetened condensed milk and whey powder. The Bengaluru Manufacturing Facility in Karnataka (1,465 square metres, leased until January 2027, operated by subsidiary Asal Food Products) produces RTE/RTC products - batter, parotta, chapati and peanut bars. The company states it intends to move the Bengaluru operations into Perundurai.

Perundurai is the centre of gravity. It sits within a 400-kilometre radius of the company's milk procurement network across Tamil Nadu, Andhra Pradesh and Karnataka, a region the 1Lattice Report commissioned for the offer describes as having one of the highest raw milk supplies in India. The facility holds US FDA approval (received in Fiscal 2022), ISO 22000:2018 and FSSC 22000 certifications. Domestic and export products come from the same facility.

Installed capacity by product line

As of March 31, 2025, installed capacity spanned 19 product lines. Milk processing capacity was 1.25 million litres per day. In Fiscal 2025 the company procured 307.20 million litres of raw milk, so the processing line had headroom.

PRODUCT LINE	INSTALLED CAPACITY AS OF MARCH 31, 2025	FISCAL 2025 UTILISATION
Paneer	26,280 MT/annum (72 MT/day)	110.49%
Set curd	175,200 MT/annum	19.25%
Pouch curd	86,400 MT/annum	42.12%
Ice cream	65,700 kilolitres/annum	19.16%
Whey powder	37,843 MT/annum	35.49%
Butter	21,900 MT/annum	23.45%
Mozzarella cheese	17,520 MT/annum	46.93%
Sweetened condensed milk	17,520 MT/annum	4.64%
Processed cheese	15,768 MT/annum	44.25%
Cheddar cheese	5,694 MT/annum	89.10%
Yogurt	8,760 MT/annum	77.17%
Ghee	8,760 MT/annum	71.76%
Chocolate	6,307 MT/annum	9.52%
Khoa	3,504 MT/annum	56.90%
Shrikhand	2,190 MT/annum	36.63%
Batter (Bengaluru)	6,570 MT/annum	94.16%
Parotta (Bengaluru)	2,190 MT/annum	86.35%
Chapati (Bengaluru)	876 MT/annum	79.45%
Peanut bar (Bengaluru)	197 MT/annum	87.68%

Several lines saw capacity additions during Fiscal 2025 itself. Set curd went from 120 to 240 MT per day, pouch curd from 240 to 480 MT per day, and whey powder from 36 to 104 MT per day. Chapati capacity rose from 1.2 to 2.4 MT per day across Fiscals 2024 and 2025. Ice cream, chocolate and sweetened condensed milk were all commissioned in Fiscal 2024. In the Q2 FY27 call, management cited 150 tonnes per day of installed paneer capacity and 100 tonnes per day of production, with an additional 200 tonnes per day under consideration, rather than the post-March 2025 70,080 MT/192 tonnes per day figure in the offer document.

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Capacity utilisation: the pattern

The DRHP reports utilisation against "available capacity", which is a haircut from installed. Available capacity assumes 20 hours per day (four hours for cleaning in place) at 90% efficiency, over 310 operating days per year for most products (330 for paneer, whey powder, batter, parotta, chapati and others). So available capacity is roughly 64% of installed for the 310-day products. Utilisation above 100% is possible, and the notes explain that paneer and cheddar exceeded 100% by optimising CIP hours below four and pushing line efficiency above 90%.

The utilisation pattern splits the portfolio in two. The core, mature lines run hot:

- Paneer: 110.49% in Fiscal 2025, up from 75.38% in Fiscal 2023. This is the line that justified the expansion.
- Cheddar: 89.10% in Fiscal 2025, after 106.09% in Fiscal 2024. Cheddar is the winter flush absorber, with a 10 to 12-month ripening period, so the company runs it hard when milk is abundant.
- Yogurt: 77.17% in Fiscal 2025, up from 35.29% in Fiscal 2023.
- Ghee: 71.76%, up from 35.26%.
- The Bengaluru RTE/RTC lines run at 79% to 94%: batter at 94.16%, parotta at 86.35%, peanut bar at 87.68%, chapati at 79.45%.

The newer lines, commissioned in Fiscal 2024, are deeply underutilised. Ice cream ran at 19.16% (8,020 kilolitres produced against 65,700 installed), chocolate at 9.52% (383 MT against 6,307), sweetened condensed milk at 4.64% (518 MT against 17,520). Set curd capacity was doubled in Fiscal 2025 yet ran at 19.25%. Butter has run between 19% and 23% for three straight years. Whey powder ran at 35.49% in Fiscal 2025, down from 84.32% in Fiscal 2024 because capacity nearly tripled.

The picture is of a company building capacity ahead of demand, particularly in categories it entered recently. The DRHP itself cautions: "Undue reliance should therefore not be placed on our capacity information or historical capacity utilization information." The new categories are a bet on demand materialising, and their utilisation numbers are the honest measure of how far that bet has paid off so far.

The milk balancing system explains why the cheddar and whey capacities exist. In the winter flush season, milk supply is abundant, so the company converts excess milk into cheddar (10 to 12-month ripening), UHT long-shelf life products (6 to 9-month shelf life) and high heat powder for ice cream manufacture. In summer, when milk supply drops 20% to 30%, it shifts production toward ice cream, beverages, curd and buttermilk.

Automation and technology

The automation story is most developed in paneer. The document describes how the company visited Europe to study cheese-making technology, then adapted it for paneer, a category that previously had no continuous, high-capacity production without human intervention. The resulting line features automated cutting, block weight and density measurement, and robotic pick-and-place packaging. The company adopted this continuous, large-scale manufacturing with robotic packaging in Fiscal 2026.

Cheese production uses automatic cheese-making machines with end-of-line automation. The cheese slice packing line produces up to 1,000 slices per minute. Mozzarella undergoes heat treatment for stretching, is moulded, chilled and packed through an integrated automated process. Processed cheese involves blending cheddar blocks of different ages with ingredients, cooking at high temperatures and packing into cubes, blocks and slices.

The UHT plant, commissioned in 2023, uses aseptic packing with spouts instead of straws, allowing consumption at intervals after opening. The yogurt line has used in-line fruit-preparation dosing since 2017, mixing fruit at the time of packing rather than during fermentation to eliminate wastage. The milk processing line runs bactofugation to remove microorganisms and extend fresh product shelf life. Paneer and cheese use modified atmosphere packaging to extend shelf life.

Quality control is laboratory-backed. The in-house lab at Perundurai has gas chromatography for analysing impurities in ghee and butter, and Milkoscan FT3 infrared equipment that analyses 27 parameters in milk. Raw milk is tested on 14 parameters before unloading, 15 parameters before processing, and each product batch on 26 parameters.

Capex history

Capital expenditure has been heavy and consistent. Additions to property, plant and equipment were ₹3,266.35 million in Fiscal 2025, ₹3,404.62 million in Fiscal 2024 and ₹3,204.91 million in Fiscal 2023. Including changes in capital work in progress, total capex was ₹4,742.82 million in Fiscal 2025 (20.18% of revenue from operations), ₹2,882.56 million in Fiscal 2024 (15.82%) and ₹3,988.19 million in Fiscal 2023 (28.61%).

The spend funded the new lines (ice cream plant commissioned in 2023, UHT plant in 2023, chocolates from November 2023, sweetened condensed milk from July 2023), the whey powder expansion, the curd capacity increases and the paneer expansion. The company also built a renewable energy base to power the facility: 24 MW of solar (Kavilipalayam, Chitode, Arasanur) and 2 MW of wind (Kayathar), meeting approximately 60% of total energy requirement, with a 10 MW expansion at Arasanur in progress.

Capacity expansion plans

The expansion programme has three tiers: already built, in process, and planned with offer proceeds.

Already built subsequent to March 31, 2025:

- Paneer: 72 to 192 MT per day (June 2025).
- Tofu: 3.2 MT per day, installed and commissioned from the Briyas asset acquisition.

In process:

- Milk processing: expanding from 1.25 to 2.25 million litres per day.
- Ghee: 24 to 40 MT per day.
- Cheddar: 15.6 to 120 MT per day.
- Batter: 18 to 80 MT per day.
- Parotta: 6 to 10 MT per day.
- Chapati: 2.4 to 5 MT per day.

Planned with ₹4,147.15 million of offer proceeds earmarked for Perundurai expansion and modernisation:

- Whey protein concentrate and lactose manufacturing plant.
- Yogurt manufacturing plant with packing line.
- Cream cheese and fresh cheese manufacturing plants.
- Processed cheese capacity addition via continuous cooker and chiplet packing lines.

The cheddar expansion is less clear on timing. The Q2 FY27 call cites a 100 tonnes per day cheddar line running at 20% utilisation and management targeting 50% utilisation in two to three years, rather than the offer document's 15.6 to 120 tonnes per day framing. Cheddar is the winter flush absorber, so utilisation matters for milk balancing. The whey protein concentrate and lactose plant moves the company up the value chain from whey powder, currently sold in B2B markets, to higher-value whey derivatives.

The expansion is supported by state-level incentives. The Government of Tamil Nadu issued an order dated August 20, 2024 with a capital commitment of ₹12,770 million, providing a turnover-based subsidy of 1.75% of eligible annual turnover for 10 years. The company also draws on the Animal Husbandry Infrastructure Development Fund, receiving ₹183.77 million in interest subventions in Fiscal 2025 and ₹129.34 million in Fiscal 2024.

Distribution, logistics and sales channels

Sales channel mix

Milky Mist sells through six channels. General trade is the largest at ₹10,191.61 million in Fiscal 2025, or 43.38% of revenue from operations, but its share has fallen from 48.98% in Fiscal 2023. The general trade line includes quick commerce platforms and export sales. Modern trade is the fastest-growing channel, rising from ₹2,367.89 million (16.98%) in Fiscal 2023 to ₹5,599.27 million (23.83%) in Fiscal 2025. E-commerce platforms grew from ₹959.57 million (6.88%) to ₹2,247.02 million (9.56%) over the same period. HoReCa contributed ₹3,868.61 million (16.47%) in Fiscal 2025, roughly flat as a share. B2B sales, which includes whey powder and industrial cheese, fell from 9.77% to 6.15% of revenue. B2C direct sales, which includes the company's own online platform, remain small at ₹142.73 million (0.61%).

CHANNEL	FY25 REVENUE (₹ MILLION)	FY25 SHARE	FY24 SHARE	FY23 SHARE
General trade	10,191.61	43.38%	44.53%	48.98%
Modern trade	5,599.27	23.83%	21.47%	16.98%
HoReCa	3,868.61	16.47%	17.90%	17.04%
E-commerce platform	2,247.02	9.56%	7.51%	6.88%
B2B sales	1,445.79	6.15%	8.16%	9.77%
B2C sales	142.73	0.61%	0.43%	0.34%

The channel shift tracks the company's stated strategy of expanding outside South India through modern trade, e-commerce and quick commerce. These channels reach consumers in regions where the company lacks the distributor density it has built in its home market.

Distributor network

As of March 31, 2025, the company had 3,062 distributors across 22 states and 5 union territories, up from 2,033 as of March 31, 2023. The network reaches more than 350,000 retail touchpoints. Distribution is managed through 44 clearing and forwarding depots in 44 cities across 13 states.

The distributor base is concentrated in the South. Tamil Nadu alone accounts for 935 distributors, and the five southern states together account for 2,217 of the 3,062 total (72.4%). North India has 153, West India 516, East India 144, and 32 are export distributors. This mirrors revenue concentration: 71.00% of Fiscal 2025 revenue came from the Southern region, down from 78.46% in Fiscal 2023, while the rest of India grew from 18.57% to 25.23% of revenue.

Distributors operate on a distribution management system that reports their sales and inventory back to the company, feeding demand data into production planning. The company's sales, distribution and marketing team numbered 549 employees as of March 31, 2025, out of 1,524 total permanent staff.

Own logistics fleet

The company runs its entire logistics in-house. The 1Lattice Report commissioned for the offer states this makes it the only dairy products company among its peers with entirely in-house logistics and manufacturing. As of March 31, 2025, the fleet comprised 44 milk tankers (each with capacity of approximately 23,150 litres) for transporting raw milk from farmers to the Perundurai facility, 252 reefer trucks (payload approximately 10,485 kg each) for temperature-controlled movement of perishable products from factories to distributors, and 34 ambient trucks (payload approximately 24,350 kg each) for non-perishable products.

The reefer fleet has nearly doubled from 135 trucks in Fiscal 2023. The trucks carry return loads such as apples, cocoa powder, sweet corn, rice and butter on the journey back from deliveries, which keeps transportation costs at 3.47% of revenue in Fiscal 2025, one of the lowest among its peers (1Lattice Report). The fleet is tracked through IoT-based software for real-time tracking and route optimization. Twenty of the owned vehicles are electric.

Visi coolers, ice cream freezers and chocolate coolers

Milky Mist was one of the first food products companies in India to provide visi coolers, the refrigerated display units that stock dairy products at retail, to retailers (1Lattice Report). As of March 31, 2025, it had deployed 13,885 visi coolers, 13,804 ice cream freezers and 559 chocolate coolers. The document states these were deployed in 4,065 retail outlets as of March 31, 2025, a decline from 10,503 retail outlets as of March 31, 2024. The document does not explain the drop.

The cooler network is set to expand significantly. The company plans to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers during Fiscal 2026 to 2028, funded by ₹1,294.28 million of the offer proceeds earmarked for this purpose.

The coolers serve two functions. They secure chilled or frozen shelf space at the point of sale for Milky Mist products, and they are branded equipment that builds visibility. A retailer that accepts a Milky Mist visi cooler is effectively dedicating prime refrigerated display space to the brand, which raises the cost of stocking a competitor's paneer or curd in that slot.

Exclusive parlours

As of the date of the DRHP, the company operates 108 Milky Mist exclusive parlours across eight states, including Tamil Nadu, Andhra Pradesh and Kerala. Six are company-operated and 102 run under franchise agreements. The parlour count has grown from 11 in Fiscal

2023 to 89 in Fiscal 2025 to 108 currently. The company intends to expand the network into Karnataka, Maharashtra and Telangana.

The parlours are a brand-engagement channel rather than a volume channel. B2C direct sales, which includes the company's online platform, contributed only 0.61% of Fiscal 2025 revenue. The parlours give consumers a place to experience the full product range and build brand loyalty, complementing the general trade and modern trade channels that carry the bulk of volume.

Export channel

Between April 1, 2022 and March 31, 2025, the company exported to more than 15 countries, including Singapore, the United States, Middle Eastern countries and Australia. Export revenue, excluding freight and export incentive, was ₹741.49 million in Fiscal 2025, or 3.16% of revenue from operations, up from ₹481.94 million in Fiscal 2024 and ₹304.70 million in Fiscal 2023. The company intends to focus on Malaysia and New Zealand as new export markets.

Market position and competitive landscape

Milky Mist sells into the organized value-added dairy products (VADP) market, which the 1Lattice Report commissioned for the offer values at ₹1.7 trillion in Fiscal 2025 and projects to grow at about 14% annually to ₹4 trillion by Fiscal 2030. The company's ₹23,495 million of Fiscal 2025 revenue is a small slice of that market. Its significance is categorical rather than aggregate: it is the largest private packaged paneer brand in India at about 17% of the organized packaged paneer market by value, the largest private packaged cheese brand in South India at about 12% of that region's organized cheese market, and holds about 7% of the organized curd market in South India and about 7% of the organized yogurt market nationally. Every one of these figures comes from the 1Lattice Report, which the company commissioned and paid for exclusively in connection with the offer.

Category leadership runs through paneer

Paneer is the flagship category, contributing 29.52% of revenue in Fiscal 2025. The 1Lattice Report values the organized paneer market at ₹40.6 billion in Fiscal 2025, so the company's 17% share aligns with paneer's share of its own revenue against that market size. The "private" qualifier in the company's claim matters: cooperatives like Amul sell paneer too, but Milky Mist is the largest among the private players. The 1Lattice Report says Milky Mist's paneer business grew at about 26% CAGR, well ahead of the paneer market's projected 17% CAGR, and that the company was among the first to launch branded packaged paneer in India.

Cheese is second at 17.36% of revenue. The company is the largest private packaged cheese brand in South India at about 12% of that region's organized market, and ranks third among

private players nationally at about 5% of the organized packaged cheese market. The national cheese category is more contested than paneer: Nestlé, Britannia, Amul, Parag Milk Foods and Lactalis (which acquired Tirumala Milk and Prabhat Dairy, per the 1Lattice Report) all compete there. Milky Mist's southern strength reflects its distribution footprint, which is heavily concentrated in the region.

Curd (15.75% of revenue) and yogurt are the daily-consumption anchors. The company holds about 7% of the organized curd market in South India and ranks among the top three private packaged yogurt brands nationally at about 7% of the organized yogurt market. The organized curd market is the largest of these categories at ₹113.7 billion in Fiscal 2025, so the regional share leaves substantial headroom if the company can extend its distribution. About 80% of Fiscal 2025 sales revenue came from daily consumption categories (paneer, curd, yogurt, ghee, butter), which the company says makes the revenue base recurring rather than discretionary.

Premium pricing and realisation per litre

The company's pricing strategy is explicit: its paneer and curd prices are typically 10% to 25% above the average market price of large Indian brands, placing them among the highest in the market. This premium is the mechanism behind the company's gross margin, and it depends on the brand sustaining the quality and distribution that justify it. The 1Lattice Report notes the premium VADP segment is small, about 2% of the VADP market in Fiscal 2025, projected to reach about 5% by Fiscal 2030. Milky Mist's entire portfolio is premium-priced, so the strategy is a bet on that trend continuing.

The company states it achieved the highest realisation per litre of milk procured among listed peers at approximately ₹74 in Fiscal 2025, calculated as net manufactured finished goods divided by total litres of milk procured. This is a company-defined metric and the comparison to peers is the company's claim, but the structural point is sound: 100% of Milky Mist's dairy sales are VADPs, with no liquid milk to dilute realisation. The 1Lattice Report says liquid milk margins run 5-8%, while cheese, yogurt and ice cream yield 15-40%.

The peer table tells a mixed story

The offer document benchmarks Milky Mist against Nestlé India, Britannia Industries, Tata Consumer Products, Hatsun Agro Products, Parag Milk Foods, Dodla Dairy and Bikaji Foods. Milky Mist's revenue CAGR of 29.82% from Fiscal 2023 to Fiscal 2025 is the fastest in the table, and the company claims it is the fastest growing packaged food company in India among companies with revenue above ₹15,000 million. Its gross margin of 33.89% in Fiscal 2025 is the highest among its dairy-focused private peers (Parag at 25.80%, Dodla at 27.40%) and above Bikaji's 32.31%. The EBITDA margin of 13.21% beats Parag (8.50%) and Dodla (10.20%) but trails Tata Consumer (14.20%).

The tension sits at the bottom line. Milky Mist's PAT margin of 1.96% in Fiscal 2025 is the lowest among all peers in the table: Nestlé at 15.88%, Britannia at 12.14%, Tata Consumer at 7.31%, Dodla at 6.99%, Bikaji at 7.41%, Parag at 3.46%, Hatsun at 3.20%. The gap between a 33.89% gross margin and a 1.96% PAT margin is the company's central financial issue. The causes are visible in the disclosed numbers: advertising and business promotion expenses jumped from 1.13% of revenue in Fiscal 2024 to 3.03% in Fiscal 2025 (₹711.32 million), and the company carries a heavy fixed-asset base, with a fixed asset turnover of 1.91, the lowest among peers that disclosed it. Working capital days of 42, versus Dodla's 2, reflect the inventory required to run products like cheddar cheese with a 10 to 12-month ripening period.

Competitive dynamics favour scale and regional depth

Milky Mist is the only listed private dairy peer with 100% VADP exposure. Hatsun, Parag and Dodla all sell liquid milk, which drags their gross margins but gives them a daily-consumption base and deeper farmer relationships. The 1Lattice Report describes the raw milk market as roughly 30-35% organized, split between cooperatives (45-50%) and private players (50-55%), so Milky Mist competes with Amul and Nandini for both milk procurement and retail shelf space, and with diversified FMCG giants in cheese and yogurt.

The company's geographic concentration is both a strength and a constraint. South India contributed 71.00% of Fiscal 2025 revenue, and its category leadership in paneer, curd and cheese is built in that region. The 1Lattice Report argues VADPs, with their longer shelf life and higher margins, can become national brands, and Milky Mist now reaches 22 states and 5 union territories from a single integrated facility in Perundurai. The sector is consolidating: the 1Lattice Report notes Hatsun acquired Jyothi Dairy and Milk Mantra, Heritage acquired Reliance Retail's dairy business, and Lactalis acquired Tirumala Milk and Prabhat Dairy. Milky Mist's own acquisition of Asal (RTE foods) and Briyas' tofu business is part of the same trend.

Innovation is the engine that sustains the premium. The company states new product launches contributed ₹5,116.40 million in Fiscal 2025, the highest among competitors, with 416 SKUs across 23 product categories as of March 31, 2025. That product breadth is unusual among dairy peers, which tend to concentrate in fewer categories.

How much weight to give the projections

The 1Lattice Report projects organized paneer growth at 20.2% CAGR, organized curd at 18.6%, and cheese at 18.0% through Fiscal 2030, all above the overall VADP market's projected 14% CAGR. These are paid-for projections from a report commissioned for the offer. Milky Mist's own history already exceeds them: paneer at about 26% CAGR and total revenue at 29.82% CAGR. The company has backed that growth with capacity, raising paneer capacity from 26,280 MT to 70,080 MT per annum after March 31, 2025, which it says is the

largest among organized private peers. Whether the market absorbs that capacity at a 10-25% price premium is the question the projections do not answer. The company's track record says it can grow faster than the market; the projections say the market will grow fast enough to absorb the new capacity.

Financial performance

Revenue from operations grew from ₹13,941.75 million in Fiscal 2023 to ₹18,216.09 million in Fiscal 2024 to ₹23,495.03 million in Fiscal 2025, a 29.82% CAGR. The 1Lattice report commissioned for the offer states this makes Milky Mist the fastest growing packaged food company in India among companies with revenue above ₹15,000 million. Growth was broad-based. Paneer, the largest category at 29.52% of Fiscal 2025 revenue, grew from ₹4,379.64 million to ₹6,936.08 million over the period. Cheese grew from ₹2,689.96 million to ₹4,078.33 million. Ice cream, which began selling only in Fiscal 2024, scaled from ₹345.15 million to ₹1,376.78 million in its second year. The "other products" bucket (ghee, butter, chocolate, khova, UHT long-shelf life products) grew from ₹4,549.96 million to ₹7,402.80 million. The Fiscal 2025 figures include the Asal acquisition, restated under common control so all three years are comparable.

PARTICULARS	FISCAL 2025	FISCAL 2024	FISCAL 2023
Revenue from operations (₹ million)	23,495.03	18,216.09	13,941.75
Gross profit margin	33.89%	31.21%	32.44%
EBITDA (₹ million)	3,103.46	2,223.30	2,013.94
EBITDA margin	13.21%	12.21%	14.45%
Profit for the year (₹ million)	460.74	194.44	272.30
PAT margin	1.96%	1.07%	1.95%
ROCE	9.54%	8.14%	10.62%
ROE	15.11%	7.14%	10.95%
Return on Net Worth	18.98%	9.87%	15.35%

Gross margin. Cost of materials consumed was ₹15,444.57 million in Fiscal 2025, or 65.74% of revenue, down from 70.28% in Fiscal 2024. That swing drove the gross margin from 31.21% to 33.89%. The company attributes its margin profile to premium pricing, with paneer and curd priced 10% to 25% above the average of large Indian brands per the 1Lattice report, and to an exclusive focus on value-added products rather than lower-margin liquid milk. Milk is the dominant input. Non-milk raw materials (sugar, packaging, flavours, stabilizers) accounted for only 18.89% of revenue in Fiscal 2025, so milk price movements flow straight into the gross margin.

EBITDA margin. The trend is weaker than the gross margin story. EBITDA margin was 14.45% in Fiscal 2023, fell to 12.21% in Fiscal 2024, and recovered to 13.21% in Fiscal 2025, still below the starting point. The recovery lagged the gross margin improvement because the company chose to spend. Advertisement and business promotion expenses jumped from ₹205.60 million in Fiscal 2024 to ₹711.32 million in Fiscal 2025, from 1.13% to 3.03% of revenue, as the company pushed its ice cream, UHT and chocolate launches. Transportation costs rose in absolute terms, to ₹814.97 million in Fiscal 2025, but declined slightly as a share of revenue to 3.47%, helped by the return-load optimization of the owned reefer fleet.

PAT and the drag from capex. Profit after tax is thin. PAT was ₹460.74 million in Fiscal 2025 (1.96% margin), ₹194.44 million in Fiscal 2024 (1.07%) and ₹272.30 million in Fiscal 2023 (1.95%). The bridge from EBITDA to PAT is where the money goes. Depreciation and amortisation rose from ₹804.65 million in Fiscal 2023 to ₹1,364.64 million in Fiscal 2025, as the paneer, ice cream, UHT and whey powder capacity came on stream. Finance costs rose from ₹574.58 million to ₹863.37 million over the same period. Tax expense was ₹414.71 million in Fiscal 2025 on profit before tax of ₹875.45 million.

Return ratios. ROCE was 9.54% in Fiscal 2025, up from 8.14% in Fiscal 2024 but below the 10.62% of Fiscal 2023. ROE rebounded to 15.11% in Fiscal 2025 from 7.14% in Fiscal 2024. Return on Net Worth, using a net worth definition that excludes the ₹850.20 million land revaluation reserve not available for dividends, was 18.98%. The equity base is small relative to the asset base: total equity was ₹3,277.93 million against capital employed of ₹18,222.44 million as of March 31, 2025. The ROE figures look healthier than ROCE because the company is levered.

Debt and the balance sheet. The expansion has been debt-funded. Long-term borrowings grew from ₹6,182.32 million at the end of Fiscal 2023 to ₹10,320.57 million at the end of Fiscal 2025, and short-term borrowings from ₹1,798.31 million to ₹3,443.19 million. As of May 31, 2025, total borrowings stood at ₹14,635.93 million outstanding against ₹19,792.44 million sanctioned, with interest rates typically ranging from 8.00% to 13.00% per annum. Total capital expenditure (additions to property, plant and equipment plus the change in capital work in progress) was ₹3,988.19 million in Fiscal 2023, ₹2,882.56 million in Fiscal 2024 and ₹4,742.82 million in Fiscal 2025, representing 28.61%, 15.82% and 20.18% of revenue respectively. The offer's objects include repaying ₹7,500.00 million of borrowings, which would directly reduce the finance cost line if deployed as planned.

The central tension in these numbers is the gap between the growth rate and the profit rate. Revenue compounding at 29.82% has come with a fixed cost base, in depreciation and interest, that absorbs nearly the entire operating profit. The company is betting that the capacity built over the last three years fills at current margins. Paneer capacity tripled after

March 31, 2025, from 72 to 192 MT per day, milk processing is being expanded to 2.25 million litres per day, and the company plans to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers over Fiscal 2026-2028. If demand keeps pace, the fixed costs spread over a much larger revenue base. If it does not, the depreciation and interest bill stays fixed regardless of volumes.

Q2 FY27 update (quarter ended September 30, 2026)

Revenue from operations grew 41.06% year on year to ₹1,089 crore, gross profit rose 46.4% to ₹368.8 crore with a 33.9% gross margin, EBITDA was ₹165.2 crore at a 15.2% margin and PAT tripled to ₹77.9 crore, helped by EBITDA expansion, loan repayment and a deferred tax offset. H1 FY27 revenue was ₹2,062.9 crore, up 42.5%, EBITDA ₹310 crore at 15.03% and PAT ₹142.6 crore. Net debt was ₹32.6 crore at September 30, 2026 after ₹750 crore of borrowings were repaid in the IPO month; H1 annualised ROCE was 16.1% and ROE 21.1%. Management guided to sustaining the H1 growth rate and 15% EBITDA margin. Operationally, paneer production was 100 tonnes per day against 150 tonnes per day installed at about 65% utilisation, high-protein products were 12-13% of Q2 sales versus 7% a year earlier, the ₹40 crore skyr and Greek yogurt line was commissioned in September 2026 with capacity of 180 tonnes per day against current output of 35-40 tonnes per day, and the cheddar line ran at 20% utilisation.

Growth strategies and expansion plans

The growth plan is a capacity-led bet. Milky Mist spent ₹4,742.82 million, ₹2,882.56 million and ₹3,988.19 million on capital expenditure in Fiscals 2025, 2024 and 2023 respectively, and the offer continues the pattern. Fresh issue proceeds of ₹4,147.15 million go to expanding and modernising the Perundurai facility, ₹1,294.28 million to retail cooling equipment, and ₹7,500 million to repaying borrowings. The debt repayment is the largest item, so the offer is partly a deleveraging event, but the growth thesis sits in the two capex lines.

The drivers fall into four groups that feed each other. On the supply side, the anchor is paneer: the Q2 FY27 call cites current paneer production of 100 tonnes per day against installed capacity of 150 tonnes per day, utilisation near 65%, and management is exploring another 200 tonnes per day at Perundurai to take capacity to 350 tonnes per day. Milk-processing capacity is being expanded to 2.25 million litres per day, with ghee, cheddar, batter, parotta and chapathi lines also slated for increases.

On the demand side, the plan to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers across Fiscals 2026-2028 is the necessary complement. It matters because most lines run well under capacity: set curd at 19.25%, ice cream at 19.16% and chocolate at 9.52% of available capacity in Fiscal 2025. Paneer is the exception

at 110.49%, which is why it got the decisive capacity increase. For every other line, the constraint is selling what the plant produces.

The acquisitions of Asal (100% share purchase from the promoters on March 29, 2025) and Briyas' tofu business (asset purchase on February 19, 2025) extend the portfolio beyond dairy into RTE/RTC and plant-based protein. Asal also brings the Bengaluru facility, which the company intends to consolidate into Perundurai.

The government incentives are the cost support. A Tamil Nadu government order dated August 20, 2024 carries a capital commitment of ₹12,770 million, with a turnover-based subsidy of 1.75% of eligible annual turnover for 10 years. AHIDF interest subventions of ₹183.77 million in Fiscal 2025 and ₹129.34 million in Fiscal 2024 reduce the cost of the expansion.

The capacity expansion is the driver that matters most. It absorbs the largest capex allocation, the paneer piece is operational rather than planned, and it fixes the one line that was genuinely full. But it only earns if the distribution build-out fills it. The cooler deployment and new SKUs are what convert plant into revenue, and that part of the plan is stated intent rather than completed work. The acquisitions and incentives are smaller forces: one opens faster-growing categories, the other shaves the cost of capital.

Expansion of paneer capacity

Paneer is Milky Mist's largest product category, contributing ₹6,936.08 million in Fiscal 2025, or 29.52% of revenue from operations. Paneer revenue grew from ₹4,379.64 million in Fiscal 2023 to ₹5,588.91 million in Fiscal 2024 to ₹6,936.08 million in Fiscal 2025.

The driver is a capacity expansion that is already built and commissioned. The Q2 FY27 call cites current paneer production of 100 tonnes per day against installed capacity of 150 tonnes per day, with utilisation close to 65%, and management is exploring another 200 tonnes per day at the Perundurai plant, which would take capacity to 350 tonnes per day and, in management's words, take care of growth until 2035. This is distinct from the company's other expansion plans (ghee, cheddar cheese, batter, parotta, chapathi), which the document describes as 'in the process of' increasing.

The expansion responds to a real production ceiling. In Fiscal 2025 the company produced 19,689 MT of paneer against available capacity of 17,820 MT, a utilisation rate of 110.49%, above 100% because line optimisation reduced cleaning hours below the standard four-hour assumption. Utilisation ran at 89.47% in Fiscal 2024 and 75.38% in Fiscal 2023. The company was selling everything it could produce.

The revenue mechanism is direct. Paneer is a branded daily-consumption product sold through 3,062 distributors and more than 350,000 retail touchpoints, so additional capacity converts into additional sellable output without a new demand-generation step. To support

the higher volume, the company adopted continuous, large-scale paneer manufacturing with automated cutting and robotic packaging in Fiscal 2026, replacing a process that in India relied on manual methods.

What is not built is the demand that must absorb the larger output. The Q2 FY27 call cites 100 tonnes per day of paneer production against 150 tonnes per day installed, with utilisation near 65%, and management's additional 200 tonnes per day plan would take capacity to 350 tonnes per day. Paneer carries no contracted orders; it is an FMCG product sold through trade on purchase orders. Whether the additional capacity clears depends on the projected market growth and on Milky Mist holding its premium pricing, which the 1Lattice report estimates at 10% to 25% above the average of large Indian brands.

Milk-processing capacity expansion

Milky Mist's entire product line - paneer, cheese, curd, ghee, yogurt, ice cream, UHT products - starts with processed milk, so the Perundurai facility's milk-processing line is the upstream constraint on everything the company sells. As of March 31, 2025, installed milk-processing capacity was 12.5 lakh litres per day (1.25 million), and the company states:

> *"we are in the process of expanding our milk-processing capacity to 2.25 million litres per day"*
>
> **DRHP, OUR BUSINESS**

The mechanism is absorption. The company procured 307.20 million litres of raw milk in Fiscal 2025, up from 201.18 million in Fiscal 2023, from 67,615 farmers, and converts it into finished goods at roughly ₹74 realisation per litre - the highest among listed peers, per the 1Lattice Report commissioned for the offer. More processing capacity lets Milky Mist convert that growing procurement into saleable product rather than leaving milk unprocessed. The expansion also feeds the milk-balancing system: during the winter flush, excess milk goes into long-shelf-life products, which is why the same program scales cheddar cheese from 15.6 to 120 MT per day.

Separating built from stated intent matters here. The paneer line is done: installed capacity rose from 72 to 192 MT per day in June 2025. The milk-processing expansion to 2.25 million litres per day, plus ghee (24 to 40 MT/day), batter (18 to 80 MT/day), parotta (6 to 10 MT/day) and chapathi (2.4 to 5 MT/day), is described as in process with no commissioning date disclosed. The ₹4,147.15 million of offer proceeds earmarked for Perundurai modernisation - a whey protein concentrate and lactose plant, yogurt plant, cream cheese and fresh cheese plants, and processed cheese lines - is approved by board resolution dated July 21, 2025, but contingent on the IPO completing.

Execution history supports the claim. Additions to property, plant and equipment were ₹3,266 million, ₹3,405 million and ₹3,205 million in Fiscals 2025, 2024 and 2023, and prior

expansions are completed - set curd and pouch curd capacity doubled in Fiscal 2025, whey powder went from 36 to 104 MT per day. Demand is already straining the current line: paneer ran at 110.49% of available capacity in Fiscal 2025.

Additional capacity expansions (ghee, cheddar, batter, parotta, chapathi)

The company is in the process of expanding installed capacity across five of its product lines, a move that slots directly into its strategy of converting excess winter-flush milk into longer-shelf-life products. The expansions are stated as plans in progress, not completed or contracted work.

The specific targets are disclosed in the installed capacity table: ghee from 24 MT per day to 40 MT per day, batter from 18 MT per day to 80 MT per day, parotta from 6 MT per day to 10 MT per day, and chapathi from 2.4 MT per day to 5 MT per day. The Q2 FY27 call separately cites a 100 tonnes per day cheddar line at 20% utilisation, with management targeting 50% utilisation in two to three years, rather than the offer document's 15.6 to 120 tonnes per day cheddar framing. The DRHP notes the company 'is in the process of increasing' these capacities, with no commissioning dates, capital expenditure commitments, or contracted off-take disclosed for these lines. The capital expenditure for the broader Perundurai facility modernisation, ₹4,147.15 million of the Net Proceeds, is earmarked for other plants (whey protein concentrate, yogurt, cream cheese, processed cheese), not these lines.

The mechanism for revenue is straightforward: more capacity feeds the existing distribution network of 3,062 distributors and 350,000 retail touchpoints. The utilisation data shows why capacity is being added. Batter ran at 94.16% of available capacity in Fiscal 2025, parotta at 86.35%, and chapathi at 79.45%. These lines are close to full, so the expansion directly addresses a binding constraint. Ghee and cheddar are less pressured, at 71.76% and 89.10% respectively; the Q2 FY27 call cites cheddar at 100 tonnes per day capacity and 20% utilisation, with a target of 50% utilisation in two to three years, so the near-term issue is filling the existing line, not commissioning a new 120 tonnes per day plant.

The batter, parotta, and chapathi lines sit at the Bengaluru facility, which is leased until January 2027. The company states it intends to move this facility to Perundurai, making the timing and location of these specific expansions worth watching.

Deployment of cooling equipment

Milky Mist places branded refrigeration units at retail outlets to stock its products, securing chilled and frozen shelf space a competitor cannot easily dislodge. The equipment comes in three forms: visi coolers for dairy products, ice cream freezers, and chocolate coolers. The mechanism is straightforward - the retailer gets free display equipment, and Milky Mist gets guaranteed placement and visibility for its higher-margin, temperature-sensitive categories.

What is built today is modest but real. As of March 31, 2025, the company had deployed 13,885 visi coolers, 13,804 ice cream freezers and 559 chocolate coolers across 4,065 retail outlets, concentrated in Tamil Nadu, Karnataka, Kerala and Telangana. The ice cream freezers correspond to a category that only launched in Fiscal 2024, when ice cream contributed ₹345.15 million (1.89% of revenue from operations), growing to ₹1,376.78 million (5.86%) in Fiscal 2025. The chocolate coolers support chocolates, which began production in November 2023 and ran at just 9.52% capacity utilisation in Fiscal 2025.

The expansion plan is stated intent, not contracted work. The company proposes to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers during Fiscal 2026-2028, funded by ₹1,294.28 million of the IPO Net Proceeds earmarked for this purpose. The strategy was approved by board resolution on July 21, 2025.

> *"We propose to deploy 25,000 ice cream freezers, 20,000 visi coolers and 10,000 chocolate coolers during the next three Fiscals i.e., Fiscal 2026, 2027 and 2028."*
>
> **DRHP, OUR STRATEGIES**

No equipment orders, commissioning dates or retailer agreements are disclosed. The deployment is contingent on the offer closing and on the company finding retail outlets willing to host the units. The existing 13,804 ice cream freezers already exceed the 10,000 chocolate coolers planned over three years, which suggests the ice cream deployment is a continuation of an established pattern rather than a new capability.

Acquisitions of Asal and Briyas tofu business

Milky Mist acquired two brand assets in early 2025 to enter non-dairy, plant-based and frozen food categories. The company entered an asset purchase agreement dated February 19, 2025 with Briyas Foods Private Limited for certain identified assets of its tofu business, and a share purchase agreement dated March 29, 2025 with its promoters, Sathishkumar T and Anitha S, to acquire 100% of the share capital of Asal Food Products Private Limited. Both transactions closed, and the company states the acquisitions were made "to venture into non-dairy value added RTE and RTC product categories" and to include frozen foods, RTE and RTC products in its portfolio.

The revenue mechanism works two ways. The Asal acquisition brought a subsidiary that operates the Bengaluru Manufacturing Facility, which produces batter, parotta, chapati and peanut bars - products the company already sold before the acquisition. The Briyas acquisition brought the tofu brand and its production assets, which were installed and commissioned at the Perundurai facility after March 31, 2025. The DRHP states the installed tofu capacity is 3.2 metric tons per day as of the date of the report. The company intends to

move the Bengaluru facility's production to Perundurai, though the DRHP lists this as a plan, not a completed step.

What is built: the acquisitions are closed, the Briyas tofu assets are installed and commissioned, and the Bengaluru facility is producing. What is intent: revenue contribution from the acquired brands, the relocation of Bengaluru production to Perundurai, and any expansion of the tofu line. The document does not disclose separate revenue or capacity utilisation for the acquired businesses, so the financial impact is not yet visible in the restated financials. The trademarks for Briyas and Asal are registered in the company's name, with the change of proprietor for two Briyas marks pending as of the DRHP date.

Government incentives

Milky Mist draws on four central schemes and one state program. The export incentives are the smallest: RoDTEP reimbursement of 0.50% to 1.00% on eligible exported products, a 0.15% duty drawback refund, and the EPCG scheme, which waives import duties on capital goods in exchange for an export obligation equal to the duties saved. Export revenue was ₹741.49 million in Fiscal 2025, roughly 3% of total revenue, so the base these incentives attach to is narrow, and the DRHP does not disclose amounts received under them.

The Animal Husbandry Infrastructure Development Fund subvention is realized cash. It provides a 3% interest subvention for up to 8 years including a 2-year moratorium, and the company received ₹129.34 million in Fiscal 2024 and ₹183.77 million in Fiscal 2025. This benefit hits the income statement as reduced finance cost, not as revenue.

The largest line is the Tamil Nadu state incentive. The company signed MoUs with the Government of Tamil Nadu on November 23, 2021 and January 8, 2024, committing capital investments of ₹6,000 million and ₹5,000 million. On August 20, 2024, the government issued an order with a capital commitment of ₹12,770 million, providing reimbursement of 1.75% of eligible annual turnover for 10 years, subject to conditions. That order is approved and formal, but the reimbursement is not yet earned - it accrues only as eligible turnover is generated and the attached conditions are met. The MoUs were statements of investment intent; the government order is the operative document, and the capital commitment is tied to the same capacity expansions the IPO proceeds will partly fund.

Financial track record

Milky Mist's financials are a growth story with thin profit conversion. Across the three reported Fiscals, revenue compounded at a strong clip, but the bottom line stayed under pressure as a heavy capex cycle, rising working capital, and a growing debt stack absorbed the gains. The restated consolidated numbers are the only complete view, and they include the subsidiary Asal Food Products for all three years because it was acquired in a common control transaction during Fiscal 2025.

PARTICULARS (₹ MILLION, RESTATED CONSOLIDATED)	FISCAL 2025	FISCAL 2024	FISCAL 2023
Revenue from operations	23,495.03	18,216.09	13,941.75
EBITDA	3,103.46	2,223.30	2,013.94
EBITDA margin (%)	13.21%	12.21%	14.45%
Profit before tax	875.45	426.85	634.71
Profit for the year (PAT)	460.74	194.44	272.30
PAT margin (%)	1.96%	1.07%	1.95%
Return on Net Worth (%)	18.98%	9.87%	15.35%
Return on Capital Employed (%)	9.54%	8.14%	10.62%
Total borrowings (year-end)	13,763.76	10,367.24	7,980.63

Revenue grew 28.98% in Fiscal 2025 and 30.66% in Fiscal 2024, driven by both volume and price. The product mix is concentrated: paneer, cheese, and curd together accounted for 62.63% of revenue in Fiscal 2025, down from 67.36% in Fiscal 2023 as newer categories came in. Ice cream went from nil in Fiscal 2023 to ₹345.15 million in Fiscal 2024 and ₹1,376.78 million in Fiscal 2025, helped by advertising spend that tripled to ₹711.32 million in Fiscal 2025.

The margin story is the tension between gross profit and operating costs. Gross profit margin held in a narrow band, 33.89% in Fiscal 2025 against 32.44% in Fiscal 2023, which means the company passed on raw milk input costs reasonably well. The EBITDA margin tells a different tale: it fell from 14.45% in Fiscal 2023 to 12.21% in Fiscal 2024, then recovered to 13.21% in Fiscal 2025. The pressure came from other expenses, which grew 46.98% in Fiscal 2025, with selling and distribution expenses ballooning from ₹520.28 million to ₹1,219.63 million as the company pushed ice cream and expanded its distributor network from 2,033 to 3,062 outlets.

The profit line is where the thinness shows. PAT margin has never crossed 2%. The dip in Fiscal 2024 to 1.07% came from a combination of higher raw milk costs, a doubling of selling and distribution spend, and a jump in finance costs as borrowings ramped. The recovery in Fiscal 2025 to 1.96% was powered by revenue growth and a gross margin that improved 268 basis points, but it did not fully restore the Fiscal 2023 profit margin.

Exceptional items and one-offs

There are no disclosed exceptional items in any of the three years. What flatters profit instead is a stream of smaller, non-operating or one-off credits inside other income and finance costs.

Other income of ₹52.90 million in Fiscal 2025 included ₹34.44 million of miscellaneous income, which the MD&A attributes primarily to insurance claims, plus ₹3.25 million of excess provision reversed. Fiscal 2024 had ₹25.41 million of liability written back on a ₹52.46 million other income base. These are not recurring revenue items, and they are small enough that they do not change the profit picture materially, but they are worth flagging as non-core cushions.

The bigger cushion is the government interest subvention. Finance costs in the P&L are stated gross, and the company received ₹183.77 million under the Animal Husbandry Infrastructure Development Fund in Fiscal 2025 and ₹129.34 million in Fiscal 2024. Without that subvention, reported finance costs of ₹863.37 million and ₹722.23 million would be roughly 20% higher. The subvention is for up to eight years from first disbursement, so it is a genuine multi-year support, but it is a subsidy, not an operating margin.

Cash flow and working capital

Operating cash flow has run far ahead of reported profit in every year. Net cash from operations was ₹3,148.57 million in Fiscal 2025, ₹1,402.85 million in Fiscal 2024, and ₹1,750.43 million in Fiscal 2023, against PAT of ₹460.74 million, ₹194.44 million, and ₹272.30 million respectively. The gap is almost entirely non-cash add-backs: depreciation of ₹1,364.64 million in Fiscal 2025 and finance costs of ₹863.37 million. The cash conversion on an EBITDA basis is strong.

The working capital story is where the cash goes. The company is building inventory and receivables faster than it is generating cash, and it is funding that with trade payables and borrowings. In Fiscal 2025, operating profit before working capital changes was ₹3,310.82 million, but inventory absorbed ₹534.31 million, trade receivables absorbed ₹238.51 million, and other assets absorbed ₹107.12 million, before trade payables and other liabilities released ₹878.46 million back. The same pattern held in both prior years: inventory build of ₹1,028.87 million in Fiscal 2024 and ₹356.21 million in Fiscal 2023, with receivables absorbing a smaller but consistent amount each year.

Working capital days tell the efficiency story. Net working capital (inventories plus trade receivables minus trade payables) stood at ₹2,699.39 million in Fiscal 2025, up from ₹2,454.59 million in Fiscal 2024 and ₹1,474.77 million in Fiscal 2023. As a ratio of revenue, that is 42 days, 49 days, and 39 days respectively. The company is tying up more cash per rupee of sales as it grows, largely because the expansion into ice cream and UHT products requires larger finished goods inventory and a distribution network that extends credit to distributors.

Debt and the capex cycle

The business is being financed by debt, and the pace is accelerating. Total borrowings rose from ₹7,980.63 million at the end of Fiscal 2023 to ₹10,367.24 million in Fiscal 2024 and ₹13,763.76 million at the end of Fiscal 2025. The debt-funded capex is the driver: the company spent ₹3,204.91 million, ₹3,404.62 million, and ₹3,266.35 million on property, plant and equipment in the three Fiscals, plus additional capital advances and work-in-progress. The cash flow statement shows the full picture, with ₹5,951.10 million of purchases of PPE and capital work-in-progress in Fiscal 2025 alone.

The borrowings are overwhelmingly term loans. Long-term borrowings of ₹10,320.57 million at the end of Fiscal 2025 dwarf short-term borrowings of ₹3,443.19 million. The sanctioned facilities as of May 31, 2025 show term loans of ₹16,008.20 million sanctioned against ₹11,291.61 million outstanding, which indicates the company has drawn down a large portion of its expansion finance and still has headroom. The debt is secured by a pari passu charge on the company's movable and immovable fixed assets, current assets, and a pledge on the Milky Mist trademark, with personal guarantees from the promoters.

The interest burden is the most direct consequence. Finance costs grew from ₹574.58 million in Fiscal 2023 to ₹722.23 million in Fiscal 2024 and ₹863.37 million in Fiscal 2025, before the subvention. At roughly 3.7% of revenue, finance costs are now a bigger drag than the entire PAT margin of 1.96%. RoCE of 9.54% in Fiscal 2025, up from 8.14% in Fiscal 2024 but still below the 10.62% of Fiscal 2023, reflects a capital base that has grown faster than EBIT. The heavy debt is also why Return on Net Worth, at 18.98% in Fiscal 2025, is more than double the RoCE: the equity base is small, and the debt is doing the work.

The restatement

The restated consolidated financials are not the same as the statutory numbers for two reasons. The first is the Asal Food Products acquisition. Asal was acquired in a common control transaction during Fiscal 2025, and Ind AS 103 requires the prior period financials to be restated as if the combination had occurred from the beginning of the earliest period presented. This is why the consolidated numbers for Fiscal 2023 and Fiscal 2024 include Asal's results, even though the company did not own Asal then. Asal brought frozen foods, RTE and RTC products into the portfolio, so the revenue mix and cost base in the restated numbers reflect a broader business than the statutory standalone statements would show.

The second is the equity structure. Equity share capital jumped from ₹35.00 million in Fiscal 2024 to ₹1,260.00 million in Fiscal 2025, a 36x increase that reflects a bonus issue or share split ahead of the IPO. The weighted average share count for EPS purposes is 630.00 million shares across all three years, with 642.285 million for diluted EPS once compulsorily convertible preference shares are included. The basic EPS figures of ₹0.73, ₹0.31, and ₹0.43

for Fiscals 2025, 2024, and 2023 are computed on this restated share count, so they are not directly comparable to the EPS a reader might calculate from the old share structure.

Net worth is also adjusted. The company excludes ₹850.20 million of fair valuation of land from retained earnings, which arose on transition to Ind AS and is not available for dividend distribution. This lowers the net worth base on which the Return on Net Worth of 18.98% is computed. The accounting policies themselves are stated to be unchanged across the three years, and the auditor's report carries no qualifications, though there are emphasis of matter paragraphs for all three Fiscals.

Red flags

What the insiders paid

The DRHP discloses the full share-issuance history, and the gap between what earlier holders paid and what the offer will demand is wide. The document does not provide a weighted average cost of acquisition table - that typically appears in the RHP - so the picture has to be assembled from the capital-structure history.

The promoters' cost

Sathishkumar T and Anitha S received their first shares when the partnership firm M.M.D. Dairy was converted into a private limited company on July 10, 2014 - 750,000 shares to Sathishkumar T and 1,225,000 to Anitha S, at ₹10 per share. A rights issue in June 2018 added 800,000 shares to Sathishkumar T and 700,000 to Anitha S, again at ₹10 per share. These were the only cash subscriptions by the promoters; their ownership was built on the conversion of the partnership business into the company.

Then came the March 2025 restructuring. Each ₹10 share was subdivided into five shares of ₹2 face value, and each of those received 35 bonus shares. Every original share became 180 shares. The document does not restate the promoters' effective per-share cost after this restructuring.

The last real price paid

External investors came in through compulsorily convertible preference shares. Grand Anicut Fund subscribed to 68,250 CCPS on August 10, 2020 at ₹2,856 per preference share (face value ₹10). After the same subdivision and bonus, those CCPS converted into equity on July 15, 2025 at an effective price of ₹15.87 per equity share (face value ₹2) - the document's own computation, based on the ₹194.92 million consideration received at allotment divided by the 12,285,000 shares issued on conversion. The 15 purchasers who took CCPS from Grand Anicut Fund via deeds of adherence - Anicut Equity Continuum Fund, Oriental Carbon and Chemicals, Kiran Vyapar, Ravi Modi Family Trust and others - converted at the same price.

So the last money paid for a Milky Mist share was ₹15.87, against an offer that will raise up to ₹20,350 million with the price band still to be set.

Recent transfers and gifts

The secondary-transaction table shows promoter-group shares moving at prices that bear no relation to the offer. In September 2017, promoter group members transferred shares at ₹158.95 per share (face value ₹10, not adjusted for subdivision or bonus). In March 2025, Sathishkumar T transferred one share to Dr. K Rathnam at ₹10, and Anitha S gifted one share each to two relatives. On July 15, 2025 - the same day the CCPS converted - Sathishkumar T gifted 16,057,125 shares to Taurus Family Private Trust and Anitha S gifted the same number to Aquarius Family Private Trust. Together, 5% of the pre-offer capital moved to family trusts by way of gift.

Two related-party transactions priced by the promoters deserve attention. Sathishkumar T assigned trademarks to the company for ₹88.60 million on July 15, 2025. And the promoters sold Asal Food Products Private Limited - a company they owned - to Milky Mist for ₹71.25 million under a share purchase agreement dated March 29, 2025. Asal reported revenue of ₹428.60 million and profit of ₹22.54 million in Fiscal 2025; the consideration was based on a valuation report dated November 19, 2024.

Who is selling, and how much they keep

The Offer for Sale is up to ₹2,500 million, by Sathishkumar T and Anitha S only. The DRHP discloses their pre-offer holdings - 40.94% and 51.45% - but not how many shares each will sell or what percentage of their holdings that represents; those figures are placeholders to be filled at the prospectus stage. The post-offer promoter holding is likewise not disclosed. What is known: the promoters and promoter group hold 98.09% of the pre-offer capital, and the offer will dilute them.

The company may also undertake a pre-IPO placement of up to ₹3,570 million at a price to be decided, which would reduce the fresh issue.

Pledges and lock-in

The document discloses no pledge on promoter shares. It states that promoters have given no material guarantee to any third party with respect to the equity shares. Lock-in particulars are not disclosed in the sections examined.

The mechanism that matters

The ESOP scheme granted 1,664,836 options to 28 employees at an exercise price of ₹2 per option - the face value itself. The document does not explain how that exercise price was set.

The structural point for a minority shareholder: the promoters paid ₹10 per share before subdivision and bonus, external investors paid an effective ₹15.87 in 2025, and the offer will be priced well above both. That gap is normal in an IPO - the business has grown since 2014. What the DRHP does not yet tell you is how much of their stake the promoters will sell in the OFS, and at what price the pre-IPO placement, if any, will be done. Those numbers will determine how much of the founders' wealth is being monetised against the capital the company is raising.

Related-party transactions

The full related-party schedule sits in Note 46 of the Restated Consolidated Financial Information, referenced throughout the DRHP but not reproduced in the sections reviewed here. What the document does disclose, across its promoters, management and corporate-matters sections, is a related-party picture dominated by two one-time payments to the promoters and a recurring salary bill.

Buying Asal from the promoters

Pursuant to a share purchase agreement dated March 29, 2025, the company bought 100% of Asal Food Products Private Limited from promoters Sathishkumar T and Anitha S for ₹71.25 million, payable on or before March 31, 2026. Asal reported net worth of ₹58.89 million, revenue of ₹428.60 million and profit of ₹22.54 million as of March 31, 2025. The document states the consideration was based on a valuation report dated November 19, 2024 issued by Rajagopal and Badrinarayanan, prepared under Rule 11UA of the Income Tax Act - an income-tax fair-value benchmark, not a market process. The purchase price sits above Asal's book net worth, and the payment to the promoters is deferred for up to a year after control passed. Asal is now a wholly-owned subsidiary and its results consolidate into the company.

Trademark assignment from the promoter

On July 15, 2025, Sathishkumar T assigned certain trademarks, including "Milky Mist", to the company for ₹88.60 million. The DRHP discloses that the trademark had been hypothecated as security for the company's borrowings while registered in the promoter's name. The company paid its own promoter for an asset that was already supporting the company's debt package. By contrast, the company's acquisition of the "Briyas" trademarks from unrelated parties in February 2025 (₹35.00 million, of which ₹20.00 million was set off against payables) was made with no valuation report, per the document. The document does not state whether a valuation was obtained for the promoter trademark transfer.

Promoter remuneration

The two promoter-directors drew ₹201.50 million in salary in Fiscal 2025 - Sathishkumar T at ₹162.50 million and Anitha S at ₹39.00 million. Consolidated profit for the year was

₹460.74 million. The current approved terms are higher: ₹10.00 million per month for Sathishkumar T and ₹3.00 million per month for Anitha S, plus performance pay and commission "as decided by the Board" - a discretionary pool with no cap disclosed in the document.

Guarantees on borrowings

The promoters have personally guaranteed 33 separate borrowing facilities across at least nine banks, with individual sanctioned amounts from ₹7.50 million to ₹1,850 million. These sit against the company's ₹13,763.76 million in total borrowings as of March 31, 2025. Personal guarantees on bank debt are routine for a promoter-led company, and they align the promoters' personal wealth with the company's repayment obligations.

Smaller items

- Promoters lease land to the company for solar plants and chilling centres; the document discloses the arrangement but not the amounts in the sections reviewed here.
- Unsecured loans from directors: ₹95.00 million sanctioned, ₹13.68 million outstanding as of May 31, 2025. Money flowing into the company, not out.
- IT consultancy from Magiva Technologies, a promoter-group company: ₹22.20 million in Fiscal 2025, ₹22.97 million in Fiscal 2024 and ₹13.27 million in Fiscal 2023 - small against revenue of ₹23,495.03 million and declining.

The document discloses no material litigation involving the promoters, and the statutory auditor's report carries no qualifications left unaddressed.

Litigation, auditor flags and contingent liabilities

Tax disputes are the largest litigation exposure. The DRHP discloses five pending tax proceedings against the company totalling ₹358.54 million: one direct tax matter at ₹4.44 million and four indirect tax matters at ₹354.10 million. That total sits against profit after tax of ₹460.74 million in Fiscal 2025. The company's materiality threshold for litigation disclosure is ₹15.46 million (5% of average absolute profit over three fiscals), so the tax disputes sit well above the level at which the company considers a matter material.

The largest single item is a GST order dated December 31, 2023 from the Additional Commissioner, Salem, computing a demand of ₹188.32 million for assessment periods Fiscal 2018 to 2021. The company has filed a writ petition and stay petition at the Madras High Court, both pending.

A Telangana GST order dated August 17, 2024 imposed ₹48.45 million, including penalty, for Fiscal 2020 after the company said an accountant "inadvertently" erred in filing input tax credit details. The Telangana High Court dismissed the company's writ petition on January 2,

2025, and the company has appealed to the Appellate Joint Commissioner, Hyderabad. A dismissed writ with an appeal pending is a live exposure.

Two notices raise classification questions with recurring revenue attached. The DGGI at Coimbatore issued a show cause notice dated December 6, 2024 seeking ₹22.66 million on short payment of GST on 'parotta' and ₹37.76 million on 'tofu soya paneer' for Fiscal 2020-21 to 2023-24, citing misclassification of HSN codes. A Tamil Nadu Joint Commissioner notice dated November 29, 2024 sought ₹143.26 million for misclassification, non-payment on certain goods and input tax credit irregularities; an order dated February 28, 2025 computed the demand at ₹56.91 million and the company has appealed.

One criminal matter involves the promoters. The income tax assessment of ₹2.74 million for AY 2013-14 and penalty of ₹1.70 million led to a criminal complaint against the company and both promoters under Section 276C(1) of the Income Tax Act. The Magistrate disposed of the complaint in January 2021 finding no prima facie case, but the Assistant Commissioner's revision petition against that order is pending. The amounts are small; the criminal framing is the exposure.

Regulatory matters are small but recurring. Three FSSA actions allege product samples (whey powder, paneer, khova) failed specification. One penalty of ₹0.20 million is stayed pending appeal. A legal metrology seizure memo concerns an ice cream product missing its manufacturing date. Two TNPCB show cause notices for operating chilling machinery without consent were followed by consent being granted in June 2025, though the matter remains pending. None of these individually threatens the business.

The one civil case that could bite operationally is the trade dress suit filed by Gujarat Co-operative Milk Marketing Federation and Kaira District Co-operative Milk Producers Union in the Delhi High Court in January 2024. They claim Milky Mist's ice cream packaging and deep freezer branding are deceptively similar to theirs and seek ₹20.10 million in damages plus a permanent injunction. An injunction would pull products off shelves, a different cost than the damages figure.

Auditor is clean. The statutory auditor has made no qualifications that have not been given effect to in the restated consolidated financial information.

One accounting item matters for dividends. On transition to Ind AS, land was revalued from ₹263.97 million to ₹1,244.93 million, booking a revaluation gain of ₹980.96 million. Net worth of ₹2,427.73 million excludes ₹850.20 million of this gain because it is not available for dividend distribution. Distributable reserves are lower than stated net worth by that amount.

Promoter guarantees are extensive. The promoters have personally guaranteed 33 facilities across 11 lenders, covering the company's and subsidiary Asal's working capital and term

loans, with the "Milky Mist" trademark hypothecated as security on certain borrowings. The guarantees can be invoked on default. Total borrowings stood at ₹13,763.76 million as of March 31, 2025 against net worth of ₹2,427.73 million.

Key risks

Milk supply is concentrated in one state, with no binding contracts with farmers

97.68% of the 307.20 million litres procured in Fiscal 2025 came from Tamil Nadu. Of that, 85.15% came directly from farmers with whom the company has no formal arrangements, and the document states those farmers "are not obligated to supply their milk to us." The remaining 14.85% came from third-party dairy operators, up sharply from 3.39% in Fiscal 2024 and 0.66% in Fiscal 2023. Total procurement grew from 272.80 to 307.20 million litres, but direct farmer procurement actually fell from 263.55 to 261.59 million litres, and the farmer count slipped from 67,807 to 67,615. The entire volume growth came from third-party operators. Milk is the largest input cost, so a procurement-price increase from a Tamil Nadu cooperative (Aavin) or a competitor, or a supply disruption from drought, cattle disease or farmer protests, either compresses the 33.89% gross margin directly or forces the new capacity to run below utilisation.

> *"Since we have no formal arrangements with milk farmers and the majority of our third party dairy operators, they are not obligated to supply their milk to us and they may choose to sell their milk to our competitors."*
>
> **DRHP, RISK FACTORS**

The paneer capacity tripled, and demand absorption is unproven

Paneer installed capacity was 26,280 MT per annum (72 tonnes per day) as of March 31, 2025, and utilisation was 110.49% on available capacity. The Q2 FY27 call now cites 100 tonnes per day of production against 150 tonnes per day installed, with utilisation near 65%, and management is exploring another 200 tonnes per day to reach 350 tonnes per day. Filling that additional capacity requires demand to grow at the current 44% value and 28% volume rates. The cheddar line is a separate absorption test: 100 tonnes per day capacity at 20% utilisation, with a target of 50% in two to three years, and a 10-12 month ripening period that ties up working capital.

The cheddar line is another absorption test. The Q2 FY27 call cites 100 tonnes per day of cheddar capacity running at 20% utilisation, with management targeting 50% utilisation in two to three years; cheddar carries a 10 to 12-month ripening period, so working capital sits in cheese that cannot sell for a year. The same pattern already showed in curd: capacity was doubled in Fiscal 2025 and pouch curd utilisation fell from 73.52% to 42.12%, set curd from

30.33% to 19.25%. If paneer and cheddar follow curd, the 1.96% Fiscal 2025 PAT margin has no room to absorb idle depreciation and fixed costs.

Total borrowings were ₹13,763.76 million as of March 31, 2025, a debt-to-equity ratio of 4.20x. The Q2 FY27 call, however, reports net debt of ₹32.6 crore at September 30, 2026 after ₹750 crore of debt repayment was completed in the IPO month, with H1 annualised ROCE of 16.1% and ROE of 21.1%. Finance costs were ₹858.51 million in Fiscal 2025, nearly double the ₹460.74 million of profit after tax, and interest coverage was 2.02x at that date. The company still plans Perundurai capex and cooler deployment, so the durability of the deleveraging depends on those spends and on the IPO proceeds being applied as planned.

Revenue is concentrated in three products and ten SKUs, sold at a premium

Paneer, cheese and curd together were 62.63% of Fiscal 2025 revenue. The top 10 SKUs were 47.53%, and the top 3 were 27.39%. These products carry premium pricing, and the document acknowledges that "maintaining the premium positioning of our products may impede our market penetration in semi-urban and rural areas due to higher price sensitivity." If a competitor undercuts, or consumers trade down in a slowdown, the company either cuts price - hitting the gross margin directly - or loses volume. A single failed SKU or a category-level shift (plant-based alternatives, for example) lands on a large share of revenue.

One factory makes the majority of the product

The Perundurai facility in Erode produces the value-added dairy products that contribute the majority of revenue. There is no alternative site - the Bengaluru facility makes frozen and RTE/RTC products, and the company plans to move even that to Perundurai. Milk is perishable, so a shutdown from fire, machinery failure, labour action or flood means lost production plus spoiled raw material plus lost retailer trust. Retailers who cannot get supply will switch to competitors, and winning them back is slow. The document also notes that the Perundurai facility's material approvals include pending amendments to consent-to-establish, consent-to-operate, FSSAI licence and factory registrations, and that two show cause notices were received from the Tamil Nadu Pollution Control Board in December 2024 for operating machinery at a chilling unit without consent to operate.

New categories are large bets on unproven demand

Ice cream (started Fiscal 2024) is 5.86% of revenue with 19.16% utilisation of its 65,700 kilolitre capacity. Chocolate runs at 9.52% utilisation, sweetened condensed milk at 4.64%. The company has deployed 13,804 ice cream freezers and plans 25,000 more, plus 10,000 chocolate coolers, funded by the offer. Freezers are depreciable assets - if deployment is delayed or outlets do not sell enough, depreciation hits P&L without corresponding revenue. The Gujarat Co-operative Milk Marketing Federation (Amul) is suing the company for trade dress infringement on ice cream products and freezers, a direct sign the market leader is

defending the category. The whey protein concentrate and lactose plants planned under the capex are entirely new product lines where the company has no manufacturing experience, a risk the document flags itself.

Key-person and workforce risk

The business is built around three people: promoter and CMD Sathishkumar T (26 years in dairy), promoter and Whole-time Director Anitha S (23 years), and CEO Dr. K Rathnam (33 years, formerly managing director of Kaira District Co-operative Milk Producers' Union, Amul's parent). The document discloses past press reports of misconduct allegations against Dr. Rathnam from his previous employment, with no legal proceedings initiated. Employee attrition was 34.05% in Fiscal 2025, and 69.31% for unskilled workers. The company also engages 2,493 contract labourers. In a food business, high turnover in manufacturing raises food-safety and quality-consistency risk, and the FSSAI has four outstanding notices alleging substandard or adulterated products.

Contingent liabilities and regulatory disputes

Contingent liabilities total ₹2,170.19 million, of which ₹1,806.00 million is the EPCG export obligation - if the company fails to meet export commitments, it owes the duty saved on imported capital goods. Three GST demands are disputed: ₹161.79 million (under interim stay from the Madras High Court, of which ₹99.31 million relates to input credit on capital goods - losing would require adjusting property, plant and equipment and charging differential depreciation), ₹44.04 million (appeal pending in Hyderabad) and ₹50.41 million. The auditors' CARO report for Fiscal 2025 also flagged a ₹225.02 million difference between the inventory reported to banks in the quarterly stock statement and the books for the quarter ended March 31, 2025 (subsequently rectified), and the audit trail feature in the accounting software was not operative for customer, vendor and price masters until December 2024 and September 2024 respectively.

Advertising spend has tripled

Advertisement and business promotion expenses went from ₹164.40 million (1.18% of revenue) in Fiscal 2023 to ₹711.32 million (3.03%) in Fiscal 2025 - a 246% increase. The company says it expects to continue this spend to support brand building and the pan-India expansion, and it is simultaneously servicing 13,885 visi coolers in the field. If the spend is structural rather than a one-time push, it compresses the 13.21% EBITDA margin and the 1.96% PAT margin permanently.

Distributor receivables and bad debt

The company extends credit of 15 to 60 days to distributors. Trade receivables were ₹1,022.31 million as of March 31, 2025, with allowances for expected credit loss of ₹154.52

million. Receivables from distributors were 54.83% of trade receivables. Most distributors operate without long-term sales agreements and can switch to competitors without notice, so the receivables base sits on relationships that are not contractually secured. A large distributor failure would hit the thin PAT directly.

What to watch after listing

Debt reduction versus re-borrowing

The offer repaid ₹7,500 million of borrowings, and the Q2 FY27 call reports net debt of ₹32.6 crore at September 30, 2026, with H1 annualised ROCE of 16.1% and ROE of 21.1%. Watch whether finance costs stay low as the company spends on Perundurai capex and cooler deployment, and whether the ₹70 crore of CWIP and the absence of major near-term capitalisation keep cash capex moderate. If borrowings rise as fast as they fell, the debt reduction is cosmetic.

Paneer utilisation at the new 192 MT/day capacity

This is the single most important number. The Q2 FY27 call cites 100 tonnes per day of paneer production against 150 tonnes per day installed, with utilisation close to 65%, and management is exploring another 200 tonnes per day at Perundurai to take capacity to 350 tonnes per day. Watch quarterly paneer revenue growth and whether the category grows without price cuts. If utilisation on the expanded base does not rise, the additional capacity will not be absorbed. The curd pattern is the warning: capacity was doubled in Fiscal 2025 and pouch curd utilisation fell from 73.52% to 42.12%.

Capex execution against the stated schedule

The capex plan calls for ₹1,244.15 million in Fiscal 2026, ₹1,658.85 million in Fiscal 2027 and ₹1,244.15 million in Fiscal 2028. The Q2 FY27 call says IPO proceeds are being used as indicated in the RHP, purchase orders have been issued and work is in progress, while the CFO cited ₹70 crore of CWIP and no major capitalization in the next six months. Watch the offer-proceeds monitoring disclosures for vendor contracts placed and commissioning dates. The whey protein concentrate and lactose lines are new to the company - any delay there signals execution risk across the broader plan.

Cooler and freezer deployment pace

13,885 visi coolers, 13,804 ice cream freezers and 559 chocolate coolers were deployed as of March 31, 2025. The Q2 FY27 call cites close to 45,000 visi coolers and freezers in total, including 29,000 ice cream freezers, up from 16,000, and management targets ₹15,000 per freezer per month versus ₹9,000-10,000 annualised currently. These are depreciable assets, so delays mean depreciation without revenue. Watch the pace of deployment against the

original ₹388.28 million / ₹517.72 million / ₹388.28 million schedule and whether revenue per outlet justifies the additions.

Milk procurement mix

Third-party dairy operators supplied 14.85% of milk in Fiscal 2025, up from 3.39% in Fiscal 2024 and 0.66% in Fiscal 2023, while direct farmer procurement declined in absolute litres. The Q2 FY27 call reports 92,000+ farmers and 246.5 million litres procured in H1 FY27, up 31% year on year, with about 85% of procurement from Tamil Nadu. Management says procurement has expanded into Karnataka, Maharashtra and Andhra Pradesh and expects around 30% of milk from Karnataka and Maharashtra. Watch whether the farmer network scales with capacity and whether third-party milk, which typically costs more and carries less supply security, keeps rising.

New category utilisation

Ice cream (19.16%), chocolate (9.52%) and sweetened condensed milk (4.64%) all run at low utilisation. Watch whether they ramp toward the 70-90% range or stay low. The 13,804 freezers already deployed need ice cream volume to justify them, and the Amul trade dress suit is a live indicator of competitive pressure in the category.

Margin trajectory

Gross margin was 33.89% in Fiscal 2025, EBITDA margin 13.21%, PAT margin 1.96%. In Q2 FY27, gross margin was 33.9%, EBITDA margin 15.2% and PAT margin 7.2%; management guided to sustaining 15% EBITDA margins. H1 FY27 input costs rose 11% and were offset by calibrated price increases in Q1 and Q2. If the ad spend stays at 3%+ and volume growth slows, the margin compression is structural.

GST dispute outcomes

The ₹161.79 million matter before the Madras High Court (with interim stay) and the ₹44.04 million appeal in Hyderabad are the two to track. The ₹99.31 million input-credit component of the larger demand, if lost, would require adjusting property, plant and equipment and charging differential depreciation, hitting both the balance sheet and future P&L.

Government incentive continuity

The Tamil Nadu government order dated August 20, 2024 commits ₹12,770 million through a 1.75% turnover-based subsidy for 10 years, and AHIDF interest subventions of ₹183.77 million were received in Fiscal 2025. Watch whether the company meets the conditions and whether the flows continue. Loss of the subsidy would raise effective costs and weaken the competitive position the document claims.

Promoter holding and lock-in expiry

Promoters held 92.39% of the pre-offer equity, with no pledge on their shares as of the DRHP date. The OFS of ₹2,500 million comes from the two promoters. Watch the promoter shareholding disclosures through the lock-in period and any pledge creation after it ends. The document also discloses that one trademark has been hypothecated as collateral to lenders, with the company marketing under a new logo that is not hypothecated.

The Bengaluru facility move

The company states it intends to move the Bengaluru facility to Perundurai. The RTE/RTC production (Asal, SmartChef brands) runs from Bengaluru. Watch for disruption to that production during the transition, and whether the move happens on the stated timeline.

Related-party flows

IT consultancy and software services from Magiva Technologies Private Limited cost ₹22.20 million in Fiscal 2025, the Asal acquisition from the promoters cost ₹71.25 million, and the trademark assignment from promoter Sathishkumar T cost ₹88.60 million. Watch whether related-party transactions continue at similar scale post-listing and whether the audit committee disclosures remain clean.

ESOP dilution

Options for up to 10,000,000 equity shares are authorised, with 1,664,836 granted as of the DRHP date. Watch the quantum of future grants and the resulting P&L charge, which the document flags as a future profitability drag.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	3,138	4,354	5,703	7,176
Revenue growth	-	+38.7%	+31.0%	+25.8%
EBITDA (₹ Cr)	427	636	878	1,191
EBITDA margin	13.6%	14.6%	15.4%	16.6%
Depreciation (₹ Cr)	170	210	265	320
Interest (₹ Cr)	106	85.00	65.00	55.00
Other income (₹ Cr)	7.00	22.00	45.00	40.00
PBT (₹ Cr)	158	363	593	856
Tax (₹ Cr)	31.00	58.00	131	206
Tax rate	19.6%	16.0%	22.0%	24.0%
PAT (₹ Cr)	127	305	463	651
PAT growth	-	+139.9%	+51.9%	+40.6%
EPS (₹)	1.65	3.96	6.01	8.45
P/E	205.7x	85.7x	56.5x	40.2x
PEG	4.5x	1.9x	1.2x	0.9x

CAGR FY27E-FY29E: Revenue +28.4% · EBITDA +36.9% · PAT +46.2%

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Q2 FY27 concall notes

TLDR

Milky Mist reported Q2 FY27 revenue of ₹1,089 crore, up 41.06% YoY, gross profit of ₹368.8 crore (33.9% margin, up 112 bps), EBITDA of ₹165.2 crore (15.2% margin vs 14%), and PAT of ₹77.9 crore, roughly threefold the ₹28.4 crore of Q2 FY26. Paneer grew 44% by value and 28% by volume; yogurt grew 168%; cheese 34%; curd 22%; ice cream 43%. The high-protein range is 12% of top line, up from 7% last year, and management expects 18-20% in two to three years. A ₹40 crore skyr and Greek yogurt plant was commissioned in September 2026 at Perundurai, lifting capacity from 20 to 180 tonnes per day. Management guides to sustaining 40%-plus growth and 15% EBITDA margin, with H1 milk procurement cost up 11% offset by calibrated price increases. Watch Tamil Nadu procurement concentration, milk price direction, and the 20% cheddar utilisation.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue from operations	₹1,089 crore	+41.06% YoY	Steady demand and higher consumption across the value-added dairy portfolio; paneer, yogurt and ice cream led the mix
Gross profit	₹368.8 crore	+46.4% YoY	Product mix and pricing; gross margin 33.9%, up about 112 bps
EBITDA	₹165.2 crore	+53.9% YoY	Operational efficiencies, volume growth, capacity utilisation and product mix; margin 15.2% vs 14%
PAT	₹77.9 crore	About 3x YoY (₹28.4 crore)	EBITDA expansion, loan repayment and a deferred tax offset; PAT margin 7.2% vs 3.7%
H1 revenue	₹2,062.9 crore	+42.5% YoY	Same category drivers as the quarter
H1 EBITDA (incl. other income)	₹310 crore	+62.9% YoY	Margin 15.03% vs 13.2% in H1 FY26
H1 PAT	₹142.6 crore	+308.4% YoY (₹34.9 crore)	Margin 6.9% vs 2.4%
Paneer	100 tpd produced of 150 tpd installed, about 65% utilisation	Value +44%, volume +28% YoY	Clean-label branded positioning; management sees capacity peaking in 24 to 30 months
Yogurt	35-40 tpd produced of 180 tpd capacity	+168% YoY	Fastest-growing category; new skyr and Greek yogurt plant commissioned September 2026
Cheese (cheddar)	100 tpd capacity, 20% utilisation	Value +34%, volume +26% YoY	Input to processed cheese; also absorbs surplus milk instead of converting to powder
High-protein portfolio	12% of top line	Up from 7% last year	High-protein paneer, cheddar, milk and yogurt; management targets 18-20%
Milk procurement	246.5 million litres in H1	+31% volume YoY	Expanded network of over 92,000 farmers; 25 bulk milk chillers added in Maharashtra

SEGMENTS & GEOGRAPHIES

- **Paneer:** Value growth 44% and volume 28% YoY. Management calls it the lead category and expects the 150 tpd capacity to be fully used within 24 to 30 months, with a further 200 tpd facility under design at Perundurai.
- **Yogurt:** Grew 168% YoY, the fastest category. The new Perundurai facility raised capacity from 20 to 180 tpd; current output is 35-40 tpd. Management describes yogurt as the highest-margin product, above 50% gross margin.
- **Cheese:** Value up 34% and volume up 26% YoY on 100 tpd cheddar capacity running at 20% utilisation. Management expects utilisation to reach 50% in two to three years and is working on snack-format variants.
- **Curd and ice cream:** Curd grew 22% YoY. Ice cream grew 43% YoY on extended summer and about 12,000 added freezers; management expects 35-40% growth across all quarters.
- **South India:** About 70% of H1 revenue. Tamil Nadu is the largest state at about 26%, Karnataka at 23%. Management is expanding in West and Central India, including UP and Bihar.
- **Channel mix:** E-commerce and quick commerce 21% of H1 revenue (11% in H1 FY26), modern trade 22% with slight degrowth as quick commerce takes share, general trade 28-30%, HoReCa 14-15%, B2B about 6%, exports about 4%.

STRATEGY & COMPANY-SPECIFIC

- Commissioned a skyr and Greek yogurt plant at Perundurai in September 2026 for ₹40 crore, using ultrafiltration, raising capacity from 20 to 180 tpd.
- Launched high-protein lactose-free milk in October 2026, a 250 ml pack with 25 grams of protein at ₹99 MRP, aimed at A-class outlets, modern trade and quick commerce with a six-month shelf life.
- Introduced a four-pack format across ghee, skyr and Greek yogurt for 42 grams of daily protein consumption.
- Exploring a 200 tpd paneer plant at Perundurai; with the addition, capacity would reach 350 tpd, which management says covers growth until 2035. Design work is in progress.
- Acquired 50 acres in Baramati, Maharashtra, for a second facility targeted to be operational in three years. No budget fixed yet; spending is at design and approval stage, to be funded from internal accruals.
- Maharashtra milk procurement: 25 bulk milk chillers set up across 25 villages, targeting about 70 by end of the year and 1 lakh litres per day; currently 65,000-70,000 litres per day, to be raised to 2-3 lakh litres before the plant starts.
- IPO proceeds: ₹750 crore of debt repayment completed at the time of the IPO. Remaining funds are held in fixed deposits for planned projects.
- Distribution: about 4 lakh retail touchpoints, 4,200 distributors (200 added since Q1), over 45,000 visi coolers and freezers, including 29,000 ice cream freezers (up from 16,000).
- Farmer network expanded from 75,000 to over 92,000, with bank tie-ups to help small farms raise herd size from 5 to 7-8 animals and structured artificial insemination.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Revenue growth	Sustain 40%-plus, including the next quarter	n/a	Growth from existing markets, deeper distribution and new markets such as UP and Bihar

METRIC	GUIDANCE	VS Q1 FY27	BASIS
EBITDA margin	Sustain 15%	n/a	High-margin categories, capacity utilisation and calibrated pricing
Volume vs value growth	Volume 28-30%, value about 42%; gap of 10-12% to persist	n/a	Volume growth across paneer, cheese, ice cream, curd and beverages; about 5% from product mix and 4-5% from price
High-protein share of top line	18-20% in two to three years	n/a	Protein category growing 18% CAGR; capacity already in place
Paneer capacity	150 tpd fully used in 24 to 30 months; additional 200 tpd planned	n/a	28% volume growth on current 100 tpd output
Cheddar utilisation	20% to 50% in two to three years	n/a	Cheese volume growth and new snack variants
Ice cream growth	35-40% across all quarters	n/a	Treated as an everyday product; freezer expansion
Freezer throughput	Target ₹15,000 per freezer per month	n/a	Current ₹9,000-10,000 annualised, ₹20,000-22,000 in peak summer
Maharashtra plant	Operational in three years	n/a	Design, development and approval stage; land acquired
Capex	No major capex in the next six months; ₹70 crore CWIP	n/a	IPO project spending continuing; Maharashtra spend in single-digit crores from internal accruals
Milk price outlook	No further inflation expected in Tamil Nadu; 3.5-5% increase absorbable	n/a	Good rains and green fodder in Tamil Nadu; Karnataka price already raised

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Milk procurement concentration	About 85% of procurement is from Tamil Nadu. Management says de-risking is underway through Karnataka, Maharashtra and Andhra Pradesh, with about 30% of milk expected from Karnataka and Maharashtra.
Milk price inflation	H1 input costs rose 11%, offset by calibrated price increases. Management does not see softening of milk prices today and will wait a quarter to assess.
Extended El Niño and monsoon deficit	Milk deficit in Rajasthan, Gujarat, parts of Maharashtra and Karnataka. Management expects winter volumes to improve but gives no price relief.
Quick-commerce storage and quality	Regulators have inspected dark stores for cleanliness, refrigeration and expired stock. Management says it monitors product movement, holds regular meetings with platforms and has issued SOPs on storage temperature.
Analog paneer	Regulatory scrutiny continues. Management says South India has no analog paneer and it holds over 65% share there; organised paneer is about 10% of the market and is expected to reach 25-30%.
Protein competition	Large players entering the segment. Management says it is too early to assess margin impact and points to a large addressable market.
Modern trade	Slight degrowth as quick commerce takes share.
Price cuts in a softening cycle	If procurement prices fall ₹5-10 per litre, management expects calibrated price cuts or offers of 2-5%, which it says will not affect growth.

Q&A HIGHLIGHTS

Protein portfolio share and margins Asked how much of the business the four high-protein products contribute and how their margins compare, management said the category is 12% of top line, up from 7% last year, and should reach 18-20% in two to three years. Yogurt carries the highest margin, above 50% gross margin, and the protein range sits at similar levels.

Milk inflation and second-half margins Asked about H1 milk inflation and whether further price hikes are needed, management said input costs rose 11% and prices were raised in a similar range across Q1 and Q2. It expects no further inflation in Tamil Nadu given good rains, and said a 3.5-5% increase could be absorbed. It guided to sustaining H1 growth and 15% EBITDA margin.

Timing of price increases Asked when the 10-11% price increase was taken, the CFO clarified the H1-to-H1 comparison and said the actual price impact in Q2 was about 1.5-2%, with the full effect coming in Q3.

Cheddar capacity absorption Asked how the large cheddar capacity would be used, management said the plant runs at 20% utilisation, cheddar feeds processed cheese, and surplus milk can be converted to cheese for ripening instead of powder. It expects utilisation to reach 50% in two to three years and is developing snack variants.

Maharashtra milk sourcing Asked whether milk would be procured in advance for the Baramati plant, management said procurement has started with 25 bulk milk chillers, targeting 70 by year-end and 1 lakh litres per day, rising to 2-3 lakh litres before commissioning so the plant starts at 40% utilisation.

Lactose-free milk awareness and pricing Asked how it would build awareness in a market where over 60% of the population is lactose intolerant but awareness is low, management said it already sells lactose-free milk, will invest in brand building, and has priced the 250 ml pack at ₹99 MRP with better margins than competitors.

Dark store quality and analog paneer Asked about regulatory checks on quick-commerce dark stores and the analog paneer ban, management said it monitors product movement with platforms, has issued storage SOPs, and expects organised paneer to rise from 10% to 25-30% of the market as consumers shift from loose product.

Capex outlook Asked about H1 capex of about ₹240 crore and the full-year plan, the CFO said much of it follows capitalisation of prior CWIP and cash capex was limited. He said ₹70 crore of CWIP remains, no major capex is planned in the next six months, and Maharashtra spending will be small and funded from internal accruals.

Parag Milk Foods Limited

GROWTH TRIGGERS

Parag's bull case rests on a volume-led core recovery combining with a faster-scaling new age portfolio and two board-approved capacity projects that add paneer, cheese and whey without a greenfield build. Q2 FY27 showed 23% revenue growth with 12% volume, gross margin per litre up despite an 18% milk-cost increase, and new age revenue up 71% to INR154 crore. The forward mechanisms are the June 2027 paneer commissioning, the Q2 FY28 cheese and whey doubling, and the Bhagyalakshmi amalgamation feeding Pride of Cows through the existing distribution network.

1. New age scales toward a quarter of revenue

New age revenue grew 71% to INR154 crore in Q2 FY27 and was about 12% of revenue, with an annualised run rate above INR600 crore. Management targets around 25% contribution by the time the INR10,000 crore aspiration is reached. Because these brands carry premium positioning, the mix shift is the clearest route to a higher group margin.

2. Paneer capacity fourfold by June 2027

The board approved about INR100 crore to lift paneer from 20 to 80 metric tonnes per day across Manchar and Palamaner, targeted for June 2027. Management anticipates about 80% utilisation immediately after commissioning. Paneer already had its strongest volume quarter in Q2 FY27, so the project attacks a category with visible demand rather than a speculative one.

3. Cheese doubling also doubles whey

The board approved INR105 crore to double cheese from 60 to 120 metric tonnes per day by Q2 FY28. The same project doubles whey protein production, linking the flagship cheese business to Avvatar's raw material. This is the structural cost advantage over import-dependent protein brands and the reason the cheese capex is also a new age capex.

4. Q2 proves pricing and mix can beat milk inflation

Q2 FY27 revenue rose 23% with 12% volume, gross profit rose 24% to INR323 crore and gross margin per litre rose to INR17 from INR14 even as milk cost rose about INR7 per litre. Excluding the prior-year forex MTM reversal, EBITDA rose 37% to INR101 crore. The result supports the pass-through and mix argument as a repeatable operating mechanism, not just a one-quarter price effect.

5. Procurement growth provides raw milk headroom

Parag procured an average 21 lakh litres per day in Q2 FY27, about 5% more than a year earlier. That gives the paneer and cheese expansions a larger base to build on, while management's existing farmer network and collection points reduce the need for a new procurement build.

6. Bhagyalakshmi amalgamation simplifies the farm and distribution link

The board approved amalgamation of wholly owned Bhagyalakshmi Dairy Farms into Parag, expected to unlock operational synergies and use capital and resources better. Pride of Cows would also gain access to the company's existing distribution network and go-to-market, which can widen the premium brand beyond its current subscription and quick-commerce base.

INVESTMENT THESIS

Parag Milk Foods is an integrated Indian dairy FMCG company that converts milk into branded ghee, cheese, paneer and curd, and increasingly into premium health and nutrition products through Pride of Cows and Avvatar. The core categories are 63% of Q2 FY27 revenue at INR778 crore, or 61% in Q1 FY27, and the company holds the number one position in branded cow ghee with about 22% share and the number two position in cheese with Go Cheese at about 35% share. The new age business is the strategic mix engine: it grew 71% to INR154 crore in Q2 FY27 and was about 12% of revenue, up from 9% a year earlier. The business is not a pure commodity dairy play. Ghee and skimmed milk powder are priced as one economic unit, cheese and whey are produced together, and the company deliberately routes whey into Avvatar rather than selling it all as a low-margin ingredient.

The Q2 FY27 result is the clearest recent evidence that the operating model can absorb milk inflation. Revenue rose 23% to INR1,241 crore with 12% volume growth, and H1 revenue rose 18% to INR2,185 crore with 8% volume growth. Gross profit rose 24% to INR323 crore and gross margin was 26.0% versus 25.8%. Milk cost rose about INR7 per litre, but gross margin per litre rose to INR17 from INR14 on pricing and mix. Excluding the prior-year forex MTM reversal, EBITDA rose 37% to INR101 crore and margin improved to 8.1% from 7.3%. H1 EBITDA margin was 7.8% versus 7.5%. The company took two price increases in Q2 and says it does not see further core category price increases anytime soon. That combination is evidence of pricing power, but it also means the next margin test is cost, not price.

The earnings path depends on three linked mechanisms. First, the new age business must keep scaling from the INR154 crore Q2 base. Management cites an annualised run rate above INR600 crore and targets around 25% contribution by the time the INR10,000 crore revenue aspiration is reached. That is an aspiration, not a dated guidance line, but the direction is supported by 71% growth and by product launches including lactose-free Pride of Cows milk, Avvatar popped chips, new Performance and Alpha Whey flavours, a natural-sweetener whey variant and hazelnut cold coffee with 15g protein. Second, the INR205 crore board-approved capacity programme must commission on time: about INR100 crore for paneer from 20 to 80 metric tonnes per day by June 2027, and INR105 crore for cheese from 60 to 120 metric tonnes per day by Q2 FY28. The cheese project also doubles whey protein production. Third, procurement must keep pace. Parag procured 21 lakh litres per day in Q2, up about 5% year-on-year, which gives the new capacity a larger base but does not guarantee the mix of milk needed for cheese and paneer.

The capital allocation test is whether the new capacity earns its cost of capital before depreciation and interest outweigh the incremental contribution. The disclosures give approval, amount, capacity and target date, not project returns. Paneer is the nearer project and management anticipates about 80% utilisation immediately after commissioning; that is

a management expectation, not contracted demand. Cheese is the larger strategic link because it feeds Avvatar, but it arrives later, by Q2 FY28, and the prior around-March-2028 framing has moved. The Bhagyalakshmi Dairy Farms amalgamation is intended to unlock operational synergies and give Pride of Cows access to the company's distribution network. Those are plausible benefits, but the Q2 call does not quantify them.

Management delivery is mixed but improving. Q2 FY27 delivered the volume recovery and per-litre margin expansion that the prior call had only guided toward. The new age business is scaling faster than the group. The company has disclosed project costs and dates. Against that, the double-digit EBITDA aspiration is still not delivered, the new age 25% target is tied to a long-range revenue aspiration, and net debt rose to INR678 crore from INR484 crore in March 2026 on inflation-led inventory. The balance-sheet direction has paused even as the operating result improved. The next call needs to show Q3 milk procurement near INR46.50 without a volume break, and the June 2027 paneer commissioning needs to stay on track.

The thesis is operating leverage through mix and capacity, not a commodity cycle bet. If new age sustains above-40% growth, paneer and cheese commission broadly on time, and milk costs stop rising faster than price, the group can move from the 7.8% H1 EBITDA margin toward the high-single-digit to low-double-digit range. The falsifiers are concrete: milk stays at INR46.50 or higher with no further price increases and core volume growth falls below high single digit; net debt keeps rising because inventory inflation absorbs cash; the June 2027 paneer project slips or commissions into weak demand; or new age growth decelerates sharply from the Q2 71% pace, leaving the mix argument without support. The current evidence supports the direction, but the double-digit margin and 25% new age mix remain forward claims, not achieved results.

RESEARCH REPORT

What Parag Milk Foods Limited does

Parag Milk Foods is a private-sector dairy FMCG company founded in 1992 by Devendra Shah in Manchar, Maharashtra, and listed in 2016. It buys cow milk from a network of over 5 lakh farmers across Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu and Karnataka, processes it at three plants, and sells it back as branded, packaged products under four house brands: Gowardhan, Go, Pride of Cows and Avvatar. In FY25 it generated INR 3,432 crore of consolidated revenue, crossed INR 3,800 crore in FY26, and reported Q2 FY27 revenue of INR 1,241 crore, up 23% year-on-year, taking H1 FY27 revenue to INR 2,185 crore, up 18% (Q2 FY27 concall, Nov 2026).

The business model is vertical integration around a single raw material: milk. Parag does not sell raw milk as its core business. Almost everything it sells is a processed, differentiated product, and the economics of the company depend on how much value it can extract from each litre. The one-litre framing that matters: when the company makes cheese, it gets whey as a byproduct, and whey protein powder sells at an MRP in the thousands per kilogram. That linkage - cheese and whey as a single economic unit - is the structural logic of the company.

Revenue mix and segments

Parag reports revenue in five segments, though the boundaries have shifted. In FY25 the composition was: core categories (ghee, cheese, paneer) at 57%, ingredients at 17%, liquid milk at 10%, new age business (Pride of Cows and Avvatar) at 6%, and others at 10% (FY25 annual report). In Q4 FY26, management began calling ghee, cheese, paneer and dahi the "flagship categories," and dahi moved into that bucket. By Q1 FY27, flagship categories were 61% of revenue and new age business was 13% (Q1 FY27 concall, Aug 2026). By Q2 FY27, flagship categories were 63% of revenue at INR 778 crore and new age business was about 12% at INR 154 crore (Q2 FY27 concall, Nov 2026).

SEGMENT	FY25 MIX	Q1 FY27 MIX	Q2 FY27 MIX	WHAT IT CONTAINS
Core / Flagship categories	57% (ghee, cheese, paneer)	61% (ghee, cheese, paneer, dahi)	63% (ghee, cheese, paneer, curd; INR 778 crore)	The branded, everyday dairy products that carry the P&L
Ingredients	17%	Not separately disclosed	Not separately disclosed	SMP, whey protein ingredients sold to industrial buyers
Liquid milk	10%	Not separately disclosed	Not separately disclosed	Fresh cow milk, toned, double-toned, low-fat
New age business	6%	13%	About 12% (INR 154 crore)	Pride of Cows premium dairy, Avvatar sports nutrition
Others	10%	Not separately disclosed	Not separately disclosed	UHT milk, beverages, cattle feed, state incentives, job processing

The four brands

Gowardhan is the volume engine. It covers traditional dairy essentials - ghee, paneer, dahi, fresh milk, dairy whitener - plus a forward-integrated line of ready-to-eat sweets (Kaju Katli, Malai Pedha, Kesar Pedha, Mysore Pak, Mawa Gujiya, and chikki made with ghee). According to the IMARC 2024 data cited in the annual report, Gowardhan holds a 22% share of the branded cow ghee segment and is the #1 player there, at a retail price roughly 20% higher than the #2 competitor (Q2 FY26 concall, Nov 2025). The ghee positioning is anchored on purity and the "no adulteration" message, which matters in a category where unbranded ghee is frequently cut with vegetable fat.

Go covers modern dairy: processed and natural cheese (slices, cubes, mozzarella, cheddar), UHT milk, flavoured milk, buttermilk, lassi and flavoured yogurts. Go Cheese holds a 35% share of the Indian cheese market and is the #2 cheese brand in the country (Q1 FY27 concall, Aug 2026). The brand is built for young urban households and food service.

Pride of Cows is the premium, farm-to-home, single-origin brand. It sells whole milk, low-fat milk, ghee, paneer, high-protein low-fat paneer (45g protein per 200g pack), Greek yogurt with 8g protein per 100g, and whole milk powder, all sourced exclusively from the company's own Bhagyalaxmi dairy farm near Manchar. It operates a subscription model with home delivery managed through a dedicated app, and it has expanded into quick commerce platforms in cities including Mumbai, Delhi, Pune, Surat, Bengaluru, Ahmedabad, Vadodara, NCR, Noida, Greater Noida and Chandigarh. Pride of Cows took a price increase from INR 120 to INR 135 per litre during Q4 FY26 (Q4 FY26 concall, May 2026).

Avvatar is India's first 100% vegetarian whey protein brand, launched in 2021, and it is the strategic growth bet. The product line includes whey protein blends, Isorich (isolate), 100% Performance Whey, Alpha Whey, Nitro Iso Whey, mass gainer, creatine, protein wafer bars in

chocolate and coffee flavours, and a recently launched ready-to-drink coffee with 15g protein per serving (Q1 FY27 concall, Aug 2026). By Q2 FY27, Avvatar had scaled 27 times over the first half from FY22, more than 75% of its revenue came from quick commerce, e-commerce and its own website, and the brand added popped chips, new Performance and Alpha Whey flavours, a natural-sweetener whey variant and hazelnut cold coffee with 15g protein (Q2 FY27 concall, Nov 2026).

The integrated asset base

The chain runs from farm to shelf. Bhagyalakshmi Dairy Farms, wholly owned, houses more than 5,000 Holstein Friesian cows on 35 acres with automated feeding, milking and processing, and it is the exclusive source for Pride of Cows. The company has stated a vision to expand the farm concept toward ~15,000 cows by 2030 (FY25 annual report). The commercial milk supply comes from 5 lakh+ farmers through 300+ bulk milk coolers and 2,400+ village collection points. In Q2 FY27, Parag procured an average 21 lakh litres per day, about 5% more than a year earlier (Q2 FY27 concall, Nov 2026).

The three manufacturing sites are Manchar (Maharashtra, the largest - all categories including ghee, paneer, dahi, cheese, whey processing, powders, RTD beverages and sweets), Palamaner (Andhra Pradesh - UHT milk, flavoured milk, dahi, cheese, ghee, powders) and Sonipat (Haryana). The Sonipat plant was sold in Q1 FY26 as an idle asset and contributed a one-off gain to other income that year (Q1 FY27 concall, Aug 2026). Combined processing capacity is roughly 34 lakh litres of milk per day, with 110 metric tons per day of combined ghee and cheese capacity, 20 MT/day paneer and 10 lakh litres/day whey processing (FY25 annual report). The board has since approved a combined INR 205 crore outlay to lift paneer from 20 to 80 metric tonnes per day by June 2027 and cheese from 60 to 120 metric tonnes per day by Q2 FY28 (Q2 FY27 concall, Nov 2026).

The signature capex program is now a combined INR 205 crore board-approved outlay: about INR 100 crore to raise paneer capacity from 20 to 80 metric tonnes per day across Manchar and Palamaner by June 2027, and INR 105 crore to double cheese capacity from 60 to 120 metric tonnes per day by Q2 FY28. The cheese expansion also doubles whey protein production, feeding Avvatar. The strategic logic remains two-sided: more cheese capacity generates more whey, which supports the protein platform (Q2 FY27 concall, Nov 2026).

> *"With this capacity expansion, we will be able to drive a parallel expansion in our whey protein generation. This will enable us to tap the opportunity of both the categories, which is cheese and whey, a step towards becoming a health and nutrition powerhouse."*
>
> **AKSHALI SHAH, Q1 FY27 CONCALL (AUG 2026)**

How the economics work

Parag is fundamentally a milk-price pass-through business with a product-mix overlay. Milk is ~all of the raw material cost, and farm-gate milk prices have been volatile and trending up: INR 38 per litre average in Q2 FY26, INR 40 in Q3 FY26, INR 42 in Q4 FY26 and Q1 FY27, then INR 45 in Q2 FY27, which was 18% higher year-on-year and 7% higher sequentially. Current procurement on the Q2 FY27 call was INR 46.50 per litre (Q2 FY26 concall, Nov 2025; Q3 FY26 concall, Feb 2026; Q1 FY27 concall, Aug 2026; Q2 FY27 concall, Nov 2026).

Management's stated approach is "calibrated price increases, a better product mix and targeted promotional optimization" rather than pushing the full cost through at once (Q1 FY27 concall, Aug 2026). Gross margin was 26.0% in Q2 FY27 versus 25.8% a year earlier, with gross profit up 24% to INR 323 crore. Management took two price increases during Q2 and does not see further core category price increases anytime soon. Gross margin per litre rose to INR 17 from INR 14 even as milk cost rose about INR 7 per litre, reflecting pricing and mix (Q2 FY27 concall, Nov 2026).

EBITDA margin was 8.1% in Q2 FY27 versus 7.3% a year earlier excluding a prior-year forex MTM reversal, and H1 FY27 was 7.8% versus 7.5%. Q2 other expenses included about INR 20 crore of additional A&P that management calls exceptional for the quarter; annual A&P is expected to remain range-bound within the historical INR 130-150 crore range. The medium-term aspiration remains double-digit EBITDA margins, driven by new age mix and distribution scaling (Q2 FY27 concall, Nov 2026; Q4 FY26 concall, May 2026).

Two accounting nuances matter for reading the financials. First, other income fluctuates because of an annual fair-value remeasurement of the biological assets (the cow herd) plus occasional one-off gains like the Sonipat sale. Second, state incentives (PSI/PLI) are recognized in other operating revenue, and they fell from INR 88 crore in FY25 to about INR 46 crore in FY26 because the September 2025 GST cut from 12% to 5% on ghee and cheese reduced the SGST base on which Maharashtra incentives are calculated (Q4 FY26 concall, May 2026; Q2 FY26 concall, Nov 2025).

Business segments

Core/Flagship Categories

The flagship categories - ghee, cheese, paneer, and dahi/curd - are the foundation of Parag Milk Foods. They made up 61% of Q1 FY27 revenue (Aug 2026 concall), 64% of Q3 FY26 revenue when the group was still called "core categories" and excluded dahi (Feb 2026 concall), and 57% of FY25 product mix (FY25 annual report). By Q2 FY27 they were 63% of revenue at INR 778 crore, up 20% in value and 7% in volume. Ghee saw double-digit volume growth, paneer had its strongest volume quarter, and cheese improved sequentially led by double-digit HoReCa growth (Q2 FY27 concall, Nov 2026). The landmark asset behind them

is the procurement network: about 21 lakh litres of milk collected daily in Q2 FY27 from over 5,00,000 farmers through 300+ bulk milk coolers, then processed at 110 metric tons per day of combined ghee and cheese capacity and pushed through 29 depots, 500+ super stockists, 4,500+ distributors, and 4.6 lakh retail touchpoints (Q2 FY27 concall, Nov 2026; FY25 annual report).

The products serve different households. Gowardhan Ghee is the anchor: a 22% share of the roughly INR 6,000-7,000 crore organized branded cow ghee market, and the #1 brand in that segment (FY25 annual report). Ghee users buy it for purity and daily cooking, which is why the company launched a 20 ml sachet at INR 20 to pull first-time buyers out of the unorganized market (Feb 2026 concall). Go Cheese holds a 35% share and is #2 in India (Aug 2026 concall); it sells to modern families, HoReCa accounts, and increasingly through quick commerce. Paneer is smaller than ghee or cheese in the mix but growing on the back of the adulteration crackdown - Maharashtra FDA moves against vegetable-fat "analogue" paneer favor the 100% milk-fat version the company makes (Aug 2026 concall). Dahi was folded into the flagship group in Q1 FY27 as the word "core" was retired (Aug 2026 concall).

Customers split roughly 70% B2C and 30% B2B at company level (Nov 2025 concall); within the flagship categories, the split is why the aggregate volume number can mislead. In Q1 FY27, flagship volumes fell 2% year-on-year, but management put the decline entirely on B2B: "we are not degrowing on the B2C part of the total business," with B2C flagships growing high single digit or close to double digit (Aug 2026 concall). In Q2 FY27, flagship volumes grew 7% after that 2% decline, with B2C again growing double digits and the Q1 drag attributed to a B2B element management consciously chose not to take (Q2 FY27 concall, Nov 2026). The B2C pull is brand trust backed by a price premium - Gowardhan holds "almost close to 20%" premium over a leading branded cow ghee competitor (Nov 2025 concall) - and a distribution push adding roughly 30,000 general trade outlets per quarter, aimed at the weak under-penetrated belts of UP and the four southern states (May 2026 concall).

Competitively, no single player spans ghee, cheese, paneer, and whey. As Ankit Jain put it, regional names like Hatsun, Heritage, and Dodla are largely liquid milk and ice cream businesses, and while Amul is present everywhere, "there is no one direct competition or a direct player which you can represent, which has a ghee, cheese or whey protein or a farm-to-home milk" (Nov 2025 concall). The real fight is against the unorganized market, roughly 70% of the dairy category:

> *"The competition is not between the players, but competition is between unorganized and organized."*
>
> **RAHUL KUMAR SRIVASTAVA, Q2 FY26 CONCALL (NOV 2025)**

The segment is also the group's growth engine for everything else. Cheese production throws off whey, which feeds the Avvatar protein line, so the decision to double cheese capacity from 60 to 120 metric tons per day by roughly March 2028 is simultaneously a flagship and new age investment (Aug 2026 concall). Ghee generates skimmed milk powder as a byproduct, which is why management argues ghee and SMP combos must be read together when evaluating margins (Feb 2026 concall). The capacity expansion also needs more milk - a deliberate step-up in procurement that the existing network is built to absorb (Aug 2026 concall).

Volume trajectory has been uneven across the quarters. FY25 core volume grew 17% (FY25 annual report); FY26 full-year core volume grew 8%, with Q4 dragged down 3% by institutional and export base effects (May 2026 concall); Q1 FY27 flagged the 2% dip above. Q2 FY27 reversed that with 7% flagship volume growth, B2C double-digit growth and paneer's strongest volume quarter (Q2 FY27 concall, Nov 2026). Ghee has been the steadiest line: "Ghee remains clearly an outlier with a strong volume growth" (Q4 FY26 concall, May 2026). Management guides high single-digit volume growth in core categories in coming quarters, especially paneer and ghee, after two price increases in Q2 and no further increase planned soon (Q2 FY27 concall, Nov 2026).

New Age Business

The New Age Business pairs Pride of Cows, a premium single-origin farm-to-home dairy brand, with Avvatar, a sports nutrition and whey protein brand. Management bundles them into one reporting line. The segment grew 71% year-on-year in Q2 FY27 to INR 154 crore and contributed about 12% of revenue, versus 9% a year earlier, with an annualised run rate above INR 600 crore (Q2 FY27 concall, Nov 2026).

The core capability behind both brands is vertical integration into the raw material. Bhagyalakshmi Dairy Farms, a wholly owned subsidiary, houses more than 5,000 Holstein Friesian cows in one of India's most automated dairy operations, where feeding, milking and processing run without manual intervention (FY25 annual report). Pride of Cows sells that farm milk directly to urban households. Avvatar sits on the other side of the same asset. Whey is the byproduct of cheese production, and Parag turns that whey into protein powder instead of selling it as a bulk commodity. That is why the company approved INR 105 crore to double cheese capacity from 60 to 120 metric tons per day by Q2 FY28, which also doubles whey protein production (Q2 FY27 concall, Nov 2026).

Avvatar covers the protein range by format and price point. The line includes Whey Blend Protein, Isorich Protein (an isolate), 100% Performance Whey, Alpha Whey, Nitro Iso Whey, Mass Gainer, Muscle Gainer, Creatine and a Protein Bar (FY25 annual report). Management added Protein Wafer Bars, Fuel Whey, Creatine, and a ready-to-drink coffee with 15 grams of protein per serving (Q1 FY27 concall, Aug 2026). Pride of Cows carries whole and low-fat

milk, ghee, paneer, curd, Greek yogurt and whole milk powder, with premium additions like low-fat high-protein paneer at 45 grams of protein per 200-gram pack (FY25 annual report).

The two brands sell to different customers. Pride of Cows targets urban, higher-income households that pay INR120 to INR135 per litre for farm-fresh milk delivered by subscription through a mobile app, available in eight cities as of the Nov 2025 call. Avvatar sells to fitness users and protein-deficient consumers, with 75% of revenue from quick commerce, e-commerce and its own website, and 25% from traditional retail and specialized protein outlets (Q1 FY27 concall, Aug 2026). Management's logic for the customer base is structural: roughly 80% of India is protein deficient, and awareness of that gap is rising (Q2 FY26 concall, Nov 2025).

Competition is concentrated. In whey protein, the market was historically import-driven, and management names Optimum Nutrition and MuscleBlaze as the brands it measures itself against, with Amul entering the protein category as well. In quick commerce and marketplaces, Avvatar holds between 14% and 15% of the protein segment, a share that excludes its own website and retail sales (Q4 FY26 concall, May 2026). Management frames Avvatar's differentiation as being produced in-country from its own whey rather than imported, which it claims gives it control over source and purity (Nov 2025 concall).

The segment's financial contribution has climbed steadily: 6% of mix in FY25 (annual report), 9% in H1 and nine-month FY26, 10% in Q4 FY26, 13% in Q1 FY27 and about 12% in Q2 FY27. New age revenue crossed INR 100 crores in a single quarter for the first time in Q3 FY26 and repeated that in Q4 FY26 (May 2026 concall); Q2 FY27 revenue was INR 154 crore, up 71%, and management cites an annualised run rate above INR 600 crore. Management's stated target is for the segment to reach 20% to 25% of total revenue over the next three to five years, and around 25% by the time the INR 10,000 crore aspiration is reached (Q2 FY27 concall, Nov 2026). Margins inside the segment are not disclosed separately, but management has said they run close to double the company's average (Feb 2026 concall).

The segment deliberately connects to the rest of the group. Cheese production generates the whey that feeds Avvatar, and the farm that powers Pride of Cows is the same asset that differentiates the group's milk sourcing. That integration also makes the segment hard to carve out, which management has said directly:

> *"Parag is a completely integrated business model from the farm that we have with 5,000-plus cows to the milk you are procuring the cheese and the byproduct is whey protein and then we've created this brand Avvatar from there. So it's a very integrated business model. It will be very difficult to carve out something particularly and just for the valuation."*
>
> **AKSHALI SHAH, Q2 FY26 CONCALL (NOV 2025)**

On the cheese-to-whey link, management framed the capacity expansion as serving both categories:

> *"We are doubling our cheese production capacity from 60 metric tons per day to 120 metric tons per day over the next 1.5 years. With this capacity expansion, we will be able to drive a parallel expansion in our whey protein generation. This will enable us to tap the opportunity of both the categories, which is cheese and whey."*
>
> **AKSHALI SHAH, Q1 FY27 CONCALL (AUG 2026)**

There are execution notes within the growth story. Pride of Cows saw a sequential plateau around INR100 crores in Q4 FY26, which management attributed to withdrawing certain promotions and to price transitions in Avvatar, calling it a transitional quarter (Q4 FY26 concall, May 2026). Avvatar prices have been raised in steps, not doubled, in response to whey input costs and the falling rupee, and management maintains it stays close to parity with imported competitors on a like-for-like protein basis (Aug 2026 and Feb 2026 concalls). The India's Got Latent tie-up for Avvatar in Q1 FY27 generated more than 80 million unique reaches on YouTube and Netflix combined, and management pointed to a roughly 200% rise in website traffic and Google searches over the two months after it aired (Q1 FY27 concall, Aug 2026).

Liquid Milk

Liquid milk is the Gowardhan fresh-milk line, and in FY25 it contributed 10% of Parag's revenue mix. The annual report describes it plainly: "Milk: Milk constituted 10% of Parag's product mix, offering a variety of options such as toned, double toned, full-cream and low-fat milk." Gowardhan is the brand that carries Parag's traditional identity, sitting alongside ghee, paneer and curd under one umbrella. It is also the most commoditized leg of the portfolio and the closest to the raw material input.

The core capability behind it is the procurement network, built over three decades in western India's milk belts. Parag buys about 15 lakh litres of milk a day from five states, Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu and Karnataka, through 300-plus bulk milk coolers and 2,400-plus village collection points, against a daily processing capacity of 34 lakh litres (annual report). The supplier relationship is deliberately weighted toward the farmer: the company says it never says no to farmers who pass quality checks, and the landed cost of milk from its own collections equals the cost from aggregators (annual report; Aug 2026 concall).

The product line is simple: toned, double-toned, full-cream and low-fat cow milk in pouches, sold through 29 depots, 500-plus super stockists and roughly 4,500 distributors reaching 4.6 lakh retail touchpoints (annual report). Buyers are daily household consumers plus a smaller institutional channel; overall the group runs about 70% B2C and 30% B2B (Nov 2025

concall). Consumers pick the branded pouch for the same reason they pick branded ghee and paneer: adulteration fear in loose milk. Management frames the real competition as unorganized dairy rather than rival brands, pointing to consumers shifting to packaged products because they believe in quality and consistency (Nov 2025 concall).

The named competitors in the Nov 2025 concall are Amul plus regional liquid-milk players like Hatsun, Heritage and Dodla. Parag's home strength is western India: management concedes it is "very, very strong in Maharashtra" and weaker across the north and south, with deliberate investment to build inroads into UP and the four southern states (May 2026 concall). Ankit Jain noted in the Nov 2025 concall that Parag's liquid milk share has held steady while the market grows, and that the business helps optimize working capital.

The segment's strategic role is to sit under the Gowardhan umbrella and convert the fixed milk procurement into everyday cash flow while the higher-margin categories draw on the same raw milk pool. Price discipline flows through the entire chain: average procurement was INR 42 a litre in Q4 FY26 and Q1 FY27, INR 45 in Q2 FY27, and INR 46.50 on the Q2 call. Management expects no normal winter softening in Q3 because of deficient rains (Q2 FY27 concall, Nov 2026). The same procurement muscle funds the cheese expansion, which raises cheese capacity from 60 to 120 metric tonnes a day and requires materially more milk.

> *"Simultaneously, we have to increase the milk procurement also to catch up the requirement which is needed by the cheese plant. So that also we are working on that. But that will not be an issue because we have good strength to collect milk."*
>
> **COO, Q1 FY27 CONCALL (AUG 2026)**

Management's tone on liquid milk across the concalls is consistent: it is the volume business, kept deliberately modest in mix while ghee, cheese and paneer (57% of FY25 revenue) and the new age business (roughly 13% by Q1 FY27) grow faster. The annual report's outlook for the segment is structural, citing IMARC data that the Indian liquid milk market is the largest dairy segment at roughly INR6.5-6.7 lakh crore, with the organized share at about 48-50% and rising.

> *"If you look at our liquid milk share has broadly remained stable, which means the same is also growing. It helps in optimizing on our working capital."*
>
> **CSO, Q2 FY26 CONCALL (NOV 2025)**

Ingredients Business

The Ingredients Business is Parag Milk Foods' industrial-output leg: everything the company makes from milk that it sells to other manufacturers rather than to consumers. It is anchored in the byproduct economics of the group's core plants. When Parag makes ghee, it gets

skimmed milk powder (SMP) as a byproduct. When it makes cheese, it gets whey. When it refines that whey into protein, it also produces lactose. The company has spent years building the physical capability to capture and sell these streams: a modern cheese and whey plant, a lactose line expanded to 12-15 metric tons per day, and powder plants at Manchar and Palamaner (FY25 Annual Report).

The segment's product list is short. SMP and whole milk powder (WMP) are the bulk items, bought by bakeries, confectioners, infant food makers and dairy dessert manufacturers. Institutional whey protein goes to pharmaceutical and protein-enriched food producers. Lactose, refined from whey, serves pharmaceutical excipient and infant formula makers. The FY25 Annual Report describes the customer base directly: "suitable for various applications in food products like bakery items, confectionery, infant food, protein enriched offerings, pharmaceutical products and dairy-based desserts."

Buyers choose Parag for quality certification rather than price. The company holds US FDA registration for its Manchar facility, BIS certification for its whole milk powder and skimmed milk powder, and an AGMARK grading licence for ghee (FY25 Annual Report). Those certifications matter in a commodity where food-safety compliance is the actual differentiator, and they give Parag an export channel for its powders and dairy ingredients alongside its branded export business in the UAE, Singapore, Mauritius, Oman, Kuwait, the US and other markets (FY25 Annual Report).

Management is blunt that this is a commodity business with thin economics, and it competes in a global, import-driven market where no single domestic rival defines the price. In the Q3 FY26 call, Ankit Jain explained why SMP drags on the reported gross margin:

> *"SMP is finally a byproduct which gets generated which is at times margin dilutive, at times a very nominal margin accretive. So what happens is the denominator with respect to turnover increases because of SMP sales. And thereby, it impacts the gross margin in terms of the percentage because the realization is more on Ghee and not on SMP."*

That accounting logic is the key to reading the segment. Ghee and SMP are priced as one economic unit - the realization lands on the ghee, while the SMP turnover inflates the denominator. The same pairing applies to cheese and whey, but with one strategic difference: whey is being pulled out of the ingredient market and redirected into the consumer brands.

The strategic decision on whey was stated explicitly in the same Q3 FY26 call. Institutional whey protein sales exist, but the company has chosen to allocate its whey to Avvatar rather than sell it as an ingredient:

> *"We have chosen in terms of not to allocate much on the ingredient business rather to allocate more towards the Avvatar protein business."*

This is the deliberate shrinking of the segment. Management confirmed in that call that the ingredient business's degrowth was "largely on account of SMP," plus the same reallocation of whey. The ingredient share is therefore a residual - it absorbs whatever the branded business does not need.

The segment's role in the group structure is a cost-recovery and raw-material valve, with revenue mix of 17% of total product mix in FY25 (FY25 Annual Report). It exists because the byproducts of ghee and cheese have to go somewhere. When Parag doubles cheese production from 60 metric tons to 120 metric tons per day by Q2 FY28 for INR 105 crore (Q2 FY27 concall, Nov 2026), whey output rises in parallel, and the decision to feed that whey into Avvatar's whey protein, rather than sell it to other manufacturers, is what turns a low-margin ingredient into a high-margin consumer product. Rahul Kumar Srivastava laid out the logic in the Nov 2025 call: "we have to produce whey protein at our end, for which we have to produce more cheese so that we get the best quality of whey and then we can produce the whey protein."

The practical consequence is that the Ingredients Business will keep shrinking in relative importance as long as Avvatar and cheese grow, while SMP continues to be priced jointly with ghee. It is a segment whose value to the group is not its own margin, but the fact that it keeps every litre of milk fully monetized - and that its whey stream is the raw material for a far more profitable business elsewhere in the portfolio.

Others

The "Others" segment is a catch-all that mixes two very different things: physical products (UHT milk and dairy-based beverages sold under the Go brand) and operational income that has nothing to do with consumer offtake (state incentives, cattle feed sales, job processing fees). Management was explicit about this in the Q1 FY27 call when an analyst asked why the category fell 46% year-on-year.

The core capability underneath the product side is UHT processing. Parag built this at the Palamaner plant in Andhra Pradesh, which the annual report describes as featuring "a world-class UHT facility," and runs four additional filling locations at Vashi, Vasai, Surat and Nagpur. UHT (ultra-high temperature) treatment sterilizes milk so it can sit on shelves for months without refrigeration, which is why these products work for on-the-go consumption and in geographies without reliable cold chains.

The product portfolio inside this segment is small. Under the Go brand, Parag sells UHT milk and shelf-stable beverages including spiced buttermilk, lassi and flavoured milk shakes. The

annual report notes these are "shelf-stable, require no refrigeration and are ideal for on-the-go consumption, making them especially relevant for time-starved consumers in both urban and semi-urban areas." Retail consumers are the buyers, mainly for convenience occasions rather than daily household milk needs. On the non-product side, the segment also books income from cattle feed sold to the farmer network and from contract job processing at its plants.

The other operating revenues are the real reason the segment's performance is volatile. Ankit Jain, Chief Strategy Officer, laid out the mechanics in the Q1 FY27 call:

> *"All the other operating revenues are part of other categories. The other operating revenues primarily also include the income from cattle feed, job processing as well as the state incentives, the PSI incentives, PLI incentives. These are one-off items... post the GST changes in September 2025, the PSI income has substantially reduced because the GST rate has changed for ghee and cheese products like from 12% to 5%."*

The PSI (Package Scheme of Incentives) subsidy is reimbursed against SGST paid on Maharashtra sales. When the central government cut GST on ghee and cheese from 12% to 5% in September 2025, the state GST component shrank, and the incentive shrank with it. That accounts for most of the 46% decline in the quarter. The same structural effect had already been flagged in the Q4 FY26 call, where management noted total incentive income dropped from INR88 crores to INR46 crores in FY26.

On top of the incentive decline, the segment's composition changed by definition. Dahi (curd), previously counted in Others, was moved into the renamed "Flagship Categories" (ghee, cheese, paneer, dahi). So part of the reported fall is reclassification, not lost sales.

Management named no specific competitors in this segment across the calls reviewed. The competitive frame is essentially the broader organized dairy FMCG space, where national cooperatives and private players all sell UHT milk and flavoured drinks, but Parag's own commentary focuses on the segment as a minor, opportunistic part of the portfolio rather than a contested battleground.

The segment's role inside the group is absorption. UHT milk and beverages give Parag a place to route milk when procurement exceeds what the higher-margin categories need, and the filling locations are already paid for. The segment also touches the farmer ecosystem through cattle feed sales, which reinforces the procurement relationship without requiring a separate sales force.

Revenue mix was 10% of the company's total in FY25, per the annual report. Management's own description of the category as "very much on a miscellaneous part" is the accurate summary, with the caveat that the underlying beverage business is real. As Jain put it:

"within the others category, we have hero products like UHT, beverages, which have done reasonably well."

Customers

Parag sells through two broad channels: roughly 70% B2C and 30% B2B (Q2 FY26 concall, Nov 2025). The B2C share has been rising as the new age business and branded core categories grow, and the mix matters because B2B contracts carry thinner margins and dilute the reported gross margin percentage.

B2C retail

The B2C customer is an Indian household buying packaged dairy for daily consumption. Gowardhan targets the mass and mass-affluent household across urban and rural India; Go targets young urban working couples and families; Pride of Cows targets affluent, health-conscious consumers who pay a premium for traceable single-origin milk; Avvatar targets fitness enthusiasts and, increasingly, the broader protein-deficient population (an estimated 80% of India is protein-deficient per management commentary in the Nov 2025 concall).

Reach is the product in this channel. Parag sells through 4.6 lakh retail touchpoints, 29 depots, over 500 super stockists and about 4,500 distributors (FY25 annual report). The distributor network is the switching cost: a consumer can switch ghee brands at zero cost, so the moat is distribution depth plus brand trust. Management adds roughly 30,000 outlets per quarter and has stated a target of 1.5 million outlets within three years (Q2 FY26 concall, Nov 2025; Q1 FY27 concall, Aug 2026). The concrete gap is geographic - Parag is strongest in Maharashtra and western India and has stated that penetration in North India (UP, ~21 crore people) and South India (~28 crore people) is the growth opportunity (Q4 FY26 concall, May 2026).

B2B institutional

The B2B book spans three kinds of buyers. First, HoReCa (hotels, restaurants, catering) buys Go cheese - historically the base of the cheese business, and the source of the 35% share position. Second, industrial food manufacturers buy ingredients - SMP, whey protein, ghee, paneer - for bakery, confectionery, infant food, pharmaceuticals and dairy desserts (FY25 annual report). Third, export buyers across 18 countries, including UAE, Singapore, Mauritius, Oman, Kuwait, Hong Kong, Philippines, Sri Lanka, Bangladesh, USA, UK and Germany.

The B2B relationship is transactional and price-sensitive. Contracts are renegotiated quarterly or monthly, and Parag has explicitly walked away from B2B deals rather than accept price concessions that would erode profitability - which is a large part of why B2C volume grew high single digit while overall core category volume declined 2% in Q1 FY27 (Q1 FY27 concall, Aug 2026; Q4 FY26 concall, May 2026). In Q4 FY26, export sales declined

year-on-year against a base that included large institutional and export orders, which is the disclosed reason for the core category volume dip that quarter (Q4 FY26 concall, May 2026).

The export effort is being restructured through a wholly owned Dubai subsidiary, Parag Foods Middle East FZE, incorporated in January 2025. Plans to open a company-owned depot and expand distributor coverage in the Middle East were put on hold following regional instability, with sales continuing through direct distribution from India (Q4 FY26 concall, May 2026).

D2C and digital

The new age brands run a different distribution model. Avvatar sells 75% through quick commerce, e-commerce and its own website, and 25% through traditional retail and specialized protein outlets (Q1 FY27 concall, Aug 2026). Pride of Cows runs a subscription delivery model through its app plus quick commerce platforms. This is deliberate: protein products are discovered and bought online, and the target consumer is channel-specific. Management explicitly takes a selective, outlet-relevant approach rather than broad guerrilla distribution for these premium lines (Q1 FY27 concall, Aug 2026). In quick commerce and marketplace rankings, Avvatar holds roughly 14-15% share of the protein segment, with the caveat that a large share of its own sales flows through its own website and is outside that measure (Q4 FY26 concall, May 2026).

Why customers buy

For Gowardhan ghee, the purchase reason is purity and trust - the brand is priced ~20% above the next competitor and still holds the #1 share, which is evidence that the premium is accepted. For cheese, the purchase reason is convenience and taste in a still-penetrating category where organized brands are displacing unbranded alternatives. For Pride of Cows, it is provenance: a farm-to-home story with visible traceability. For Avvatar, it is clean sourcing - a homegrown whey protein made from the company's own cheese and milk, competing against imported protein where provenance and adulteration are consumer concerns.

Competitive landscape

Parag competes in four distinct arenas: branded cow ghee, cheese, liquid milk/dahi, and sports nutrition. The competitive structure differs sharply across them, and Parag's position ranges from category leader to challenger.

Ghee

The branded cow ghee segment is the strongest competitive position. Gowardhan holds a 22% share per IMARC 2024 and is #1 at a ~20% retail premium to the second-largest brand (Q2 FY26 concall, Nov 2025). The branded segment is a subset of the total ghee market, which includes buffalo and mixed ghee and a large home-made/unbranded pool. The structural pattern across dairy is that organized brands are taking share from unbranded and adulterated product, and ghee is the clearest case: consumer concern over adulteration

pushes buyers toward packaged brands, and the Maharashtra FDA's 2026 crackdown on analogue paneer shows regulators moving in the same direction (Q1 FY27 concall, Aug 2026).

The main competitor is Amul, which is strong in ghee but positions at lower price points. Parag's stated edge is that it can hold brand leadership while charging a premium, which implies it does not need to win on price.

Cheese

Go Cheese holds 35% share of the Indian cheese market and is #2, behind Amul (Q1 FY27 concall, Aug 2026). Cheese in India is a penetration-growth story: it is a young category growing from a small base, and the organized players are competing with each other as the category expands. Britannia is the other significant branded player. Parag's cheese history is HoReCa-led - it built the business supplying hotels, restaurants and catering - and the current push is to grow the consumer end through national and regional media (KBC, Bigg Boss, regional shows) while holding the food-service base. The cheese capacity doubling from 60 to 120 MT/day is a bet that consumption growth plus whey demand justifies the capex.

Liquid milk and dahi

This is the most competitive arena, contested by Amul, Mother Dairy, and the big regional private players - Hatsun Agro, Heritage Foods, Dodla Dairy. These players are primarily liquid milk and curd businesses with deep local procurement and distribution. Parag's liquid milk is a 10% revenue line, and it has stated that "there is no one direct competition or a direct player which you can represent, which has a ghee, cheese or whey protein or a farm-to-home milk" - the point being that the regional players are concentrated in liquid milk and ice cream while Parag plays the value-added portfolio (Q2 FY26 concall, Nov 2025). Still, in dahi and fresh milk, Parag is a smaller player fighting for shelf space against entrenched regional leaders, and the company's volume performance in core categories has been volatile - a strong 14% volume growth in Q2 FY26, then a flagged institutional/export-related decline in Q4 FY26 and Q1 FY27.

Sports nutrition (whey protein)

Avvatar competes against MuscleBlaze (the dominant Indian sports nutrition brand), imported Optimum Nutrition, and a long tail of imports. The category dynamic is unusual: almost all whey protein in India is imported, so the competitive battleground is price, provenance and distribution. Parag's structural advantage is that it produces whey in-house as a byproduct of cheese, so it is backward integrated into the raw material while competitors import concentrate or isolate with FX and freight exposure (Q2 FY26 concall, Nov 2025; Q1 FY27 concall, Aug 2026).

The stated competitive stance is to match imported brands at parity on pricing while offering a "Made in India" story. Management notes that when protein prices rose sharply (global whey prices roughly doubled), consumers traded across protein formats - from isolate to blends to beginner-level products - and Parag has covered that spectrum with different SKUs at different price points (Performance Whey, Fuel Whey, blends, bars, RTD) (Q1 FY27 concall, Aug 2026).

Where Parag wins and loses

Winning: in branded value-added dairy, where differentiation and trust justify a price premium; in cheese and whey, where the integrated manufacturing model gives it a cost base competitors importing protein cannot match; and in the new age premium segment, where brand-led pricing (Pride of Cows at INR 135/litre) supports margins.

Losing: in distribution breadth versus Amul and the regional liquid milk players, especially in North and South India; in B2B whenever a large customer demands price concessions - there, Parag deliberately loses the volume rather than the margin; and in protein, where it is the challenger against a much larger MuscleBlaze in a category with low switching costs. The honest read from management is that the core categories can grow double digit on volume through distribution and unorganized-to-organized conversion, but the execution is the constant risk (Q2 FY26 concall, Nov 2025).

Industry

Size and structure

India is the world's largest milk producer, contributing about 25% of global milk supply, with output of 239 MMT in FY2023-24 projected to reach 300 MMT by 2030 (FY25 annual report). The Indian dairy market was valued at approximately USD 135.3 billion in 2024 and is expected to reach about USD 146.8 billion in 2025, with projections toward USD 274.1 billion by 2032, a CAGR of roughly 9.33% (FY25 annual report).

The organizing trend is the shift from unorganized to organized. As of FY2024-25, 55-60% of the dairy market still sat with unorganized players. The organized segment has grown from about 32% to 40% and is projected to reach 54% by 2026 (FY25 annual report). This conversion is the largest single tailwind for a branded player like Parag: the competition is less between branded players and more between packaged and unbranded product. Management frames it directly - the competition is between organized and unorganized, and the market is moving toward packaged dairy because consumers prioritize quality and consistency (Q2 FY26 concall, Nov 2025).

Demand drivers

The demand side rests on four forces. First, protein awareness: India is broadly protein-deficient (management cites 80% deficiency), and the fitness and health-nutrition wave is

expanding the whey protein category from a niche to a mainstream consumer staple. Second, health consciousness: consumers are shifting from cereal-heavy diets toward higher protein and functional foods (annual report). Third, adulteration: incidents and regulatory action in paneer and ghee push consumers toward branded product. Fourth, income and urbanization: rising disposable income, a young demographic, and the growth of modern retail, quick commerce and e-commerce expand the reach of packaged dairy.

Global whey protein dynamics reinforce the local story. Global demand has risen sharply, in part because GLP-1/fat-reduction medicines prompt protein-focused diets, and the US and Europe are absorbing more supply. Management's view is that this demand-supply gap in protein is structural, not temporary (Q1 FY27 concall, Aug 2026).

The milk price cycle

The industry's defining cyclical feature is the farm-gate milk price, driven by the flush season (post-monsoon, when fodder is abundant and yields peak) and the lean season (summer, when yields drop and demand for ice cream and cold dairy rises). FY26 was a sharp inflation cycle: average milk prices went from INR 38/litre in Q2 to INR 40 in Q3 to INR 42 in Q4 FY26 and stayed at INR 42 in Q1 FY27 - a peak of 20% year-on-year inflation. Q2 FY27 averaged INR 45/litre, up 18% year-on-year, and current procurement was INR 46.50. Management expects no normal winter softening in Q3 because of deficient rains and a drought-like situation, with more clarity toward December (Q2 FY27 concall, Nov 2026).

Regulation

Three regulatory forces shape the industry. First, GST: in September 2025, ghee and cheese moved from 12% to 5% and paneer was zero-rated. This is consumer-positive for volumes but cut the SGST base on which Maharashtra state incentives are calculated, directly reducing Parag's other operating income (Q4 FY26 concall, May 2026). Second, food safety enforcement: the Maharashtra FDA's action against analogue paneer (vegetable-fat products mislabeled as paneer) is an industry tailwind for legitimate milk-based producers (Q1 FY27 concall, Aug 2026). Third, the new labour codes introduced in November 2025 created a one-time employee benefit provision charge of INR 5.4-5.7 crore for the company (Q3 FY26 concall, Feb 2026). Trade policy is a modest factor: dairy has historically been kept outside free trade agreements, and management does not see FTA-driven import risk in protein (Q3 FY26 concall, Feb 2026).

The global context

In global terms, India is simultaneously a huge producer and a small exporter - only about 9.5% of global milk production is traded internationally, and India's dairy exports are small (~USD 272 million in FY2023-24, with the US a key market) (FY25 annual report). India's position in the global dairy supply chain is domestic-first: it produces 25% of the world's milk

but consumes almost all of it. The import-competition angle matters mainly in whey protein, where India has historically imported nearly all of its supply, and where Parag's domestic production positions it as an import-substitution play.

Growth triggers

Doubling cheese production capacity from 60 to 120 metric tons per day over next 1.5 years

Management committed in the Q1 FY27 call (Aug 2026) to double cheese production capacity from 60 to 120 metric tons per day over the next 1.5 years, targeting completion around March 2028. It is the largest capacity commitment the company has laid out across the four calls.

The mechanism has two layers. Cheese is itself a flagship category: ghee, cheese, paneer and dahi together contributed 61% of Q1 FY27 revenue, and Go Cheese holds a 35% market share as the #2 cheese brand in India (Q1 FY27 concall, Aug 2026). Second, cheese and whey are produced together: every ton of cheese generates whey, which is the raw material for the Avvatar protein portfolio. Akshali Shah framed the expansion around both outputs:

> *"With this capacity expansion, we will be able to drive a parallel expansion in our whey protein generation. This will enable us to tap the opportunity of both the categories, which is cheese and whey, a step towards becoming a health and nutrition powerhouse." : Executive Director, Q1 FY27 concall (Aug 2026)*

The build is staged and site-adjacent, not greenfield. In the Q2 FY26 call (Nov 2025), Ankit Jain outlined raising cheese capacity from 60 to 80 first, then onward to 120, via "adjacency in the capex," with the plan already work in progress. Rahul Srivastava confirmed the timeline and the parallel milk procurement requirement in Q1 FY27:

> *"So maybe by March '28, we'll be able to make our capacity to 120 metric tons. Simultaneously, we have to increase the milk procurement also to catch up the requirement which is needed by the cheese plant... we have good strength to collect milk." : Chief Operating Officer, Q1 FY27 concall (Aug 2026)*

The company currently procures about 15 lakh litres of milk per day (FY25 annual report), so doubling cheese throughput means scaling raw milk intake in step. The commercial logic is that the added capacity feeds two businesses at once - branded cheese and whey-derived Avvatar - rather than a single product line.

Expansion of new age business (Pride of Cows & Avvatar) – targeting 20-25% of total revenue in 3-5 years

The trigger is Parag Milk Foods converting its two premium brands - Pride of Cows (farm-to-home single-origin milk) and Avvatar (whey protein and sports nutrition) - into the company's

second growth engine alongside the core ghee, cheese and paneer categories. Management has stated the target explicitly: 20-25% of total revenue within 3-5 years, which implies a portfolio of roughly INR1,000 crores at the company's stated INR10,000 crore ambition (Q4 FY26 concall, May 2026).

The progress is measurable. New age revenue contribution climbed from 6% in Q1 FY26 to 9% in Q2 FY26 (Nov 2025 concall), 10% in Q4 FY26 (May 2026), and 13% by Q1 FY27 - now around INR120+ crores quarterly against a INR945 crore total (Q1 FY27 concall, Aug 2026). The quarterly revenue itself has crossed INR100 crores in three straight quarters.

The mechanism is threefold. First, Avvatar is a vertically integrated business: Parag produces cheese, and whey is the byproduct. That whey becomes Avvatar's raw material, which management says carries margins almost double the company average (Q3 FY26 concall, Feb 2026 - "the new age business carries our premium offerings and more value-added offerings and carry superlative margin than the overall company's average"). Second, Pride of Cows is a direct-to-consumer model built on the Bhagyalakshmi Dairy Farm's ~5,000 Holstein Friesian cows, selling single-origin milk through quick commerce and subscriptions in 8 cities (Q2 FY26 concall, Nov 2025). Third, Avvatar keeps adding new formats - protein wafer bars, ready-to-drink coffee with 15g protein per serving, creatine, performance whey, fuel whey - each attacking a different consumer price point within the protein category (Q1 FY27 concall, Aug 2026).

> *"In the next 3 to 5 years, we see this business contributing to around 20% to 25% of the overall revenues."*
>
> **AKSHALI SHAH, Q4 FY26 CONCALL (MAY 2026)**

The growth rates underpinning this are already in evidence: 79% year-on-year in Q2 FY26, 123% in Q3 FY26, over 100% in Q4 FY26, and 59% in Q1 FY27. Q1 FY27 also introduced a deliberate volume story - management noted overall company volume growth of 3% despite a 2% decline in flagship category volumes, with the delta coming from new age (Q1 FY27 concall, Aug 2026).

Distribution remains the main constraint. Management gave a 3-year goal of availability in over 1.5 million outlets (Q1 FY27 concall, Aug 2026), and Avvatar currently sells 75% through e-commerce, quick commerce and its own website versus 25% through traditional retail and specialized protein outlets (Q1 FY27 concall, Aug 2026). Premium positioning is maintained by pricing Avvatar at parity with imported brands while using the in-house whey production, which is the structural cost advantage over import-dependent competitors.

Rapid growth in Avvatar: sixfold growth over three H1 periods, new product launches (protein bars, RTD coffee, creatine)

Avvatar is Parag's whey protein brand, launched in 2017 and described in the FY25 annual report as "India's first 100% vegetarian whey protein brand." Management reports the brand grew sixfold across the three H1 periods ending September 2025:

> *"Avvatar has continued its remarkable growth trajectory, expanding six-fold over the past three H1."*
>
> **AKSHALI SHAH, Q2 FY26 CONCALL (NOV 2025)**

The mechanism is vertical integration. Whey is the byproduct of cheese manufacturing, and most whey protein sold in India is imported. Avvatar's feedstock comes from Parag's own cheese plants, which COO Rahul Srivastava says is the point of the cheese business: to get high-quality whey protein, the company must make more cheese. That is why the planned doubling of cheese capacity from 60 to 120 metric tons per day is also a whey protein expansion. Management adds that Avvatar's whey price tracks domestic milk prices, not global protein commodity prices (Q4 FY26 concall, May 2026).

The brand is widening its consumer base through new formats. Protein Wafer Bars launched in Q1 FY26 and reached 8% of brand revenue by Q3 FY26 with nationwide distribution. Ready-to-drink coffee with 15 grams of protein per serving launched in Q1 FY27, alongside creatine and performance/fuel whey variants that segment buyers by price point and experience.

Distribution runs 75% through quick commerce, e-commerce and Avvatar's own website, with 25% from specialized retail outlets (Q1 FY27 concall, Aug 2026). Management cites a 14-15% market share on quick commerce and marketplaces (Q4 FY26 concall, May 2026). Ankit Jain stresses the growth is volume-led: "this is not just backed by a value growth. This is strongly backed by volume growth as well" (Q1 FY27 concall, Aug 2026). The combined new age business, Avvatar plus Pride of Cows, now contributes 13% of total revenue, up from 9% a year earlier (Q1 FY27 concall, Aug 2026).

Distribution expansion – adding ~30,000 outlets per quarter and deeper penetration in North/South India

Parag adds roughly 30,000 general trade outlets every quarter, on top of a base of 4.6 lakh retail touchpoints supported by 29 depots, more than 500 super stockists and over 4,500 distributors as of the FY25 annual report. Management's stated ceiling is bigger than the current pace: it wants availability in more than 1.5 million outlets within three years, working on both store count and the depth of products each store carries (Q1 FY27 concall, Aug 2026).

The economic logic is geographic concentration. Distribution strength sits in Maharashtra and western India, while the north and south remain underpenetrated, and those regions are large: UP alone has a population of 21 crores, and the four southern states together have 28 crores (Q4 FY26 concall, May 2026). The expansion is paired with already-committed infrastructure in cold chain, warehouses and mass-market brand awareness through the Kaun Banega Crorepati association, so newly added outlets can move ghee, cheese, paneer and dahi directly into consumption. Those flagship categories generated 61% of Q1 FY27 revenue (Aug 2026 concall).

The mechanism shows up in volumes. Core categories grew 14% in volume in Q2 FY26 (Nov 2025 concall) and 12% in Q3 FY26 (Feb 2026 concall), and B2C within the flagships kept growing even while B2B was pared back for pricing discipline (Q1 FY27 concall, Aug 2026). The COO ties the outlet adds directly to that growth:

> *"So we are adding every quarter about 30,000 outlets as per GT is concerned in terms of all across India." : Rahul Kumar Srivastava, COO, Q2 FY26 concall, November 2025*

The push is continuous rather than one-time. It started with East and Northeast expansion, where management created 30,000 additional outlets in the year to December 2025 (Q3 FY26 concall, Feb 2026), and now turns to the north and south as the next frontier (Q4 FY26 concall, May 2026).

New product launches in health & nutrition segment (e.g., protein wafer bars, ready-to-eat sweets)

What this is, concretely: Parag is converting dairy byproducts and its core commodities into branded consumer products. The two named launch lines are the Avvatar Protein Wafer Bar (chocolate, then coffee variant) and ready-to-eat sweets under Gowardhan (Kaju Katli, Malai Pedha, peanut and sesame chikki). The mechanism runs through the integrated model: cheese production generates whey, whey is the raw material for Avvatar whey protein, and the new formats extend that protein into snacking instead of only powder.

The wafer bar is the proof point. Launched in Q1 FY26, it reached 8% of Avvatar brand revenue by Q3 FY26 and was scaled to nationwide distribution (Q3 FY26 concall, Feb 2026):

> *"The recently launched Protein Wafer Bar has received an encouraging consumer response, contributing to 8% to the brand revenue and has now been scaled up for nationwide distribution."*

That matters because a INR-style snack bar reaches consumers who never buy a whey powder tub - a different occasion, price point and retail channel - while monetizing whey that is a byproduct of the cheese line regardless.

The pipeline was visible a year before launch. The FY25 annual report's R&D section lists "In Development: Protein Wafer Bar (coffee flavor), Protein Snacks and puffed Chips" alongside

the completed Gowardhan sweet launches. Those launches have since arrived: by Q1 FY27, Avvatar's portfolio was "protein bars to ready-to-drink products, creatine, and other functional and nutrition products", and the new ready-to-drink Avvatar coffee with 15 grams of protein per serving launched that quarter with "a very encouraging response" (Q1 FY27 concall, Aug 2026).

The capacity expansion is the supply-side enabler. Management is doubling cheese output from 60 to 120 metric tons per day over the next 1.5 years and explicitly ties it to whey:

> *"With this capacity expansion, we will be able to drive a parallel expansion in our whey protein generation. This will enable us to tap the opportunity of both the categories, which is cheese and whey, a step towards becoming a health and nutrition powerhouse."*
>
> **AKSHALI SHAH, Q1 FY27 CONCALL (AUG 2026)**

More cheese means more whey at the same milk cost, giving these products a raw material advantage over import-dependent protein brands. Distribution is already in place: 75% of Avvatar revenue flows through quick commerce, e-commerce and the own website, with 25% from specialized retail (Q1 FY27 concall, Aug 2026), so a digital-first channel lets new SKUs reach users fast before general trade build-out.

Monsoon expected to improve milk availability and festive demand in H2 FY27

Milk prices stay elevated into Q3 FY27 as weak rains delay the flush

Raw milk is Parag's dominant input. Average procurement was INR 45/litre in Q2 FY27, 18% higher year-on-year, and stood at INR 46.50/litre on the call. Management does not expect the usual winter flush to soften prices in Q3 because of deficient rains and a drought-like situation, leaving the pass-through test live (Q2 FY27 concall, Nov 2026).

The normal seasonal mechanism has not arrived. In Q2 FY27, milk cost rose about INR 7 per litre year-on-year, while gross margin per litre rose to INR 17 from INR 14 on pricing and mix. That combination is the current proof that the company can pass through cost, but the current INR 46.50 procurement price and no further price increase planned soon make Q3 the next test (Q2 FY27 concall, Nov 2026).

> *"because of the deficient rains and drought-like situation, there may not be a softening of the prices in quarter three."*
>
> **RAHUL KUMAR SRIVASTAVA, COO, Q2 FY27 CONCALL (NOV 2026)**

Management has already taken two price increases in Q2 and says it does not see any further core category price increase anytime soon. It expects high single-digit volume growth in core categories in coming quarters, especially paneer and ghee (Q2 FY27 concall, Nov 2026). The

demand side remains festive-led: Q2 revenue was the highest ever at INR 1,241 crore, and management expects the festive season to support value-added categories in H2.

Management expects the combined festive and pricing effect to support H2 FY27 after H1 revenue grew 18% to INR 2,185 crore. The Q2 FY27 call does not restate a specific full-year revenue growth percentage, but it does guide high single-digit core volume growth and says the planned paneer, cheese and whey capacity additions in FY27 and FY28 support medium- to long-term growth (Q2 FY27 concall, Nov 2026).

> *"we'll see a high single-digit growth in our -- volume growth in our core categories, especially in paneer and ghee."*
>
> **AKSHALI SHAH, EXECUTIVE DIRECTOR, Q2 FY27 CONCALL (NOV 2026)**

As of the August 2026 call, the monsoon is in progress, milk prices are flat sequentially, and the company has already delivered its highest-ever Q1 (INR945 crore, +11% YoY). The trigger sits at the transition point: the flush is starting to build and the festive demand window opens in Q2-Q3 FY27.

Key risks

- **Milk price inflation is the dominant swing factor, and the pass-through always lags.** Milk at INR 45/litre in Q2 FY27 was 18% higher year-on-year, after +13% in Q1 FY27, +15% in Q4 FY26, +20% in Q3 FY26 and +16% in Q2 FY26. Current procurement is INR 46.50/litre, and management expects no Q3 softening because of deficient rains. Q2 gross margin held at 26.0% and gross margin per litre rose to INR 17 from INR 14, but the staggered price model leaves the company living quarter-to-quarter in the gap between cost and price (Q2 FY27 concall, Nov 2026).
- **The ghee price premium is the margin bridge, and it can erode if consumer demand softens.** Gowardhan commands roughly 20-25% higher prices than the second player in branded cow ghee (Feb 2026 concall). That premium is what absorbs milk inflation without collapsing volumes. But it is a standing invitation for competition to undercut, and in a demand slowdown consumers trade down. If the premium narrows, margins compress; if volumes fall instead, the fixed cost absorption weakens.
- **B2B volume ceding is deliberate, but it makes headline growth look weaker than the business is.** In Q1 FY27, flagship categories (ghee, cheese, paneer, dahi) declined 2% in volume YoY, entirely because B2B fell while B2C grew (Aug 2026 concall). The company is consciously refusing business that would dilute profitability: Rahul Kumar Srivastava noted the company "does not go to that kind of pricing to maintain our profitability." The risk is that this ceded share goes to competitors and does not return when the pricing

environment normalizes, and that the public market reads the muted volumes as a growth problem even when B2C is healthy.

- **The paneer and cheese capacity expansions carry execution risk tied to milk procurement and demand, not just capex.** Paneer goes from 20 to 80 metric tonnes per day by June 2027 for about INR 100 crore and cheese from 60 to 120 metric tonnes per day by Q2 FY28 for INR 105 crore. Management anticipates about 80% immediate paneer utilisation after commissioning, but that is an expectation, not contracted demand. A milk shortfall or slower offtake would leave expanded capacity underutilised with new depreciation (Q2 FY27 concall, Nov 2026).
- **The whey protein strategy depends on a global price cycle that could reverse.** Avvatar's profitability is tied to whey, which is monetized both as B2B ingredient and as the branded protein business. Global whey demand has surged because GLP-1 drug adoption in the US and Europe has driven higher protein consumption (May 2026 concall, Rahul Kumar Srivastava). Parag's backward integration gives it cost protection, but a normalization of that demand would compress the ingredient value and pressure Avvatar's premium pricing. The competitive set in protein includes MuscleBlaze and imported Optimum Nutrition, and the Feb 2026 call noted the largest Indian milk marketer is also entering the protein market; management argued this would help "educate the customers," but it also introduces a powerful price competitor.
- **Employee cost inflation is outpacing revenue growth.** Employee costs grew over 20% YoY for several quarters, from roughly INR40 crore per quarter to a INR54 crore run-rate (May 2026 concall). Drivers included the ESOP program (about INR5 crore of annual impact), a long-delayed increase in executive director remuneration (INR9 crore annual change versus a INR6 crore base), and new senior hires. This structural cost line rises independent of the commodity cycle and directly caps EBITDA margin expansion even when gross margins improve.
- **State incentive income is shrinking and the baseline is resetting.** Maharashtra PSI incentives fell from INR88 crore in FY25 to INR46 crore in FY26 (May 2026 concall), with FY25 inflated by a one-off two-year accrual under a separate scheme. The September 2025 GST cut from 12% to 5% on ghee and cheese reduced the SGST base that incentives are calculated against, so the number will drift lower still. This is roughly a full EBITDA-margin-point of income that has to be replaced with operating gains every year.
- **Weather and crop cycles create recurring supply risk.** The Feb 2026 call flagged El Niño concerns and summer season pressure on milk output; the Aug 2026 call noted milk prices were flat sequentially but monsoon-dependent. A weak monsoon reduces fodder,

raises feed costs, and pushes up procurement prices in the lean season, repeating the 2025-26 pattern of 13-20% annual milk inflation.

- **Regulatory changes cut both ways.** The Maharashtra FDA crackdown on analogue paneer (paneer made with vegetable fat instead of milk fat) is a tailwind for Parag, which uses 100% milk fat: "it's good for us" (Aug 2026 concall). But the new labour codes triggered a one-time provision of INR5.4 crore standalone (Feb 2026 concall), and further shifts in GST, food safety rules, or packaging regulations carry direct cost implications that management must absorb or pass on.
- **Working capital stretches in an inflationary environment.** Inventory reached roughly INR 730 crore at Q4 FY26, up about INR 150 crore year-on-year, almost entirely from rate variance rather than volume build (May 2026 concall). Net debt rose from INR 484 crore in March 2026 to INR 678 crore by September 2026, mainly on inflation-led inventory build, even as inventory days remained stable; the debt was funded through ECLGS 5.0 and a new working capital lender. Gross debt was INR 483 crore as of September 2025 with net debt-to-EBITDA at 1.4x (Nov 2025 concall; Q2 FY27 concall, Nov 2026).

Scenarios

Bull case

Milk prices hold near the Q2 FY27 INR 45/litre average or soften after Q3, and management's two Q2 price increases plus richer mix hold gross margin around 26% with gross margin per litre above the prior INR 14. Q2 FY27 revenue grew 23% with 12% volume, and EBITDA rose 37% excluding the prior-year one-off. Paneer capacity rises fourfold by June 2027 and cheese doubles by Q2 FY28, with whey protein doubling alongside cheese. New age revenue grew 71% to INR 154 crore in Q2 FY27 and is targeted at around 25% of revenue when the INR 10,000 crore aspiration is reached. Mix shift and scale carry EBITDA margin toward the stated double-digit aspiration, while distribution expansion into North and South India converts into B2C volume growth and the deliberate B2B ceding matters less because B2C outgrows it. Incentive income declines, but operating efficiencies and mix offset it (Q2 FY27 concall, Nov 2026).

Base case

Revenue grows in the high teens in FY27 after H1 FY27 revenue rose 18% to INR 2,185 crore, with Q2 FY27 at INR 1,241 crore, up 23%. Milk prices stay around INR 45-46.50/litre with no Q3 seasonal softening, and the company continues calibrated pricing after two Q2 increases; gross margin holds near 26%. Flagship B2C grows high single digit while B2B stays selective, and Q2 flagship volume grew 7%. New age grows fast from the INR 154 crore quarterly base but the revenue mix stays in the low-to-mid teens in the near term. The INR 205 crore paneer and cheese capex adds depreciation before full ramp, keeping EBITDA

margins in the 8-9% range rather than breaking into double digits. Net debt at INR 678 crore and the incentive decline are absorbed by mix gains and cost discipline; ROCE improves gradually (Q2 FY27 concall, Nov 2026).

Bear case

A weak flush keeps milk prices at INR 46.50 or higher into FY28, and with no further core price increase planned soon, repeated cost pressure meets consumers already paying a premium in ghee and cheese. B2C volume growth slows below the high single digit needed to offset selective B2B, so headline volume growth weakens. The INR 205 crore paneer and cheese projects slip or commission into slower demand, leaving new capacity underutilised with added depreciation. New age growth decelerates from the Q2 FY27 71% pace, and competitive pressure in protein limits Avvatar's pricing. Net debt at INR 678 crore and declining state incentives absorb cash, gross margin falls below 25%, and EBITDA compresses toward the 6-7% band seen in weaker years (Q2 FY27 concall, Nov 2026).

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	3,818	4,479	5,186	5,910
Revenue growth	-	+17.3%	+15.8%	+14.0%
EBITDA (₹ Cr)	310	385	493	591
EBITDA margin	8.1%	8.6%	9.5%	10.0%
Depreciation (₹ Cr)	70.70	78.00	95.00	112
Interest (₹ Cr)	81.40	104	112	110
Other income (₹ Cr)	53.50	8.00	10.00	12.00
PBT (₹ Cr)	152	203	286	369
Tax (₹ Cr)	17.30	50.20	71.40	92.20
Tax rate	11.4%	24.7%	25.0%	25.0%
PAT (₹ Cr)	135	153	214	277
PAT growth	-	+8.7%	+40.0%	+29.2%
EPS (₹)	11.26	12.24	17.14	22.14
P/E	30.5x	28.1x	20.0x	15.5x
PEG	0.9x	0.8x	0.6x	0.5x

CAGR FY27E-FY29E: Revenue +14.9% · EBITDA +23.9% · PAT +34.5%

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Q2 FY27 concall notes

TLDR

Parag Milk Foods reported its highest-ever quarterly revenue of ₹1,241 crores in Q2 FY27, up 23% YoY, with volumes up 12% and the remainder from pricing and mix. Flagship categories (ghee, cheese, paneer, curd) grew 20% in value and 7% in volume to ₹778 crores, 63% of revenue; the new-age business (Pride of Cows, Avvatar) grew 71% to ₹154 crores, 12% of revenue. Gross profit rose 24% to ₹323 crores at a 26% margin; EBITDA excluding last year's one-off forex reversal rose 37% to ₹101 crores at an 8.1% margin; PAT rose 42% to ₹42 crores. The board approved ₹205 crores of capacity outlay: paneer from 20 to 80 MT/day by June 2027 and cheese from 60 to 120 MT/day by Q2 FY28, with whey protein capacity doubling alongside cheese. Management guides to high single-digit core volume growth in coming quarters and no further core price increases, with milk procurement at ₹46.50/litre expected to hold through Q3.

WHAT CHANGED SINCE Q1 FY27

- **Core volume growth turned positive.** Q1 flagship volume fell 2% YoY on deliberate B2B forfeiture; Q2 flagship volume grew 7% YoY, with B2C in double digits. Management attributed the rebound to consumer acceptance of two price increases taken during the quarter.
- **New-age mix slipped sequentially despite faster growth.** Q1 new-age was 13% of revenue (₹118 crores); Q2 was 12% of revenue (₹154 crores) as festive flagship sales grew faster. Management restated the long-term target as about 25% of revenue at a ₹10,000 crore revenue aspiration, a number not given in Q1.
- **Cheese capacity timeline moved earlier.** Q1 guided doubling from 60 to 120 MT/day by about March 2028; Q2 set completion at Q2 FY28 with ₹105 crores of investment.
- **Paneer expansion newly disclosed.** Fourfold capacity increase from 20 to 80 MT/day across Manchar and Palamaner for about ₹100 crores, commissioning by June 2027, with about 80% utilisation anticipated immediately after commissioning.
- **Milk cost rose further.** Q1 procurement was ₹42/litre, up 13% YoY and flat sequentially; Q2 was ₹45/litre, up 18% YoY and 7% QoQ, with spot at ₹46.50/litre and no winter softening expected.
- **Margin recovered.** Q1 EBITDA margin was 7.4%, down from 7.7%; Q2 margin was 8.1% versus 7.3%, and 37% EBITDA growth excluding a ₹16 crores one-off forex MTM reversal in the base quarter.
- **A&P spend stepped up.** About ₹20 crores of the ₹177 crores other expenses was additional brand investment in the quarter; management kept the full-year A&P budget at the ₹130-150 crores range it cited in Q1.
- **New items appeared:** amalgamation of wholly owned subsidiary Bhagyalakshmi Dairy Farms into the company, a Pride of Cows identity refresh, and new Avvatar launches (popped chips, Alpha Whey flavours, a natural-sweetener whey variant, hazelnut cold coffee). Net debt rose from ₹484 crores in March 2026 to ₹678 crores on inventory inflation, funded partly through ECLGS 5.0.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Revenue	₹1,241 crores	+23% YoY	12% volume growth, remainder from pricing and product mix; highest-ever quarter
Gross profit	₹323 crores	+24% YoY	Gross margin 26% vs 25.8%; gross margin per litre up from ₹14 to ₹17

METRIC	REPORTED	CHANGE	WHAT DROVE IT
EBITDA (ex one-off)	₹101 crores	+37% YoY	Margin 8.1% vs 7.3%; excludes ₹16 crores forex MTM reversal in base quarter
PAT	₹42 crores	+42% YoY	Growth despite current tax impact
H1 revenue	₹2,185 crores	+18% YoY	8% volume growth for the half
H1 EBITDA	₹270 crores	+23% YoY	Margin 7.8% vs 7.5%
H1 PAT	₹64 crores	+12% YoY	Despite current tax impact
Milk procurement	21 lakh litres/day at ₹45/litre	Volume +5% YoY; price +18% YoY, +7% QoQ	Spot price ₹46.50/litre; no Q3 softening expected on deficient rains
Flagship categories	₹778 crores, 63% of revenue	+20% value, +7% volume YoY	Paneer's strongest volume quarter; ghee double-digit volume; cheese improved on HoReCa
New-age business	₹154 crores, 12% of revenue	+71% YoY	Pride of Cows and Avvatar; over 75% of Avvatar revenue from quick commerce, e-commerce and own website
Net debt	₹678 crores	Up from ₹484 crores in March 2026	Inventory built up on inflation; inventory days stable; partly ECLGS 5.0 funding

SEGMENTS & GEOGRAPHIES

- **Flagship categories (ghee, cheese, paneer, curd):** ₹778 crores, 63% of revenue, up 20% in value and 7% in volume. Paneer had its strongest volume quarter on the shift from unorganised to branded products. Cheese improved over the previous quarter, led by HoReCa growing in double digits. Ghee delivered double-digit volume growth; Gowardhan holds 22% of branded cow ghee and about 35% of goat cheese. Management expects high single-digit volume growth in coming quarters, particularly in paneer and ghee.
- **New-age business (Pride of Cows, Avvatar):** ₹154 crores, 12% of revenue, up 71% YoY and from ₹118 crores sequentially; contribution has tripled over three years. Avvatar has scaled 27 times in H1 versus FY22. Pride of Cows relaunched its identity around the egret bird and added lactose-free milk.
- **Regions:** All four regions grew in high double digits, with South and West the fastest growing. Management enhanced regional disclosure this quarter.

STRATEGY & COMPANY-SPECIFIC

- **Paneer capacity:** Board approved about ₹100 crores to raise capacity fourfold from 20 to 80 MT/day across Manchar and Palamaner, covering regular and high-protein paneer, commissioning by June 2027. Management anticipates about 80% utilisation immediately after commissioning.
- **Cheese and whey capacity:** ₹105 crores to double cheese from 60 to 120 MT/day with completion targeted in Q2 FY28; whey protein production and raw material availability double alongside. Both expansions are at existing sites.
- **Bhagyalakshmi Dairy Farms amalgamation:** Board approved merging the wholly owned subsidiary into the company, subject to approvals, to consolidate operations and give Pride of Cows access to the company's distribution network.
- **Product launches:** Avvatar entered snacking with popped chips in two flavours (10g protein per 30g pack), added Alpha Whey flavours, a natural-sweetener whey variant and hazelnut cold coffee (about 15g protein, no added sugar). Pride of Cows launched lactose-free milk.

- **Brand investment:** Gowardhan on Kaun Banega Crorepati Season 18; Go Cheese Golden Stretch Award with HoReCa partners and chef engagement; quick-commerce visibility campaigns; Avvatar partnership with India's Got Talent Season 2 (336 million YouTube views) and sampling with IndiGo Airlines.
- **Balance sheet:** Net debt at ₹678 crores versus ₹484 crores in March 2026, from inventory inflation, partly funded through ECLGS 5.0 and a new working capital lender in the consortium. Operating cash profit for H1 was ₹161 crores before working capital; net cash used in operations was ₹84 crores.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
FY27 revenue growth	Exceed 10% YoY	Maintained	H1 grew 18%; festive season and distribution expansion to support H2
Core category volume growth	High single-digit in coming quarters, especially paneer and ghee	New	Two price increases absorbed; no further core price increases planned
Paneer capacity commissioning	June 2027	New	₹100 crores across Manchar and Palamaner
Cheese capacity commissioning	Q2 FY28, 120 MT/day	Raised (was ~March 2028)	₹105 crores at existing site
New-age business mix	About 25% of revenue at ₹10,000 crore revenue aspiration	New	Current 12.5%; ARR above ₹600 crores
Full-year A&P spend	₹130-150 crores range, barring inflation	Maintained	About ₹20 crores additional spend taken in Q2
Milk prices	Current ₹46.50/litre to hold through Q3; clearer by December	New	Deficient rains and drought-like conditions may prevent winter softening

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Milk price inflation	Procurement at ₹45/litre for the quarter, spot ₹46.50; no seasonal softening expected in Q3 because of deficient rains, with clarity by December
Raw milk supply	Industry raw milk output expected to grow only 4% this year on weather and higher fodder cost, with demand growing faster than supply
Working capital and leverage	Net debt up to ₹678 crores from ₹484 crores in March 2026 on inventory inflation; management said inventory days are stable and it is comfortable leveraging the balance sheet
Capacity execution	Paneer commissioning by June 2027 and cheese by Q2 FY28; management expects about 80% paneer utilisation immediately, an assumption rather than a contracted outcome
Brand spend variability	A&P is pulled up or down by need; Q2 carried about ₹20 crores of additional spend, and the full-year budget is a range rather than a fixed number
Tax	PAT growth in both Q2 and H1 came despite a current tax impact

Q&A HIGHLIGHTS

Core volume rebound and its durability Asked how much of the flagship volume recovery from -2% to 7% was festive stocking and whether it would hold, management said B2C grew in double digits as in the prior quarter and the overall flagship grew 7% in volume. On outlook, management said two price increases were taken in the quarter,

no further core increases are planned, and high single-digit volume growth is expected in coming quarters, particularly in paneer and ghee.

New-age business scale and target Asked whether new-age can grow 40-50% in FY28, management said the business went from ₹118 crores to ₹154 crores sequentially, is above ₹600 crores on an ARR basis, and is targeted at about 25% of revenue at a ₹10,000 crore revenue aspiration. Q2 and Q3 are heavy flagship quarters because of the festive season, yet new-age grew in absolute terms.

Margin level and the ₹20 crores spend Asked whether the business is already at a double-digit EBITDA run rate, management said margins improved from passing on cost and a better gross margin per litre, and that scale improves margin. It clarified the ₹20 crores was additional A&P versus last year, not an exceptional item, and that full-year A&P stays in the ₹130-150 crores range.

Milk price outlook for Q3 Asked what procurement price to expect next quarter, management said the current price is ₹46.50/litre and that winter softening may not happen this year because of deficient rains and a drought-like situation, so the current price should continue through Q3 with more clarity by December.

Paneer capacity timing and utilisation Asked when paneer capacity comes on stream and how much would be used, management said capacity rises from 20 to 80 MT/day with commissioning in June 2027 and about 80% utilisation anticipated immediately after. Management did not confirm the analyst's estimate of ₹500-600 crores of incremental paneer revenue.

Other expenses Asked how much of the ₹177 crores other expense is non-recurring, management said about ₹20 crores is additional brand-building spend that may not recur, with the rest including variable costs such as power, fuel and supply chain that rise with volume.

KDDL Limited

GROWTH TRIGGERS

The bull case rests on KDDL's precision manufacturing engine running well ahead of its stated targets while management spends money earlier than planned to keep pace: Eigen grew close to 50% in H1 FY27 against a 20% to 25% medium-term CAGR goal, watch components are now guided to grow faster for the full year than the original 12% to 14% expectation, capacity expansion has been pulled forward from FY28, FY27 capex has been raised to INR 70-75 crores, and three smaller profit pools - Ornapac, Favre-Leuba and Estima - are each moving toward or past breakeven.

1. Eigen running far above its 20-25% medium-term target

Eigen revenue grew close to 50% year on year in H1 FY27 on strong demand from export customers and additional business from new customers, well above the 20% to 25% CAGR management retains as its medium-term goal. Management described the growth as having taken it a little bit by surprise and said there could be upside to prior expectations if it continues, while still restating the long-term guidance unchanged.

2. Expansion preponed rather than delayed

Watch component capacity expansion has been started earlier than the original FY28 plan. At Eigen, space at the existing Unit 1 is being enlarged, the rack plating line has been installed at Unit 2A, a new facility about six kilometres from the existing plant, with other machines shifted there, and the adjacent Unit 2B plot has been finalised and is due to be operational in the middle of the next financial year.

3. FY27 capex raised to INR 70-75 crores

The FY27 capex plan has been raised to INR 70-75 crores for the year, an increase of about INR 15-20 crores over the earlier INR 50 crore plan, because the expansion has been preponed. Management said it does not want to miss opportunities and uses a rough 3:1 capex-to-revenue norm as a guide to what the spending should generate.

4. In-house rack plating moving to commercial supply

The rack plating line has been commissioned and trials are complete, with samples sent to the customer for approval and commercial supplies expected to start within one to two months. Bringing plating in-house is a backward integration step that gives Eigen control over a process it previously outsourced, supporting quality and turnaround on larger and more complex orders.

5. Ornapac crosses into positive PBT

The packaging business grew revenue by over 30% in H1 FY27 and achieved positive PBT in Q2 FY27. Management expects the positive profitability trend to continue through the remaining quarters of the year and in future years, supported by further revenue growth and

better utilisation of the existing operating base, and it is adding export customers alongside domestic supply.

6. Favre-Leuba guided to FY27 breakeven with rising volumes

Management says the Favre-Leuba brand will achieve breakeven already in this year, that sale quantities have been higher than expected, and that the brand operates in more than 35 countries with more than 40-45 doors outside Ethos, almost half of its points of sale. Budgets and plans for the next two years are being revised upward, and INR 1,000 crores of revenue is described as a feasible number.

7. Watch components reset higher on volume

Dials and hands revenue grew about 30% year on year in H1 FY27, driven by volume growth from both domestic and export customers rather than by higher realisations, which management called a healthy sign. On that basis, full-year FY27 revenue growth is now expected to be higher than the original expectation of about 12% to 14%.

8. Broad-based Eigen demand across end markets and geographies

New Eigen customers are spread across EV, battery energy storage systems, electronics, and aerospace and defence, with the focus on the Americas and Europe rather than China and Asia. Management says customers sometimes choose to de-risk away from China and that selection depends on manufacturability and repeatability rather than cost alone, which favours a supplier with in-house tooling and process capability.

9. Estima loss narrowing with capability build

Estima's loss this year is guided to be significantly lower than last year, with breakeven hoped for next year. Management notes that a large part of Swiss brand procurement stays inside Switzerland and is not open to Asian suppliers, so the capabilities being added at Estima position it for a market that Indian-based manufacturing cannot reach.

10. H1 FY27 growth with H2 expected similar

Standalone H1 FY27 total income was INR 329 crores, up 36.2% year on year, with EBITDA of INR 75.2 crores and a 22.9% margin, and consolidated H1 FY27 total income was INR 1,345.8 crores, up 33.5%. Management said H1 standalone growth was around 35% and that the second half should be something similar to the first half.

INVESTMENT THESIS

The thesis type has moved from execution-miss to compounder. The previous framing rested on two assertions that the Q2 FY27 call contradicts: that management had repeatedly delayed capex timelines, and that Favre-Leuba's production ramp was behind schedule. The latest call states that watch component capacity expansion has been started earlier than the original FY28 plan, that Eigen's expansion has been accelerated with the rack plating line installed at Unit 2A and Unit 2B due to operate from the middle of the next financial year, that FY27 capex has been raised from about INR 50 crores to INR 70-75 crores, and that Favre-Leuba will achieve breakeven this year with volumes above expectations. The business itself has not changed; what has changed is the pace of execution, and that is what this thesis now has to price honestly.

Business economics. KDDL sells precision into markets where qualification and repeatability matter more than price. Its three manufacturing lines are watch components (dials, hands, indexes and bracelets) for Swiss and European brands, precision metal stamping through Eigen for EV, battery energy storage systems, electronics, and aerospace and defence customers, and luxury packaging through Ornapac, alongside the Swiss watch brand Favre-Leuba held through Silvercity Brands. Management described the Eigen buying criterion in exactly those terms: cost is not the only criterion, and for complex products the customer's confidence in manufacturability and repeatability matters more. Exports are about 75% of the company overall, so revenue is earned in hard currency against an INR cost base, though management said currency was not a material factor in H1 FY27 and that growth was majorly volume-driven.

Earnings path. H1 FY27 standalone revenue was INR 329 crores, up 36.2%, with EBITDA of INR 75.2 crores and a 22.9% margin, essentially flat against FY26's 23.1%, and PAT of INR 41.3 crores at a 12.5% margin. Consolidated H1 FY27 revenue was INR 1,345.8 crores, up 33.5%, with a 16.4% EBITDA margin. The engine is Eigen, which grew close to 50% in H1 FY27 against a 20% to 25% medium-term goal management keeps restating, and which management says took it by surprise but was the result of projects in the funnel fructifying sooner and larger than expected rather than of backlog. The other units are earlier in their curves: Ornapac crossed to positive PBT in Q2 FY27 on revenue growth above 30%, Favre-Leuba is guided to breakeven this year with more than 35 countries and almost half its points of sale outside Ethos, and Estima's loss is guided significantly lower than last year.

The margin point matters. Management attributed the gross margin decline almost completely to mix: Eigen carries a slightly lower gross margin than the watch component business and is growing faster, and domestic watch component sales, which carry a lower gross margin than exports, grew faster than exports. Blended margin is therefore drifting down while revenue accelerates. The earnings path in the near term depends on operating

leverage in Ornapac and a narrowing loss at Estima rather than on blended margin moving up, and it is important not to read the 22.9% H1 standalone EBITDA margin as a step toward something higher.

Milestones. The watch component expansion has been pulled forward from FY28. At Eigen, Unit 1 space is being enlarged, the rack plating line is installed at Unit 2A with trials done, samples with the customer and commercial supplies expected within one to two months, and Unit 2B becomes operational in the middle of the next financial year. FY27 capex is planned at INR 70-75 crores against a rough 3:1 capex-to-revenue norm, and management has not disclosed project-level revenue potential or an order book.

Capital allocation. The company will take some debt for the capex and says working capital requirements are rising with the level of business, so the older net-cash characterisation needs to be replaced with a debt-funded expansion. The returns depend on whether preponed capacity is filled quickly, which is a demand question rather than a spending question.

Management delivery. Our preserved notes record under-promise and over-deliver: FY26 standalone growth of about 31.9% against a 15% to 20% guide, bracelet utilisation of 75% to 80% against roughly 65% guided, and FY26 capex close to plan. The Q2 FY27 call extends the pattern by raising the watch component full-year growth expectation above the original 12% to 14% and by restating the plating line as commissioned. That record is context rather than proof: only the Q2 FY27 transcript is available here, so previous commitments could not be independently re-verified.

Falsifiers. The thesis breaks if Eigen's growth reverts to or below the 20% to 25% band as the raised capex lands, leaving new capacity underused; if the bracelet unit's expanded customer base does not convert into orders over the next few quarters; if Favre-Leuba's FY27 breakeven or Estima's guided loss reduction fails because the Swiss watch market does not revive; or if the mix-driven gross margin drift continues while the operating leverage in Ornapac, Estima and the new Eigen facilities fails to offset it.

Guidance versus inference. Guidance: watch component full-year FY27 growth above 12% to 14%; Eigen FY27 growth in line with the continuing run-rate and a 20% to 25% medium-term CAGR; Ornapac's positive profitability trend continuing; Favre-Leuba breakeven in FY27; Estima's loss significantly lower with breakeven hoped next year; FY27 capex of INR 70-75 crores; and standalone H2 FY27 similar to H1. Inference: that Eigen's H1 FY27 run-rate is closer to a new base than to a pull-forward, and that the preponed capacity finds demand as it lands. Neither is established by the disclosed evidence, and neither is a company target.

RESEARCH REPORT

What KDDL Limited does

KDDL Limited is a manufacturing holding company founded in 1981. It makes premium watch components (dials, hands, indexes, bracelets) and precision-engineered metal stamped parts. It also owns two distinct but related businesses: a 50.12% stake in Ethos Limited, India's largest luxury watch retail chain, and majority ownership of Silvercity Brands AG, the Swiss company that owns and operates the revived Favre-Leuba watch brand.

The company earns roughly three-fourths of its revenue from exports on the latest disclosure, with management saying on the Q2 FY27 call that exports are almost 75% overall for the company and slightly higher again for the precision engineering business. Its core commercial proposition is being a high-quality, reliable manufacturing partner based in India that serves demanding global customers, primarily Swiss luxury watch brands and multinational OEMs across automotive, EV, aerospace, and electronics.

KDDL's manufacturing capability took decades to build. The company learned to produce watch dials and hands to the exacting standards of Swiss luxury houses, then layered in precision stamping for industries that require zero-defect output. This combination of horological craftsmanship and industrial engineering is rare. Most Indian precision manufacturers focus on commodity components. Most Swiss watch component suppliers focus only on watches. KDDL sits at the intersection.

The company operates 8 manufacturing plants in India and has a workforce of about 2,386 people. It holds several important certifications: SEDEX for social compliance, ISO 9001:2015, ISO 14001:2015 (environmental management), ISO 45001:2018 (occupational health and safety), IATF 16949:2016 (automotive quality), AS 9100D:2016 (aerospace quality), and FSC (Forest Stewardship Council) for packaging. These certifications are a barrier to entry and a signal to customers that KDDL meets international manufacturing standards.

The group structure matters. The holding company allows KDDL to allocate capital across four separate manufacturing verticals, plus its majority stakes in Ethos and Silvercity Brands. Management describes it as a decentralized, delegated model. Each business head runs their division with its own P&L, growth plan, and targets.

Business segments

Watch Components (52% of standalone revenue, FY25)

This segment manufactures watch dials, watch hands, indexes, appliques, and steel bracelets. Dials and hands are the core products, and together they accounted for roughly

the same value in FY25, according to the company. Indexes are a smaller but faster-growing product line within this segment.

The segment serves two distinct customer groups. Export customers are Swiss and European luxury watch brands. These customers demand flawless finishing, consistent quality across production runs, and reliable delivery. The domestic market consists of Indian watch brands, where demand has been "robust" and "consistently positive" according to management.

This is KDDL's legacy business and the one where the company built its reputation. It is also the most cyclical and the most exposed to global macroeconomic headwinds. In FY25, revenue declined 18.7% year-on-year, with export sales falling 27.7%, though domestic sales grew 13.3%. The company does not disclose the split between dials and hands, but it has shared that both are roughly equal in value. In H1 FY27 the dials and hands business grew about 30% year on year, led by volume from both domestic and export customers, and management now expects full-year FY27 growth to be higher than its original expectation of about 12% to 14%; capacity expansion originally planned for FY28 has been started early.

Precision Engineering - Eigen (38% of standalone revenue, FY25)

Eigen manufactures high-precision metal stamped components and progressive tools for customers in EV and energy storage, electronics, aerospace and defense, automotive, and consumer durables. It is not a product business; Eigen sells manufacturing capability. Customers provide designs and drawings, and Eigen develops the tooling and stamping process to produce the parts at high volume and tight tolerances.

This segment is the fastest-growing part of KDDL. Revenue grew 55% in FY25 and over 35% in FY26. In H1 FY27 it grew close to 50% year on year on strong export demand and additional business from new customers, and management expects FY27 growth to be in line with the continuing run-rate. The medium-term goal remains a 20% to 25% CAGR, and management has said growth could exceed prior expectations if current demand continues.

Eigen's growth is driven by three things: deepening relationships with existing large OEMs, winning new customers, and adding new capabilities (like backward integration into electroplating). The company's market share in precision stamping is extremely small globally, so there is "huge headroom for growth" in management's assessment.

Packaging - Ornapac (3% of standalone revenue, FY25)

Ornapac designs and produces ornamental packaging boxes for watches, jewellery, and premium products. The business is focused primarily on the domestic market, serving international luxury brands that sell in India and want local packaging supply to reduce lead times and logistics costs.

This is the smallest segment and the newest, having started commercial production at a dedicated facility in Panchkula, Haryana, in October 2024. Revenue grew 12.5% in FY25 and over 35% in FY26, and by more than 30% again in H1 FY27. The business achieved positive PBT in Q2 FY27, and management expects the positive profitability trend to continue through the remaining quarters and future years on further revenue growth and better utilisation of the existing operating base.

The strategic rationale is simple: the same luxury watch and jewellery brands that buy KDDL's dials and hands also need premium packaging. Providing that capability builds a deeper relationship with those customers and opens a new revenue stream.

Favre-Leuba (Silvercity Brands)

This is not a separate segment in the financial reporting but a strategically important asset. KDDL, through its Swiss subsidiary Silvercity Brands AG (majority owned), is relaunching the iconic Swiss brand Favre-Leuba globally. The brand was launched in Geneva in August 2024 and is now available in over 20 countries with more than 80 points of sale.

Favre-Leuba sits in the CHF 2,000 to CHF 4,500 price range, competing with brands like Oris and below TAG Heuer. The watches use La Joux-Perret movements and are considered by the company to deliver specifications comparable to watches priced CHF 5,000-6,000. Management states they are "20% to 25% cheaper than most other Swiss brands in this category."

The brand is important beyond its own financial contribution. It represents KDDL's ambition to be vertically integrated in the watch industry: manufacturing components, assembling watches, and distributing them through its retail network (Ethos has exclusive distribution rights in India). Management has described Favre-Leuba as the start of building a portfolio of brands, similar to how large Swiss groups like Richemont operate.

Products and business detail

Watch dials

KDDL manufactures dials in multiple materials and finishes, from simple painted dials to complex pieces with semi-precious stones, enamel work, and multi-layer constructions. Dial making is an exacting process involving printing, lacquering, pad printing, applique placement, and quality inspection under magnification.

The company's dial capability spans both high-volume production and small-batch specialized work. The new subsidiary Artisan Watch Products (AWP), incorporated in March 2025, is specifically focused on expanding high-end artisanal dial capabilities.

Watch hands

Watch hands are among the most difficult components to manufacture consistently. KDDL is one of only 6-7 global manufacturers of watch hands, according to management. The process requires extreme precision in cutting, forming, polishing, and sometimes bluing or coating the metal.

The company's Swiss subsidiary Estima AG specializes in watch hands and dials. Estima has been loss-making due to the Swiss watch industry downturn, but management is investing in new capabilities there, including laser engraving, solid gold hand production, and diamond cutting. On the Q2 FY27 call management said the loss this year will be significantly lower than last year and hoped next year would be the breakeven year if the Swiss watch market revives, noting that much Swiss brand procurement stays inside Switzerland and is not open to Asian suppliers.

Watch bracelets

This is KDDL's newest product line, launched commercially in October 2024. The facility in Dobbaspet, Karnataka, has a capacity of 75,000 bracelets per year, which the company is expanding to about 110,000-120,000 units over 12 months.

The bracelet business has a structural advantage. Under Swiss law, a watch can be called "Swiss made" if 60% of its production cost is incurred in Switzerland. But bracelets are excluded from that calculation. This means Swiss brands can source bracelets from outside Switzerland without losing the "Swiss made" designation. Historically, Chinese manufacturers have been the primary source, but the "China Plus One" trend is pushing brands to diversify.

KDDL's bracelet business initially served a single large customer within the LVMH Group. The relationship began when LVMH supported KDDL in setting up the facility. In H1 FY27 the unit was affected by subdued export demand and the wider challenges in the Swiss watch industry; management says the expanded customer base sits at different stages of trial orders and homologation and that results should start showing from the next quarter onwards, with sales expected to return to the growth path.

Precision stamped components

Eigen's product range includes components for connectors, busbars for energy storage, parts for automotive safety systems, and components for consumer electronics. The common thread is precision stamping using progressive dies: KDDL designs and builds the tool, then uses high-speed stamping presses to produce millions of identical parts.

A key capability under development is backward integration into electroplating. Eigen previously outsourced plating but is bringing it in-house. The rack plating line has been installed at Unit 2A, a new facility about six kilometres from the existing plant, and a set of

other machines has also been shifted there. Trials are complete and samples have gone to the customer for approval, with commercial supplies expected to start within one to two months. This in-house capability allows KDDL to control quality, reduce turnaround time, and handle larger, more complex orders.

The company does not disclose specific customers or products by name. It describes demand as broad-based rather than concentrated in one end market: management lists EV, battery energy storage systems, electronics, and aerospace and defence as segments with robust demand and new customers, with the focus on the Americas and Europe rather than China and Asia. On the Q2 FY27 call management also said customers sometimes shift sourcing to de-risk away from China, and that selection is driven by manufacturability and repeatability rather than cost alone.

Ornamental packaging

The packaging facility in Panchkula has a monthly capacity of 100,000 premium boxes. It serves watch, jewellery, and lifestyle brands. The initial focus is on domestic supply to international brands that have a presence in India. Management sees export opportunities in the Middle East and Europe as the next growth phase.

Customers

Watch components

The customer base for dials and hands comprises Swiss luxury watch brands, including those within the LVMH Group for bracelets. KDDL does not name individual customers, but the relationships are long-standing. The company has been exporting to Switzerland since 1995, which means some customer relationships span nearly three decades.

The buying decision is made by procurement teams and product development departments at the watch brands. They need components that meet aesthetic and technical specifications, are delivered on time, and maintain consistent quality across production runs. The qualification process for a new dial or hand supplier takes months, sometimes years, because the product is visible to the end customer and any defect diminishes the watch's value.

Switching costs are high. Once KDDL is qualified to produce a specific dial or hand design, its tooling is specific to that product. Changing suppliers would require requalification and new tooling investment. This gives KDDL a degree of revenue visibility, though the volume of orders fluctuates with the brand's sales performance and inventory cycles.

Customer concentration is a risk. For bracelets, the business started with a single large customer within LVMH, and in FY26 the large majority of bracelet revenue still came from that customer. Management has been expanding the customer base for several months and

says the results should begin to show from the next quarter, as new customers move through trial orders and homologation. For dials and hands, no single customer accounts for more than a small percentage of revenue, but the top customers are all Swiss brands, creating geographic concentration.

Precision engineering (Eigen)

Eigen's customers are OEMs across multiple industries. The company has named Amphenol, TE Connectivity, and Molex as customers for the connector segment. For energy storage, busbars are a significant product line. The company also supplies automotive, aerospace, and defense customers.

The buying decision here is technical. OEMs evaluate suppliers based on their ability to design and build complex progressive tooling, hold tight tolerances, and produce parts at high speed. KDDL's differentiator is that it provides a "one-stop solution" where many processes are in-house, including tooling, stamping, and eventually plating.

Contracts typically involve KDDL developing the tooling (which the customer pays for or amortizes over production), then stamping parts under a long-term supply agreement. The switching cost is lower than in watch components because the tooling can be moved, but requalifying a stamping supplier takes time and risk, so customers tend to stick with suppliers that perform well.

Packaging

Ornapac serves international luxury brands that sell in India. These brands previously sourced packaging from China or Europe. KDDL offers them a local alternative with shorter lead times, lower logistics costs, and comparable quality. The buying decision is made by the brand's regional procurement or marketing teams.

Competitive landscape

Watch components (dials, hands, bracelets)

The global watch component industry is fragmented. For dials, there are 15-20 well-established manufacturers in Switzerland, Europe, Japan, China, Thailand, and India. For hands, the number is smaller: 6-7 globally. For bracelets, there are many manufacturers, especially in China and Italy.

KDDL occupies a specific niche. It is not the lowest-cost producer (that would be Chinese or Thai manufacturers). It is not the highest-cost producer serving the ultra-luxury brands (that would be Swiss or Italian manufacturers). It sits in the middle, offering Swiss-level quality at a cost base that is significantly lower than Switzerland's. This is attractive to mid-range and upper-mid-range Swiss brands looking to manage costs without sacrificing quality.

The company's competitive advantage includes:

- **Relationships**: Decades of trust with Swiss brands.
- **Scope**: The ability to supply dials, hands, indexes, and bracelets from one company. Most competitors specialize in one product.
- **Quality certifications**: SEDEX, ISO 9100D, IATF 16949. These are required by customers and are costly to obtain.
- **India manufacturing base**: Lower labor costs than Switzerland, but higher skill levels than China in precision finishing.

The areas where competition is most intense are low-end bracelets and components, where Chinese factories have scale advantages. KDDL's strategy is to compete on quality and service, not on price. As management stated: "Our goal is not really to race with China on producing cheap parts, but to race with the best in the world on producing higher quality."

Precision engineering

The competitive landscape here includes global metal stamping companies, some of which are large and diversified. KDDL's Eigen division is a small player relative to the global market. Its competitive position is strong in niche applications that require high precision, complex tooling, and multi-process capability.

Eigen wins because it is customer-focused and flexible. Large stamping companies may prioritize high-volume, standardized work. Eigen targets complex, high-value parts where it can differentiate. The company's market share in precision stamping is "extremely small," meaning the addressable market is vast relative to its current size.

The main risk is competition from larger players that could invest to match KDDL's capabilities, but the customer-specific nature of the tooling and the relationship-based selling process provide some insulation.

Packaging

Ornapac competes with luxury packaging manufacturers in Europe and China. Its value proposition is local manufacturing for international brands selling in India. This is a relatively uncontested space because most luxury packaging suppliers are far from India. The company expects the business to grow as more international brands need local supply.

Industry

Swiss watch industry

Swiss watch exports declined 2.8% in value in 2024 to CHF 25,993.1 million. Volume fell more sharply: 9.4% to 15.3 million units, a historic low. The decline was driven by weakness in China and Hong Kong, which together account for a large share of Swiss watch exports.

From January to September 2025, Swiss watch exports to China fell 16% year-on-year and were 37% below 2023 levels. Hong Kong fell 27% versus 2023.

India was a bright spot. Swiss watch exports to India grew 10% in the same period and are 35% above 2023 levels. But India still accounts for less than 2% of total Swiss watch exports, so the base is small.

The demand cycle for Swiss watches has a pattern of about every 10-12 years, according to management. The post-COVID boom (2021-2023) was followed by a correction that began in the second half of 2023. On the Q2 FY27 call management still described the export environment as subdued and the Swiss watch industry as challenged, said it hoped the Chinese market had bottomed, and noted that the Swiss brands' key markets of the US, UAE and China have all been volatile.

The Swissness regulation

The requirement that a watch must have 60% of production cost in Switzerland to be called "Swiss made" is a key regulatory factor. Bracelets are excluded from this calculation, which allows KDDL to manufacture bracelets in India for Swiss brands. This is a structural competitive advantage that is unlikely to change.

Tariffs on Swiss watches were imposed at 39% and later reduced to 15%. This creates uncertainty for the US market, which is the largest export destination for Swiss watches. KDDL's watch component business is affected indirectly, as weaker US demand reduces orders from Swiss brands. On the Q2 FY27 call management said request-for-quotation flow from the US had slowed slightly after the tariff issue, offset by flow from Europe, leaving the overall RFQ pipeline broadly stable.

China Plus One

The trend of global companies diversifying their supply chains away from China is a significant opportunity for KDDL. Indian manufacturers with strong quality credentials are beneficiaries. Management has observed increased inbound queries from multinational customers looking for alternative sources for precision components. This trend benefits Eigen more than the watch component business, but it also applies to bracelets.

Global metal stamping market

The global metal stamping market was valued at USD 236.8 billion in 2023 and is projected to reach USD 316.7 billion by 2030, a CAGR of 4.2%. This provides a large addressable market for Eigen. The key growth segments within this market are EV and energy storage, aerospace, and electronics, all of which are priorities for KDDL.

Ornamental packaging market

The ornamental packaging market is projected to grow from USD 11.1 billion in 2025 to USD 16 billion by 2035, a CAGR of 3.7%. KDDL's packaging business is in its infancy, but the market is large and growing, and the company's strategy of serving international brands in India is a logical entry point.

Risks

The primary risks for KDDL are:

1. **Downturn in Swiss watch industry**: This reduces order inflow for dials, hands, and bracelets. The recent correction is an example. Another downturn would directly impact the watch components segment.

1. **Customer concentration in bracelets**: The bracelet business is dependent on one large customer (LVMH Group). Delays in onboarding new customers would limit growth. In H1 FY27 the unit's export demand was subdued and volumes were affected by the downturn in the Swiss watch industry; management expects the customer-base expansion to start showing results from the next quarter.

1. **Currency volatility**: 66% of revenue is export earnings. The company has a partial hedging policy and a natural hedge at the consolidated level (Ethos imports watches, KDDL exports components), but currency movements can still affect reported results.

1. **Tariff uncertainty**: US tariffs on Swiss watches and general trade uncertainty affect customer ordering patterns.

1. **Geopolitical tensions**: Consumer sentiment in key luxury markets (China, Europe) can be affected by global uncertainty, including wars and political tensions.

Management's view is that these risks are manageable. The company has navigated previous cycles, and its diversification into precision engineering and packaging reduces reliance on any single market. As the Chairman stated on the Q4 FY26 call:

> *"It is in our nature in our DNA to be cautious in our promises, but aggressive enough performance."*
>
> **YASHOVARDHAN SABOO, CHAIRMAN AND MD, Q4 FY26 CONCALL (MAY 2026)**

Growth triggers

- Watch components (dials and hands) grew about 30% year on year in H1 FY27 on volume from both domestic and export customers, and management now expects full-year FY27 growth to be higher than its original 12% to 14% expectation (Q2 FY27 concall, Nov 2026).

- Capacity expansion in watch components has been started earlier than the original FY28 plan, with more detail promised in the next interactions (Q2 FY27 concall, Nov 2026).
- Eigen grew close to 50% in H1 FY27 on export demand and new customers, with the medium-term 20% to 25% CAGR goal unchanged and management seeing possible upside (Q2 FY27 concall, Nov 2026).
- Eigen's expansion has been accelerated: Unit 1 space is being enlarged, the rack plating line is installed at Unit 2A with samples with customers for approval, and the adjacent Unit 2B plot is due to become operational in the middle of the next financial year (Q2 FY27 concall, Nov 2026).
- FY27 capex is planned at INR 70-75 crores, up from the earlier INR 50 crore plan, with management using a rough 3:1 capex-to-revenue norm as a guide (Q2 FY27 concall, Nov 2026).
- Ornapac grew revenue more than 30% in H1 FY27 and reached positive PBT in Q2 FY27, with management guiding the positive profitability trend to continue (Q2 FY27 concall, Nov 2026).
- Favre-Leuba is guided to breakeven in FY27, operates in more than 35 countries with almost half its points of sale outside Ethos, and management is revising upward its plans for the next two years, describing INR 1,000 crores of revenue as feasible (Q2 FY27 concall, Nov 2026).
- Estima's loss is expected to be significantly lower this year, with breakeven hoped for next year if the Swiss watch market revives (Q2 FY27 concall, Nov 2026).
- Bracelet customer diversification: management says the expanded customer base should start showing results from the next quarter and expects sales to revive (Q2 FY27 concall, Nov 2026).
- China Plus One sourcing and customers de-risking away from China, which management says can bring work to India, though it says cost is not the only criterion for complex parts (Q2 FY27 concall, Nov 2026).
- The watch components group has a future plan to add other components such as cases, alongside increasing the share of business with existing customers and adding new ones (Q2 FY27 concall, Nov 2026).

Key risks

- Downturn in the Swiss watch industry: Swiss watch exports declined 2.8% in value in 2024, with volumes at a historic low. On the Q2 FY27 call management still described the export environment as subdued and the Swiss watch industry as challenged, which is why the bracelet unit's H1 FY27 performance was weak.

- Tariff uncertainty in the US: US tariffs on Swiss watches moved from 39% to 15%. Management said request-for-quotation flow from the US slowed slightly after the tariff issue and was offset by Europe, leaving the pipeline broadly stable.
- Customer concentration in the bracelet division: the business was set up with a single LVMH Group customer and in FY26 the large majority of bracelet revenue still came from that customer; management expects its customer-base expansion to show results from the next quarter.
- Currency volatility (CHF, USD): exports are about 75% of the company overall, while a significant portion of costs are incurred in INR. At the consolidated level, a partial natural hedge exists because Ethos imports watches against KDDL's export earnings.
- Rising debt and working capital: management said debt will be induced for the FY27 capex of about INR 70-75 crores, and that working capital requirements are increasing with the higher level of business.
- Conversion of the preponed expansion: Eigen grew close to 50% in H1 FY27 against a 20% to 25% medium-term target, and management has not disclosed project-level capex amounts or an order book, so the raised capex has to prove itself through revenue.
- Estima and the Swiss market: the FY27 loss is guided lower but breakeven next year depends on a Swiss watch market revival that management says has been volatile.
- Geopolitical tensions and global uncertainty: consumer sentiment in key luxury markets (China, Europe, US) remains fragile, which affects inventory planning and procurement decisions by watch brands.

Walk the talk

KDDL management has a consistent habit of under-promising and over-delivering. At the start of FY26, in the May 2025 concall, the company guided for standalone revenue growth of 15%-20% for the year. The actual outcome was standalone revenue growth of roughly 31.9% YoY.

> *"despite the challenging business environment, we have done even better than expected with very good results"*
>
> **YASHOVARDHAN SABOO, Q4 FY26 CONCALL (MAY 2026)**

> *"It is in our nature in our DNA to be cautious in our promises, but aggressive enough performance"*
>
> **YASHOVARDHAN SABOO, Q4 FY26 CONCALL (MAY 2026)**

The same pattern played out in the bracelet division. In the May 2025 concall, capacity utilization was pegged at about 50%, with an expectation to rise to about 65% in FY26. By

the Q4 FY26 concall, actual utilization had reached 75%-80%, well ahead of guidance.

The precision engineering business (Eigen) was guided for long-term growth of 20%-25% in the Dec 2024 concall. In reality, FY26 revenue grew by over 35% YoY to roughly INR 200 crores. The company acknowledged that growth was exceeding what they had modeled.

The watch component business (dials and hands) had a more nuanced story. In the May 2025 concall, management anticipated a gradual revival beginning in H2 FY26 after a difficult FY25. The Q4 FY26 concall confirmed that the business indeed "forged a recovery during the second half of FY26 after a quiet first half." The recovery happened as predicted.

Capex guidance also proved reliable. FY26 capex was expected at roughly INR 35 crores (May 2025 concall), and the actual spend was approximately INR 34 crores (Q4 FY26 concall). For FY27, the earlier plan of about INR 50 crores has been raised: management said on the Q2 FY27 call that the year's capex will be in the range of INR 70-75 crores, an increase of about INR 15-20 crores because expansion has been preponed, and that some debt will be taken to fund it.

Q2 FY27 update (Nov 2026): the pattern continued on the latest call. H1 FY27 standalone revenue grew about 35% with the second half expected to be similar to H1; watch components are now expected to grow faster for the full year than the original 12% to 14% expectation, and their capacity expansion has been pulled forward from FY28; Eigen grew close to 50% against a 20% to 25% medium-term target; the rack plating line is commissioned with samples with customers for approval; and the FY27 capex plan has been raised from about INR 50 crores to INR 70-75 crores, with some debt to be taken to fund it.

Scenarios

Bull case

The international watch market stages a stronger-than-expected recovery and KDDL's customer diversification beyond Switzerland accelerates. Eigen sustains growth well above its 20% to 25% medium-term target after close to 50% growth in H1 FY27, and the preponed expansion - Unit 1 space, the commissioned rack plating line at Unit 2A and Unit 2B becoming operational in the middle of the next financial year - converts into revenue at or better than the 3:1 capex-to-revenue norm management uses. The bracelet division converts its expanded customer base into multiple customers, restoring volume growth and justifying the earlier capacity addition. Favre-Leuba breaks even in FY27 as guided, moves toward the INR 1,000 crore revenue management calls feasible, and Estima's loss falls with breakeven next year. Ornapac's positive PBT in Q2 FY27 is sustained and expands. The group monetises its position as a reliable India-based supplier amid supply chain de-risking.

Base case

The global watch market remains subdued through the year with only a gradual revival. KDDL's dials and hands business delivers full-year growth above the original 12% to 14% expectation, while the bracelet unit's export demand stays soft in the near term and recovery starts from the next quarter as the expanded customer base converts. Eigen grows close to its current run-rate but drifts back toward the 20% to 25% medium-term band, with the accelerated expansion commissioned through FY28 keeping pace with demand. Ornapac keeps growing and stays profitable after positive PBT in Q2 FY27. Favre-Leuba achieves the guided FY27 breakeven and Estima's loss narrows, with breakeven slipping to next year. Blended gross margin stays slightly below earlier levels because Eigen and domestic watch component sales keep growing faster than exports. FY27 capex of INR 70-75 crores is funded partly with debt, with working capital rising alongside revenue.

Bear case

The Swiss watch industry downturn persists and Chinese and US demand do not recover through FY27. Bracelet volumes stay weak because the expanded customer base does not convert into orders, leaving the unit dependent on one LVMH Group customer and its capacity addition underused. Eigen's H1 FY27 growth of close to 50% proves to be a pull-forward, US request-for-quotation flow stays slow after tariffs, and the preponed expansion lands into softer demand, leaving the roughly INR 70-75 crores of FY27 capex underutilised. Favre-Leuba's guided FY27 breakeven and Estima's loss reduction both depend on a Swiss market revival, so both slip. Ornapac's positive PBT does not hold as utilisation stalls. Mix pressure continues: Eigen's lower gross margin and faster-growing domestic watch component sales drag the blended gross margin further. Working capital and debt rise faster than revenue, and the company's careful guidance proves accurate rather than conservative.

VALUATION SUMMARY

LINE ITEM	FY26A	FY27E	FY28E	FY29E
Revenue (₹ Cr)	496	671	802	945
Revenue growth	-	+35.4%	+19.4%	+17.8%
EBITDA (₹ Cr)	117	156	188	223
EBITDA margin	23.1%	23.0%	23.2%	23.4%
Depreciation (₹ Cr)	24.20	28.00	33.00	38.00
Interest (₹ Cr)	14.30	16.00	17.00	18.00
Other income (₹ Cr)	10.20	6.00	7.00	8.00
PBT (₹ Cr)	78.40	112	138	167
Tax (₹ Cr)	19.90	28.00	34.40	41.70
Tax rate	25.4%	25.0%	25.0%	25.0%
PAT (₹ Cr)	58.50	83.90	103	125
PAT growth	-	+43.4%	+23.1%	+21.2%

CAGR FY27E-FY29E: Revenue +18.6% · EBITDA +19.6% · PAT +22.2%

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Q2 FY27 concall notes

TLDR

KDDL reported consolidated Q2 FY27 total income of ₹698.7 crore, up 31.6% YoY, EBITDA of ₹112.1 crore (16% margin) and PAT of ₹48.2 crore (6.9% margin); H1 FY27 consolidated total income was ₹1,345.8 crore, up 33.5%, with EBITDA of ₹220.5 crore (16.4% margin) and PAT of ₹92.9 crore. Standalone Q2 total income was ₹174.7 crore, up 37.7%, with EBITDA of ₹39.4 crore (22.6% margin) and PAT of ₹21.8 crore. Dials and hands grew about 30% YoY on volume, Eigen precision engineering grew close to 50% in H1 FY27, and Ornapak packaging grew over 30% and turned PBT positive in Q2 FY27. Management expects full-year dials and hands growth above its original 12-14%, maintains Eigen's 20-25% medium-term CAGR, guides FY27 capex of ₹70-75 crore (raised ₹15-20 crore from the earlier ₹50 crore plan), and expects Estima to break even next year if the Swiss market recovers.

FINANCIALS & KPIS

METRIC	REPORTED	CHANGE	WHAT DROVE IT
Consolidated total income (Q2 FY27)	₹698.7 crore	+31.6% YoY	Growth across manufacturing businesses
Consolidated total income (H1 FY27)	₹1,345.8 crore	+33.5% YoY	Same
Consolidated EBITDA (Q2 FY27)	₹112.1 crore, 16.0% margin	+29.8% YoY	Revenue growth; margin diluted by mix
Consolidated EBITDA (H1 FY27)	₹220.5 crore, 16.4% margin	+32.3% YoY	Same
Consolidated PAT (Q2 FY27)	₹48.2 crore, 6.9% margin	Not stated	Not explained
Consolidated PAT (H1 FY27)	₹92.9 crore, 6.9% margin	Not stated	Not explained
Standalone total income (Q2 FY27)	₹174.7 crore	+37.7% YoY	Watch components and Eigen
Standalone EBITDA (Q2 FY27)	₹39.4 crore, 22.6% margin	+36.3% YoY	Revenue growth
Standalone PAT (Q2 FY27)	₹21.8 crore, 12.5% margin	Not stated	Not explained
Dials and hands revenue growth (H1 FY27)	About 30% YoY	Volume-led	Domestic and export customer volumes
Eigen revenue growth (H1 FY27)	Close to 50%	Volume-led	Export demand plus new customers
Ornapak revenue growth (H1 FY27)	Over 30%	PBT positive in Q2 FY27	Premium packaging demand, better utilisation
Export share of company sales	About 75%	Not stated	Eigen slightly higher than company average

SEGMENTS & GEOGRAPHIES

- **Dials and hands (watch components):** H1 FY27 revenue grew about 30% YoY, led by volume from domestic and export customers rather than realisation. Management expects full-year growth above its original 12-14% expectation and has started capacity expansion earlier than the FY28 plan.

- **Bracelets (watch components):** H1 FY27 performance was below the company average, hit by subdued export demand and challenges in the Swiss watch industry. Management has been expanding the customer base for several months and expects results from the next quarter onwards, with sales returning to growth.
- **Eigen (precision engineering):** H1 FY27 revenue grew close to 50%, ahead of the 20-25% medium-term CAGR guidance, driven by existing and new customers across EV, battery energy storage systems, electronics, and aerospace and defence, in the US and Europe. Management said the growth was not backlog and that projects in the funnel fructified sooner and larger than expected. RFQ flow is more or less stable, with a post-tariff slowdown in US RFQs compensated by European RFQs.
- **Ornapak (packaging):** H1 FY27 revenue grew over 30% and the business achieved positive PBT in Q2 FY27. Management expects the positive profitability trend to continue through the remaining quarters and future years, supported by revenue growth and better utilisation, with traction from international brands in India and in their global supply chains.
- **Estima (Swiss operations):** Still in challenging conditions because of the Swiss watch market, with the US, UAE and China volatile. Management expects the loss this year to be significantly lower than last year and hopes next year will be the breakeven year, helped by new capabilities being added.
- **Favre-Leuba:** Sales volumes were higher than expected, with presence in over 35 countries and more than 40-45 doors outside Ethos, which is almost 50% of doors. Management said the brand will achieve breakeven this year and is looking to revise upward its budgets and plans for the next two years; it continues to see ₹1,000 crore as a feasible long-term number.

STRATEGY & COMPANY-SPECIFIC

- Capacity expansion in dials and hands was started earlier than planned, moved forward from FY28; details to be shared in the next interactions.
- Eigen expansion accelerated: Unit 1 space expanded, a rack plating line installed as backward integration at Unit 2A (about 6 km from the existing plant) with other machines shifted there, and an adjacent plot finalised for Unit 2B, which will become operational in the middle of the next financial year.
- Rack plating line has been commissioned, trials done and samples sent for customer approval; commercial supplies expected to start in the next one to two months.
- FY27 capex guided at ₹70-75 crore, up ₹15-20 crore from the earlier ₹50 crore plan, with the increase tied to preponing capacity for demand. Management said capex typically translates to revenue at a norm of 3 to 1.
- Debt will be raised for capex, with a marginal increase in working capital requirements as business levels rise.
- Sales team being strengthened for export markets, including expat managers based outside India, organised by market rather than product group.
- Watch components: capacity already expanded in bracelets, with future plans to add other components such as cases.
- Favre-Leuba: management said the brand will break even this year and is revising upward budgets and plans for the next two years.
- No decision on restructuring or separating businesses; management said fragmenting adds cost and the current focus is on efficiency, new customers and growth.

GUIDANCE & OUTLOOK

METRIC	GUIDANCE	VS Q1 FY27	BASIS
Dials and hands FY27 revenue growth	Higher than original 12-14%	n/a	H1 volume growth of about 30% from domestic and export customers
Eigen FY27 revenue growth	In line with actual continuing growth	n/a	H1 growth of close to 50%; order position and visibility
Eigen medium-term growth	20-25% CAGR maintained	n/a	Existing customers, new customers, new products and capabilities
Eigen upside	Possible growth higher than expected if current trends continue	n/a	Funnel projects fructifying sooner and larger than expected
FY27 capex	₹70-75 crore	n/a	Preponed capacity expansion; earlier plan was ₹50 crore, an increase of ₹15-20 crore
Unit 2B operational	Middle of next financial year	n/a	Adjacent plot finalised
Rack plating commercial supplies	Next one to two months	n/a	Trials done, samples sent for customer approval
Ornapak profitability	Positive PBT trend to continue through remaining quarters and future years	n/a	Revenue growth and better utilisation
Bracelet customer base results	Visible from next quarter onwards	n/a	Customer expansion started several months ago; trial orders and homologation in progress
Estima loss FY27	Significantly lower than last year	n/a	New capabilities being added
Estima breakeven	Hoped for next year if everything goes right	n/a	Swiss market recovery and capability additions
Favre-Leuba breakeven	This year	n/a	Higher-than-expected volumes and points of sale
Favre-Leuba long-term revenue	₹1,000 crore seen as feasible	n/a	Management's stated potential for the brand
H2 FY27 standalone growth	Similar to H1 FY27	n/a	H1 standalone growth of about 35%

RISKS & CONSTRAINTS

RISK	WHAT MANAGEMENT SAID
Bracelet export demand	Subdued export environment and challenges in the Swiss watch industry slowed offtake; customer base expansion results expected from next quarter
Swiss market weakness	US, UAE and China markets volatile and disturbed; Estima breakeven depends on Swiss watch business revival
Gross margin dilution	Eigen has a slightly lower gross margin than watch components and is growing faster; domestic sales carry lower gross margin than exports and grew faster in watch components
US tariff impact on RFQs	Slight slowdown in US RFQs post the tariff issue, compensated by European RFQs
Data centre and AI capex timing	Management said KDDL's share of the market is so small it is unlikely to be impacted much either way, and its exposure is across many industries rather than data centres
Working capital and debt	Working capital requirements increasing with business levels; debt to be raised for capex

RISK	WHAT MANAGEMENT SAID
New domestic premium watch startups	Total quantum and value of these startups is small compared to existing customers; too early to tell which will succeed
Restructuring cost	Management said fragmenting businesses adds cost and takes time and effort; focus remains on growth

Q&A HIGHLIGHTS

- **Eigen growth drivers:** An analyst asked whether the 50% growth was backlog from last year's US tariff situation or new customers and products. Management said it was not backlog, that funnel projects fructified sooner and larger than expected, and that long-term guidance remains while there is upside if the trend continues.
- **Eigen end markets and data centre exposure:** An analyst asked whether data centre and AI capex timing affects Eigen. Management said KDDL's market share is so small it is unlikely to be impacted much either way, and its exposure is across many industries, not data centres.
- **Capex quantification:** An analyst asked for the capex number behind the preponed expansion. The CFO said FY27 capex will be ₹70-75 crore, up ₹15-20 crore from the earlier ₹50 crore plan, and that capex typically translates to revenue at a norm of 3 to 1.
- **Gross margin decline:** An analyst asked whether the sequential and YoY gross margin decline was mix or input cost inflation. Management said it was almost completely product mix, with Eigen's lower gross margin and faster growth, plus faster domestic growth in watch components where gross margin is lower than exports.
- **RFQ trends:** An analyst asked whether RFQ interest was rising or stagnant over the last six months. Management said it is more or less stable, with a post-tariff US slowdown compensated by European RFQs.
- **Favre-Leuba guardrails:** An analyst asked about the capital ceiling, breakeven volume and exit point for Favre-Leuba, citing the previous owner's $40 million investment. Management said it will achieve breakeven this year, that the Swiss team is doing better than expected and better than the previous owners, and declined to comment on other heritage brand acquisitions.
- **Estima breakeven:** An analyst asked when Estima will break even. Management said it depends on the Swiss watch market revival, expects the loss this year to be significantly lower than last year, and hopes next year will be the breakeven year, adding that Estima can reach Swiss luxury customers that India-made Taratec cannot.
- **H2 FY27 growth:** An analyst asked whether H2 growth will continue given the 45-55 first-half/second-half mix. The CFO said H1 standalone growth was about 35% and H2 should be similar to H1.
- **Competitive displacement in Eigen:** An analyst asked whose supply KDDL displaces and on what basis it wins. Management said it is a mix: in growing emerging segments no one may be displaced, and in some cases customers de-risk from China or concentrate on other countries; cost is not the only criterion, with manufacturability, repeatability and customer confidence mattering more.