Midas
Equities and Research

Neuland Labs

CMS momentum and peptide expansion fuel long-term growth

10 Feb 2026

Neuland Labs – Q3FY26 Result Update

CMS momentum and peptide expansion fuel long-term growth

CMP	3Y TP	3Y returns (Incl. Dividends)	Rating
Rs. 13,890	Rs. 21,145	53%	BUY

Neuland Laboratories reported a moderate Q3FY26 performance, missing estimates on margins and profitability, with results declining sequentially from an exceptionally strong Q2. Q3 revenue stood at Rs. 440 cr, up 10% Y-o-Y but down 14% Q-o-Q, mainly due to a shift in product mix, specifically the absence of shipments for a high-margin CMS molecule. However, the Contract Manufacturing Services (CMS) segment remained the key growth driver, contributing over 50% of total revenue. EBITDA came in at Rs. 85 cr, with margins at 18%, impacted by lower gross margins and a one-time Rs. 10 cr workforce restructuring cost. PAT was Rs. 40 cr, down 60% Y-o-Y and 8% Q-o-Q; the YoY decline was largely due to an exceptional income of Rs. 56 cr in Q3FY25. Adjusting for the exceptional item, Adj. EPS stood at Rs. 31.6 (-11% Y-o-Y/ -58% Q-o-Q). Working capital improved marginally to 145 days, although inventory levels remained high at 124 days, reflecting preparation for the ramp-up of newly commercialized molecules. Management reiterated that FY26 would be a year of growth and described the company as being in an "early growth phase."

New molecule launch and peptides in key focus: The globally approved CMS molecule, where Neuland is the second source, was commercialized this quarter, with initial shipments sent in the tail end of Q3FY26. Management expects significant commercial volumes for this molecule to continue in Q4 and into FY27. The company incurred Rs. 254 cr in capex during 9MFY26, aligned with capacity and capability expansion plans. Peptides remain a central growth pillar; five to six innovators currently have projects underway in development. The large-scale peptide manufacturing facility is slated for commissioning in July, and the company is targeting at least one commercial manufacturing arrangement for a peptide NCE in FY27. Further, the board has approved shifting R&D to a new state-of-the-art center in Genome Valley, which will feature dedicated process development and scale-up capabilities for peptides. Over the long term, Neuland continues to position peptides and eventually oligonucleotides as major growth engines, supported by an eventual ~Rs. 1,000 cr investment in this platform.

Near-term outlook: Management maintains its growth expectations for FY26, benchmarking performance against the stronger FY24 base. Expansion at Unit III is complete, with ramp-up underway and initial volumes shipped in Q3FY26; full utilization is expected to take one-two quarters. While Q3FY26 EBITDA margins stood at 19%, it was impacted by a suboptimal product mix and a Rs. 10 cr labor force cost — management views this as a one-time aberration rather than a trend. The absence of high-margin CMS and GDS products like Paliperidone during the quarter contributed to the softer margins, but profitability is likely to improve as commercial volumes from Unit III and the new CMS molecule reach steady-state production.

Long-term outlook: Neuland's established credibility in complex chemistries including deuterated APIs, hydrogenation, and peptides, continues to secure high-value projects with multi-year revenue visibility. Increased engagement with Big Pharma and innovators through site visits and RFPs confirms Neuland's expanding role as an integral partner in the innovation journey. Management targets a potential >20% CAGR, and we maintain a revenue growth forecast of 20% CAGR over FY25–29E, driven by CMS molecule commercialization, ramp-up in xanomeline sales, and back-ended peptide production. A favorable shift in mix toward higher-margin CMS products is expected to drive EBITDA margins to ~31% by FY29E, with PAT rising from ~Rs. 260 cr in FY25 to ~Rs. 646 cr in FY29E.

Valuation and recommendation: Neuland is trading at a PE of ~83x/48x FY26/27 EPS. We ascribe a 42x EPS multiple (given its strong customer relationships, growth trajectory, expanding margins & return ratios) to arrive at a 3-year TP of ~Rs. 21,145, implying a 53% upside (incl. dividends). Accordingly, we upgrade our rating to **BUY** and believe the company remains a strong long-term compounder, despite short-term aberrations in the current quarter. We recommend staggered buying in the stock, given its elevated near-term valuation.

Key risks: High product and customer concentration in CMS, and delays in product commercialization.

Particulars (Rs cr)	Revenue	EBITDA %	PAT %	EPS	RoE %	RoCE %	PE	EV/EBITDA	Mcap/Sales
2024	1,559	29.7	19.3	233.9	26.4	32.5	59.7	38.5	11.5
2025	1,477	21.9	12.4	202.7	13.1	17.0	97.5	55.1	12.1
2026E	1,690	22.3	12.8	168.3	13.3	16.3	83.0	47.3	10.6
2027E	2,105	27.7	17.7	290.1	19.5	23.8	48.2	30.5	8.5
2028E	2,564	29.4	19.2	384.1	21.2	26.3	36.4	23.6	7.0
2029E	3,071	31.3	21.0	503.5	22.5	28.2	27.7	18.5	5.8

10 Feb 2026

Industry	Pharmaceuticals & Drugs

Key Stock Data

Bloomberg	NLL IN
Shares o/s (cr)	1.3
Market Cap (Rs cr)	17,919
52-wk High-Low	19,748/10,060
20D Avg Daily Vol (In '000)	37.3
Index	NIFTY 500
F&O	N

Latest Shareholding (%)

	Dec 25	Sep 25	Jun 25
Promoters	32.6	32.6	32.7
Institutions	35.6	33.2	33.7
Public	31.7	32.8	33.7
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1M	3M	12M
Neuland Labs	(5.8)	(23.4)	(5.2)
Nifty 500	0.9	0.3	10.8

RESEARCH ANALYST

Viswanath AVR

viswanath.avr@sparkcapital.in

Q3FY26: Results Summary

Rs cr	Q3FY25	Q2FY26	Q3FY26	Y-o-Y	Q-o-Q	Midas estimate	vs Midas estimate
Net Sales	**398**	**514**	**440**	**10%**	**-14%**	**437**	**1%**
COGS	(206)	(230)	(244)	18%	6%		
Gross Profit	192	285	196	2%	-31%		
Gross Margin	*48.3%*	*55.4%*	*44.6%*	-372bps	-1077bps		
Employee cost	(69)	(80)	(89)	28%	11%		
% of revenue	-17.4%	-15.6%	-20.2%	-278bps	-457bps		
Other expenses	(36)	(49)	(30)	-17%	-38%		
% of revenue	-9.1%	-9.5%	-6.9%	229bps	264bps		
EBITDA	**87**	**156**	**77.1**	-11%	-50%	**103**	-0.3
EBITDA Margin	***21.8%***	***30.2%***	***17.5%***	-421bps	-1270bps	***23.6%***	-601bps
Depreciation	(16)	(23)	(24)	47%	6%		
% of revenue	*-4.1%*	*-4.4%*	*-5.4%*	32.83%	-19.42%		
EBIT	**70**	**133**	**53**	-24%	-60%		
EBIT Margin	***17.7%***	***25.9%***	***12.1%***	-556bps	-1376bps		
Other Income	4	2	8	106%	347%		
% of revenue	*1.0%*	*0.3%*	*1.8%*	85bps	148bps		
Interest	(2)	(5)	(7)	206%	27%		
% of revenue	*-0.6%*	*-1.0%*	*-1.5%*	-99bps	-50bps		
Exceptional Items	56	-	-	-1	n/a		
% of revenue	0	-	-	-1401bps	0bps		
PBT	**128**	**129**	**54**	**-57%**	**-58%**		
PBT Margin	*32.1%*	*25.2%*	*12.4%*	-1971bps	-1278bps		
Tax	(26)	(33)	(14)	-47%	-57%		
Tax Rate	*-20.5%*	*-25.2%*	*-25.5%*	-503bps	-35bps		
Share of associates	-	-	-	n/a	n/a		
Minority interest	-	(0)	(0)	n/a	n/a		
Profit After Tax	**102**	**97**	**40**	**-60%**	**-58%**	**59**	**-32%**
PAT Margin	*25.5%*	*18.8%*	*9.2%*	-1633bps	-962bps	*13.5%*	-436bps
EPS	**79.2**	**75.5**	**31.6**	**-60%**	**-58%**		
Adj EPS	**35.7**	**75.5**	**31.6**	**-11%**	**-58%**	**46.2**	-32%

Rs Cr.	3QFY25	2QFY26	3QFY26	YoY	QoQ
CMS	156	310	272	74%	-12%
Specialty Molecules	92	57	48	-47%	-14%
Prime	131	134	97	-26%	-28%
Others	20	15	26	33%	71%

Source: Midas research, Neuland labs exchange fillings

Midas Equities and Research

Q3FY26 Conference Call – Key Takeaways

CMS

- Commercial CMS projects remained the primary driver, contributing over 60% of quarterly revenue. While performance met annual expectations, gross margins were lower this quarter due to a shift in product mix, as shipments of a high-margin CMS product did not occur in Q3.
- The "third" molecule (previously validated in Q2) has now commercialized, with initial shipments occurring at the tail end of Q3. Management expects more significant contributions from this molecule in Q4 and into the next fiscal year.
- The expansion at Unit III is complete, and the facility has begun shipping volumes in Q3. Management noted that while the ramp-up has started, it is in its early stages and will likely take another one to two quarters to fully pick up.
- Reaffirming previous stances, management emphasized that the CMS business is seeing larger individual shipment values, meaning small logistical or operational changes can significantly impact quarterly results. They continue to stress that performance should be evaluated over two to three-year trajectories rather than quarter-on-quarter.
- The overall CMS pipeline remains healthy, with innovators increasingly viewing Neuland as an integral partner in their innovation journey. The company reaffirmed its expectation of growth for FY26, viewing the current period (FY26–FY27) as a critical ramp-up phase for newly-commercialized molecules and expanded capacities.

Growth initiatives

- Management sees strong traction with five to six peptide projects in development. The large-scale peptide manufacturing facility is on track for commissioning in July. This ‘white space’ was identified as Western capacity for large-scale peptide manufacturing remains saturated, particularly with the rise of new GLP-1 and amylin analogs.
- Peptides are serving as a strategic "entry point" for Big Pharma companies that were not previously familiar with Neuland. Management is actively in discussions with these large-scale players to secure long-term partnerships.
- A key objective for the company is to secure at least one commercial manufacturing arrangement for a peptide NCE (New Chemical Entity) by FY27.
- The Board has approved shifting the R&D facility to a new campus in Genome Valley to build a state-of-the-art center, which will include specialized facilities for peptide process development and scale-up.
- Beyond peptides, the company is exploring additional ‘white spaces,’ including oligonucleotides and potential geographic expansion in the US and Europe, to sustain growth beyond five years.

GDS performance

- Ezetimibe and Mirtazapine continue to be the primary sustainers and key revenue contributors for the prime GDS portfolio. Management maintains that these molecules, along with the broader commercial base, have a long runway of commercial prosperity.
- Performance was mixed this quarter. While Apixaban and Donepezil were notable contributors, the segment faced a significant impact from Paliperidone. Operational issues at a customer's end caused a delay in shipments for this high-margin specialty product. Management expects this delay to be resolved only in the next financial year. Management views this as a "one-timer" aberration rather than a reflection of steady-state margins.
- The company continues to keep its commercial list active by removing older molecules that no longer meet its potential or strategic thresholds. This is part of a long-term transition to focus on more complex and higher-value molecules.
- Management reaffirmed that growth for the next two to three years is "preordained" by the existing portfolio of products. They are aspiring for "decadal growth" with a potential 20%+ CAGR, driven by execution in the current portfolio and future-ready investments.

Other highlights

- Working capital intensity improved to 145 days of sales this quarter, down from 155 days previously. However, the inventory holding period remains high at 124 days (~4 months) as the company continues to ramp up stocks in anticipation of future revenue growth. Management expects this to normalize back to ~90 days in the next two to three quarters as inventory converts to sales.
- Despite elevated working capital, the company has restricted free cash flows to negative Rs. 9.2 cr for the nine-month period, aided by substantial advances secured from customers. The company maintains a strong balance sheet with a negative net debt of Rs. 202.6 cr.
- Capital expenditure remains on track with a cash outflow of Rs. 254 cr for the first nine months of FY26. All previously announced projects are moving in line with plans.
- Management noted that overheads increased by 19% during the nine-month period, reflecting investments in the team and infrastructure to support "decadal growth". This included a specific Rs. 10 cr impact related to the labor force in Q3.

Midas Telescopic View

We expect revenue to grow at a 20% CAGR over FY25–29E, driven primarily by the commercialisation of a CMS molecule, ramp-up in xanomeline sales, and back-ended peptide production. A favourable shift in mix toward the higher-margin CMS business is likely to expand EBITDA margins to ~31% by FY29E. PAT is projected to rise from ~Rs. 260 cr in FY25 to ~Rs. 646 cr in FY29E.

Revenue and margin expansion to boost free cash flows

Rs cr	FY15-FY20	FY20-25	FY25-29E
Revenues CAGR	**9.9%**	**14.1%**	**20.1%**
Gross Margin (%)	37.8%	45.1%	51.5%
EBITDA CAGR	**6.7%**	**26.0%**	**31.3%**
EBITDA Margin (%)	13.5%	19.7%	26.5%
EPS CAGR	**-7.5%**	**74.2%**	**25.5%**
Fixed Asset Turnover (x)	3.0	1.9	1.7
Net Working Capital Days	130	107	91
Cumulative Capex (Rs. Cr)	320	667	806
Cash as a % of CE	3%	6%	25%
Capital Employed (Rs. Cr)	691	1,188	1,974

RoE to return to historical levels by FY28

Rs cr	FY16-FY20	FY20-25	FY25-29E
RoE (%)	7.1%	13.9%	19.0%
RoCE (%)	10.3%	17.2%	23.4%

Entry at **Rs. 13,890** @ 83x FY26E EPS

Exit: **Rs. 21,145** @ 42x FY29 EPS

+

Cumulative Dividend of **Rs. 48/share**

Total returns **53%**

Sensitivity of DCF

Target price sensitivity		EPS				
		408	453	503	554	609
Valuation multiple	38	15,495	17,220	19,135	21,045	23,150
	40	16,315	18,125	20,140	22,155	24,370
	42	17,130	19,030	21,145	23,260	25,585
	44	17,945	19,940	22,155	24,370	26,805
	46	18,760	20,845	23,160	25,475	28,025

**The highlighted cell indicates base case assumptions*

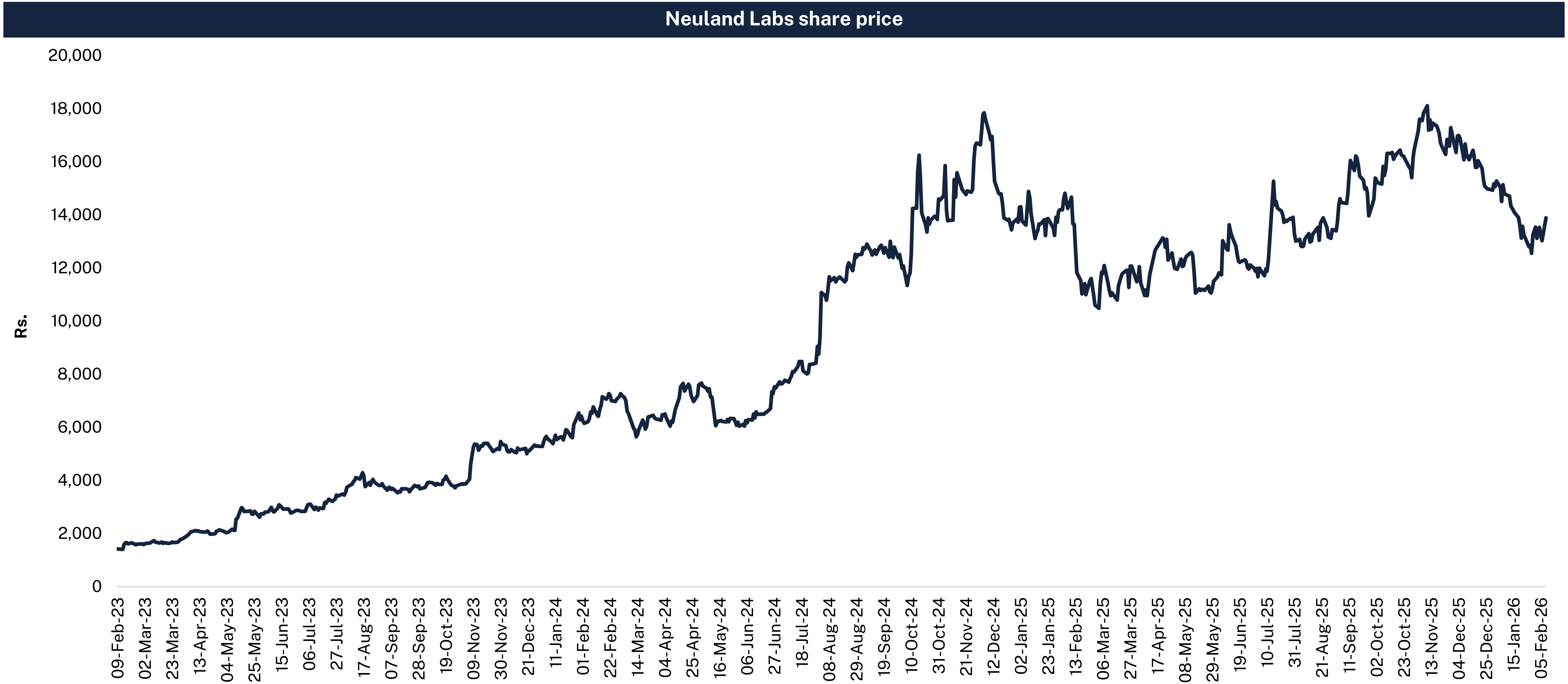
Financial Summary

All figures in Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E	FY29E
Profit & Loss						
Revenue	1,559	1,477	1,690	2,105	2,564	3,071
Gross profit	825	726	853	1,094	1,359	1,628
EBITDA	463	323	376	583	753	961
Depreciation	(60)	(66)	(88)	(93)	(102)	(106)
EBIT	403	258	288	490	651	855
Other Income	13	21	22	22	22	22
Interest expense	(14)	(8)	(22)	(16)	(16)	(16)
Exceptional items	-	76	-	-	-	-
PBT	401	346	288	496	657	861
Reported PAT (after minority interest)	300	260	216	372	493	646
Adj PAT	300	184	216	372	493	646
EPS (Rs.)	233.9	202.7	168.3	290.1	384.1	503.5
Balance Sheet						
Net Worth	1,283	1,525	1,725	2,082	2,559	3,190
Total debt	83	136	156	156	156	156
Minority interest	-	-	-	-	-	-
Other liabilities and provisions	83	103	103	103	103	103
Total Networth and liabilities	**1,448**	**1,764**	**1,985**	**2,341**	**2,819**	**3,449**
Gross Fixed assets	767	976	1,171	1,421	1,521	1,621
Net fixed assets	511	654	760	917	915	908
Capital work-in-progress	46	45	100	-	-	-
Intangible Assets	282	284	284	284	284	284
Investments	20	109	109	109	109	109
Cash and bank balances	117	259	255	446	883	1,402
Loans & advances and other assets	23	31	31	31	31	31
Net working capital	450	382	445	554	596	714
Total assets	**1,448**	**1,764**	**1,985**	**2,341**	**2,819**	**3,449**
Capital Employed	1,365	1,661	1,881	2,238	2,716	3,346
Invested Capital (CE - cash - CWIP)	1,203	1,357	1,526	1,792	1,832	1,944
Net debt	(34)	(123)	(99)	(290)	(727)	(1,246)
Cash Flows						
Cash flows from Operations (Pre-tax)	373	392	314	474	711	843
Cash flows from Operations (post-tax)	261	317	242	349	547	628
Capex	(144)	(206)	(250)	(150)	(100)	(100)
Free cashflows	118	111	(8)	199	447	528
Free cashflows (post interest costs)	104	104	(30)	184	431	512
Cash flows from Investing	(150)	(298)	(228)	(128)	(78)	(78)
Cash flows from Financing	(69)	25	(17)	(31)	(31)	(31)
Total cash & liquid investments	**117**	**259**	**255**	**446**	**883**	**1,402**

Particulars	FY24	FY25	FY26E	FY27E	FY28E	FY29E
Growth ratios (%)						
Revenue	30.8%	-5.2%	14.4%	24.5%	21.8%	19.8%
EBITDA	70.2%	-30.1%	16.4%	54.9%	29.2%	27.7%
Adj PAT	83.5%	-38.8%	17.5%	72.3%	32.4%	31.1%
Margin ratios						
Gross	52.9%	49.2%	50.5%	52.0%	53.0%	53.0%
EBITDA	29.7%	21.9%	22.3%	27.7%	29.4%	31.3%
Adj PAT	19.3%	12.4%	12.8%	17.7%	19.2%	21.0%
Performance ratios						
Pre-tax OCF/EBITDA	80.6%	121.3%	83.3%	81.3%	94.4%	87.7%
OCF/IC (%)	21.7%	23.4%	15.8%	19.5%	29.8%	32.3%
RoE (%)	26.4%	13.1%	13.3%	19.5%	21.2%	22.5%
RoCE (%)	32.5%	17.0%	16.3%	23.8%	26.3%	28.2%
Fixed asset turnover (x)	2.2	1.7	1.6	1.6	1.7	2.0
Total asset turnover (x)	1.2	0.9	0.9	1.0	1.0	1.0
Financial stability ratios						
Net Debt to Equity (x)	(0.0)	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)
Net Debt to EBITDA (x)	(0.1)	(0.4)	(0.3)	(0.5)	(1.0)	(1.3)
Interest cover (x)	28.8	31.1	13.1	31.4	41.7	54.8
Working capital days	105	94	96	96	85	85
Valuation metrics						
Fully Diluted Shares (Cr)	1.3	1.3	1.3	1.3	1.3	-
Market cap (Rs Crs)		17,919				
P/E (x)	59.7	97.5	83.0	48.2	36.4	27.7
P/OCF(x)	68.6	56.5	74.2	51.3	32.8	28.5
EV (Rs.Cr) (ex-CWIP)		17,796				
EV/ EBITDA (x)	38.5	55.1	47.3	30.5	23.6	18.5
EV/ OCF(x)	68.1	56.1	73.7	50.9	32.6	28.3
FCF Yield	0.7%	0.6%	0.0%	1.1%	2.5%	2.9%
Price to BV (x)	14.0	11.8	10.4	8.6	7.0	5.6
Dividend pay-out (%)	6%	6%	7%	4%	3%	2%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash as a % of CE	8.6%	15.6%	13.6%	19.9%	32.5%	41.9%

Price Chart



Neuland Labs share price
Rs.
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
09-Feb-23
02-Mar-23
23-Mar-23
13-Apr-23
04-May-23
25-May-23
15-Jun-23
06-Jul-23
27-Jul-23
17-Aug-23
07-Sep-23
28-Sep-23
19-Oct-23
09-Nov-23
30-Nov-23
21-Dec-23
11-Jan-24
01-Feb-24
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17-Apr-25
08-May-25
29-May-25
19-Jun-25
10-Jul-25
31-Jul-25
21-Aug-25
11-Sep-25
02-Oct-25
23-Oct-25
13-Nov-25
04-Dec-25
25-Dec-25
15-Jan-26
05-Feb-26

Disclaimer (1/2)

Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	**REDUCE**	Stock expected to provide returns of <5% – -10% over a 1-year horizon
ACCUMULATE	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	**SELL**	Stock expected to fall >10% over a 1-year horizon
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Spark PWM Private Limited. (Registered Office: No. 1, 3rd Floor, First Crescent Park Road, Gandhi Nagar, Adyar, Chennai 600 020; CIN: U93000TN2012PTC086696; Telephone No.: +91 44 69250000; Website: www.sparkcapital.in; Correspondence Address: Solitaire Corporate Park, Unit 1252 , Building No. 12, Andheri Kurla Road, Chakala, Andheri (East), Mumbai 400093; Telephone No: +91 22 62916700; SEBI Registration: (Stock Broker: INZ000285135; Portfolio Manager: INP200007274; Research Analyst: INH200008954; BSE RA Enlistment No- 5503; Investment Adviser: INA000021067; BSE IA Enlistment No. 2390; Depository Participant: IN-DP-757-2023); AMFI – Registered Mutual Fund Distributor: ARN 86685. APMI – Registered PMS Distributor (APRN00662). Compliance and Grievance Officer details: Mr. Anupam Mohaney: +91 22 62916700. RA Grievance Redressal Matrix & Research T&Cs

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Our Offices

Chennai
No. 1, 3rd Floor,
First Crescent Park Road,
Gandhi Nagar,
Adyar,
Chennai – 600 020

Mumbai
Unit – 301, 302, Windsor House,
2, Kolivery Village,
MMRDA Area, Kalina,
Santacruz East,
Mumbai – 400 098

11th floor, C Wing, ONE BKC,
Unit Nos. 1116,
Bandra Kurla Complex,
Bandra East,
Mumbai – 400 051

Delhi
No. 23, 1st Floor,
Community Centre,
Basant Lok,
Vasant Vihar,
New Delhi – 110 057

Bengaluru
No. 2, 3rd Floor,
Prestige
Emerald,
Lavelle Road,
Bengaluru – 560 001

Hyderabad
No. 25 & 42, 3rd Floor,
Lumbini Avenue,
Near Preston Prime Mall
Main Road, Gachibowli,
Hyderabad – 500 032

Pune
No. 7/352 1st Floor,
Elbee House,
Boat Club Road,
Sangamvadi,
Pune – 411 001

Ahmedabad
No. 409, 4th Floor,
Venus Amadeus,
Near Jodhpur Cross Road,
Satellite,
Ahmedabad – 380 015

Kolkata
No. 9A-1 & 9B-1,
9th Floor,
No. 95A,
Park Street,
Kolkata – 700 016

Kochi
Dotspace Business, G-161,
2nd Floor Near Panampilly Nagar
Central Park,
K V Nagar,
Kochi – 682 036

Thiruvananthapuram
2nd Floor,
Mankulangara Tower,
Kuravankonam,
Pattom P.O.,
Trivandrum – 695 004

Lucknow
Unit No.6, 3rd Floor
Marigold Building,
Sapru Marg Shahnajaf Road,
Hazratfang,
Lucknow – 226 001

Kanpur
Unit No 205, 2nd Floor,
Imperial Square,
16/105,
MG Road,
Kanpur – 208 001

Spark Global PWM Private Limited
Unit number- GV-00-04-03-BC-24, Gate Village Building
04, Dubai International Financial Centre (DIFC), Dubai, UAE