Midas
Equities and Research

SMS Pharmaceuticals Ltd

Initiating Coverage

29 Jun 2026

Spark Initiating Coverage Reports – Rebooted!

Outlining the framework from our desk

In the new, rejuvenated approach to publishing fundamental research ideas, we look to balance the traditional, time-tested framework with a contemporary, hopefully refreshing, segue to stock-picking. Ergo, our Initiating Coverage reports will be presented in 5 sections: **1) Annual Report Deep-Dive, 2) Business Assessment Scores, 3) Valuation Framework, 4) Stock Buzz & Influencing Factors, and 5) Technical Analysis**

This report is underpinned by our strong beliefs that 1) Technical analyses, when combined with Fundamental, leads to better stock-calling 2) Business assessment has to be separated from Valuation Frameworks, so equity research calibrates the mix objectively when making stock-calls and 3) Reactions to "Buzz" and factors that lend themselves to price actions have to be identified and assigned due regard when timing stock-calls, especially in current times where information flow is incessant.

Annual Report Deep-Dive

Drawing on the time-tested, but often neglected, practice of drilling into historical annual reports, we choose to dedicate the starting section to the **Analytical Perspective** we could glean. The much helpful forensic overlay provides a clearer view of the company's **historical operating performance, balance sheet behavior, cash-flow quality, and governance structure.** By anchoring the analysis in reported numbers and disclosures, this section helps assess earnings quality and risk before progressing on any forward-looking calls of conviction

Business Assessment Scores

Done in detail to answer the question of "Can this company's business have what it takes to be a winner in the long-term," we try drawing on Porter's 5P models to discuss vitals like revenue models, pricing risks, market positions, moats, et al. The financial analysis and estimates hinge on our reading of the business performance as well as potential. So that objectivity is not colored to suit gut-based calls, we have put in place a scoring model, capturing all drivers to the assessment across 5 composite vectors, and the scores alone would dictate our call on the business.

Valuation Framework

We have watched with disdain how the markets have made target multiples look like the proverbial rabbits out of a hat! To cut away from our own temptation to merrily justify alongside the masses, we went back to first principles when designing the Valuation Framework. Contoured by market, peer, and historical absolute axes, our scores for Valuation multiples take into account Economic Value Added, Return Profiles, Growth and Leadership positions mapped against relevant multiples. All said the question of "All told about the business, markets and peers, does the pricing look attractive for this stock?" is a question that is the bedrock of stock-picking in equity research!

Stock Buzz & Influencing Factors

The **Buzz Chart** & Liquidity Chart tracks stock-specific news flow, events, and market activity to help identify **periods of elevated attention or sentiment shifts,** complementing fundamental and valuation analysis.

Technical Analysis

The report also includes a **Technical Analysis** section to capture prevailing price trends, momentum, and key support–resistance levels, offering additional insight into **timing and near-term market behavior.**

Source: Company, Midas Research.

Report in Gist (1/2)

Last Day Close	1Y TP	Upside	Rating
Rs. 377	Rs. 467	25% (Incl. Dividends)	BUY

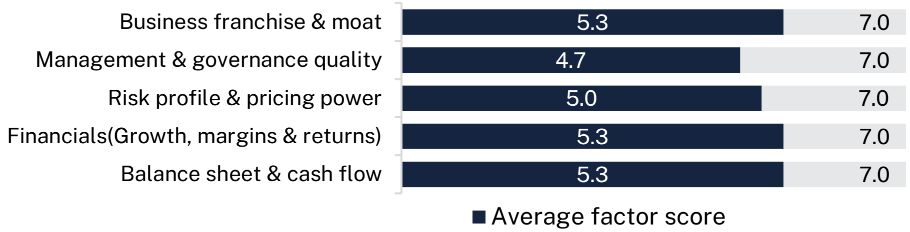
About the company

- SMS Pharmaceuticals Ltd., established in 1987 and headquartered in Hyderabad, is a diversified and fully integrated active pharmaceutical ingredient (API) manufacturer with a strong export-oriented business model, deriving ~88% of its revenue from regulated markets such as Europe, North America, and Asia. The company operates across both high-value, complex APIs — including anti-diabetic, anti-epileptic & peptide molecules — and high-volume essential APIs such as ibuprofen and anti-retrovirals (ARVs), while following a "lowest-cost producer" strategy across its portfolio.
- SMS has a dual manufacturing setup, comprising a 120 KL facility in Hyderabad focused on niche, high-value molecules and a large-scale 3,000 KL facility in Vizag catering to high-volume APIs, including a dedicated ibuprofen block. In addition to its core API operations, the company holds a ~36% stake in VKT Pharma, a USFDA-approved regulated-market player that has recently turned profitable and is expected to contribute meaningfully to consolidated earnings going forward.

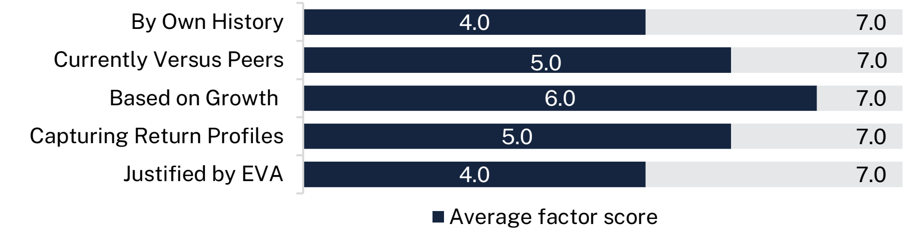
Annual Report Deep-Dive

- SMS Pharmaceuticals has delivered strong growth over FY23–FY26, with revenue increasing from Rs. 522 cr to Rs. 887 cr (19.3% CAGR), led by the scale-up of core APIs, particularly ibuprofen, alongside steady traction in the ARV segment. EBITDA margins expanded meaningfully from ~10% to ~19% during the same period, reflecting operating leverage, an improving product mix, backward integration benefits, and the company's cost-competitive manufacturing platform.
- Working capital intensity remains structurally elevated, with working capital days of ~180, materially above peer averages. While this is partly attributable to the export-oriented nature of the business, inventory requirements, and ongoing capacity ramp-up, cash conversion remains a key monitorable as the company enters a significant investment cycle.
- Revenue quality has improved through greater geographic diversification, with dependence on Europe reducing and contributions from North America & other export-oriented regulated markets increasing. This shift lowers geographic concentration risk and supports long-term revenue resilience.

Business Assessment Scores



Valuation Framework



Financials and Estimates Summary

Particulars (Rs. cr)	Revenue	EBITDA %	PAT %	EPS	RoE %	RoCE %	PE	EV/EBITDA	Mcap/Sales
FY24	709	16.4	7.0	5.9	10.0	11.1	70.7	33.0	5.0
FY25	783	17.8	8.8	8.2	11.7	11.8	51.4	27.7	4.5
FY26	887	19.3	11.5	11.2	14.3	12.5	34.6	22.5	4.0
FY27E	1,018	20.4	11.8	12.9	14.3	12.5	29.2	18.5	3.5
FY28E	1,315	21.3	12.8	18.0	17.1	14.6	20.9	13.7	2.7

29 Jun 2026

Industry	Pharmaceuticals

Key Stock Data

Bloomberg	SMSPH IN
Shares o/s (cr)	9.37
Market Cap (Rs. cr)	3,526
52-wk High/Low	448/208
3M ADV ('000)	308
Index	Nifty 500
F&O	N

Latest Shareholding (%)

	Mar 26	Dec 25	Sep 25
Promoters	68.1	68.1	68.1
Institutions	3.3	3.3	3.2
Public	28.6	28.7	28.8
Pledge	18.0	18.0	34.7

Stock Performance (%)

	1M	3M	12M
SMS Pharmaceuticals	-0.6	-2.5	57.7
Nifty 500	1.0	10.3	-0.8

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Source: Company reports, Bloomberg, Midas Research

Report in Gist (2/2)

Stock Buzz & Influence Factors

- Stock price movements are primarily driven by earnings performance, with strong operating results—reflected in revenue growth, margin expansion, and PAT growth—acting as key catalysts. Regulatory developments, including drug approvals, WHO prequalification, and USFDA-related events, along with corporate actions such as warrant issuances and changes in ownership, also influence investor sentiment and valuation.

Technical Outlook

- SMS Pharma is currently retesting the breakout pivot of its two-year cup base following a sharp rally to an all-time high of Rs. 448. The stock continues to trade above its rising 200-DMA, suggesting the broader uptrend remains intact, while the ongoing consolidation is likely to strengthen the base for the next leg of the rally.

Investment Rationale

- SMS Pharmaceuticals is entering a phase of accelerated growth, supported by its cost leadership in ibuprofen, strong process chemistry capabilities, and expanding presence across regulated markets. The company is well-positioned to capitalize on market share gains in its core ibuprofen franchise while simultaneously diversifying through ARVs, specialty APIs, peptides, and CDMO opportunities.
- Multiple growth drivers are expected to contribute over FY26–FY28E, including the ramp-up of the Ibuprofen franchise following backward integration, commercialisation of four-to-five new APIs from the brownfield expansion, steady growth in the ARV portfolio, and increasing contribution from VKT Pharma. Together, these are expected to drive a revenue CAGR of ~22% and a PAT CAGR of ~28% over FY26–FY28E.
- We value SMS Pharma at 26x FY28E P/E, positioned at the lower end of its historical valuation range, while implying a premium to the FY28E peer average P/E of ~20x. This yields a target price of Rs. 467, implying ~25% upside (including dividends). We believe the premium is justified by SMS Pharma's superior earnings profile, supported by the highest projected RoE in the peer group (~17% vs. ~12%) and the strongest PAT CAGR of ~28% over FY26–FY28E.
- We believe the premium can sustain and potentially expand as execution improves. Strengthening business quality and earnings visibility, supported by leadership in ibuprofen, growing exposure to regulated markets, CDMO scale-up, and steady new product traction, could drive further re-rating.

CONTENT

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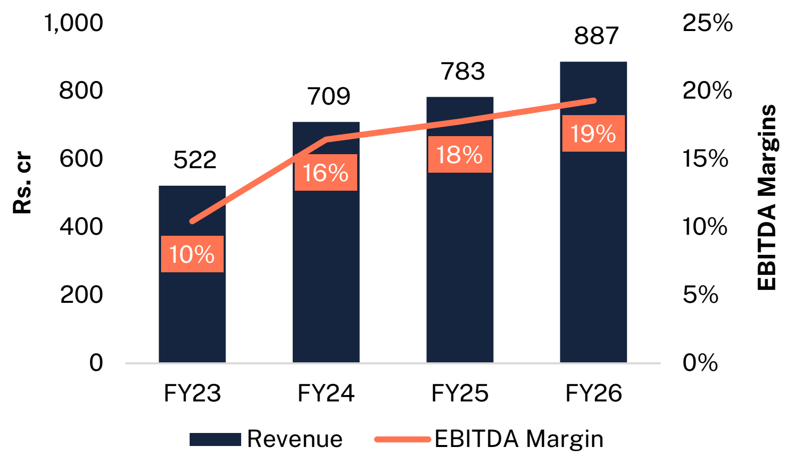
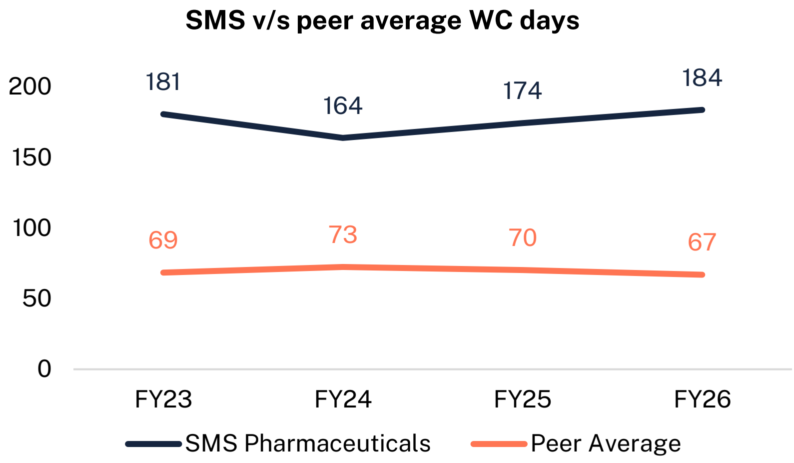
1 – Annual Report Deep-Dive (1/2)

Profitable scaling and geographic diversification; working capital remains a key monitorable

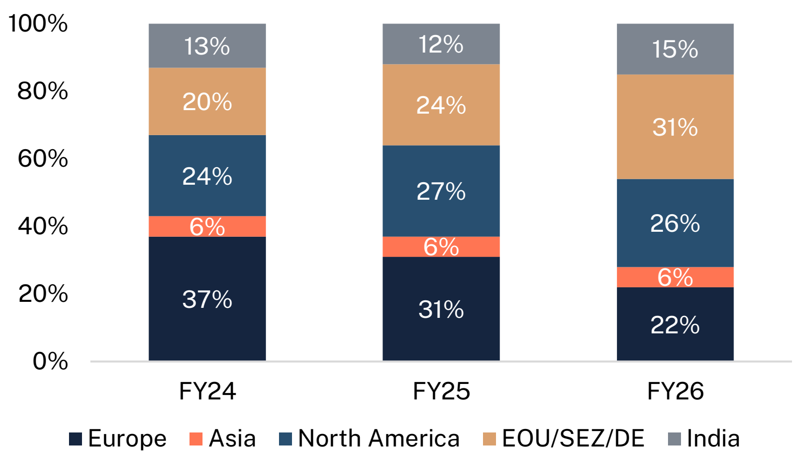
Revenue (Rs. cr)



Working capital days



Region-wise contribution to revenue



Earnings quality

- Revenue has shown strong growth from Rs. 522 cr in FY23 to Rs. 887 cr in FY26 (19.3% CAGR), indicating scaling of core APIs, notably Ibuprofen.
- EBITDA margins have expanded consistently from ~10% in FY23 to ~19% in FY26, reflecting a combination of improved product mix, higher capacity utilisation, operating leverage, and benefits from backward integration initiatives.
- The sharp recovery in margins from FY23 levels also suggests that SMS has successfully navigated the Ibuprofen downcycle and is increasingly benefiting from its cost-competitive manufacturing platform.

WC days remain a key monitorable

- SMS operates with structurally elevated working capital days, ranging from ~181 days (FY23) to ~184 days (FY26), consistently above the peer average of 69–67 days.
- The higher working capital intensity is largely a function of its export-oriented business model, longer receivable cycles in regulated markets, and inventory requirements associated with a broad API portfolio and capacity ramp-up.
- While operational scale is improving, cash conversion remains a key monitorable, especially during downcycles.

Reduced geographic concentration

- Europe's contribution has declined from 37% in FY24 to 22% in FY26, reflecting reduced dependence on a region that has faced persistent pricing pressure, particularly in segments such as anti-diabetics.
- EOU/SEZ/DE has increased from 20% to 31% over the same period, emerging as the fastest-growing geography.
- Revenue mix is shifting away from Europe toward export-oriented and regulated markets, improving diversification and reducing geographic concentration risk.

Source: Company, Midas Research
Note: FY23 region wise contribution not available

1 – Annual Report Deep-Dive (2/2)

Auditor and disclosure quality

- The statutory auditors, M/s. Suryanarayana & Suresh, Chartered Accountants, have issued an unqualified (clean) audit opinion, confirming that the standalone and consolidated financial statements present a true and fair view of the company's financial position in accordance with Indian Accounting Standards and the Companies Act, 2013.
- The auditors have stated that the company maintained adequate internal financial controls over financial reporting, which were operating effectively as of March 31, 2025, reflecting a robust control environment.
- Additionally, the company has disclosed that no fraud was reported by the auditors during the year and that its internal control framework is designed to facilitate the prevention and detection of fraud and errors.

Management remuneration & governance assessment

- Mr. Ramesh Babu Potluri (Chairman & Managing Director) and Mr. Vamsi Krishna Potluri (Executive Director) each received remuneration of Rs. 5.18 cr in FY25, representing ~7.4% of PAT individually and reflecting a ~40.6% Y-o-Y increase.
- The two promoter-executive directors together drew remuneration of Rs. 10.37 cr in FY25, accounting for ~14.9% of PAT and indicating a significant concentration of remuneration at the promoter level.
- Mr. Lakshmi Narayana Tammineni (CFO) received remuneration of Rs. 0.36 cr (~0.5% of PAT), reflecting a ~55.8% Y-o-Y increase, while Mr. Thirumalesh Tumma (Company Secretary) received Rs. 0.18 cr (~0.3% of PAT), reflecting a ~17.3% Y-o-Y increase.
- Non-executive and independent directors are compensated through sitting fees only, with no fixed remuneration disclosed, in line with statutory norms.
- SMS Pharmaceuticals demonstrates standard regulatory compliance and a broadly structured board; however, elevated and concentrated promoter remuneration, coupled with a family-controlled executive structure, represents a key governance watchpoint, particularly in the context of cyclical earnings.

Source: Company, Midas Research

2 - Business Assessment Scores

Business Assessment Scores – Summary

1

Business franchise and moat:

SMS Pharma combines a diversified API portfolio, balancing high-volume commodity products with stickier, high-value APIs that contributed 46% of FY26 revenue. Further, its process chemistry capabilities and cost leadership have driven a significant improvement in EBITDA margins from ~10% to ~19%, leading to a rating of **5.3/7.0.**

2

Management and governance quality:

The board is structurally compliant, with four independent directors and a stable management team. While both executive directors belong to the promoter family, with two additional family members represented on the board, management continuity and the company's governance standards have remained strong, resulting in a rating of **4.7/7.0.**

3

Risk profile and pricing power:

Strong risk profile underpinned by global scale, backward integration, regulated-market dominance & high barriers to entry. Supplier power is well managed through in-house intermediates. The rating is moderated by high buyer concentration & bargaining power, heavy dependence on the API segment, and competitive pressure arising from patent expiries in key molecules, resulting in a rating of **5.0/7.0.**

4

Financials (Growth, margins & returns):

Strong financial performance is supported by revenue growth driven by ibuprofen & ARV expansion, EBITDA margin expansion led by an improving ibuprofen business & PAT growth aided by backward integration & scale despite ongoing capex. These factors result in a rating of **5.3/7.0**.

5

Balance sheet and cash flow:

SMS is funding its growth capex largely from rising internal cash generation, with earnings converting steadily into cash and working capital easing. Net debt climbs to ~Rs.501 Cr to fund the expansion, but with interest cover holding near ~5x, the balance sheet stays comfortably serviceable through the investment phase. This results in a rating of **5.3/7.0.**

SMS Pharmaceuticals Ltd.– Company Snapshot

Corporate factsheet	
Company background	Specializing in API manufacturing historically, SMS Pharmaceuticals has steadily built global credibility through regulated-market compliance, large-scale capacities & a diversified product base, positioning it as a reliable long-term supplier across 75+ countries.
Business segments	▪ API manufacturing segment generates nearly all of the company's revenue, accounting for 98% of total revenue. Key segments within this are below: ▪ The anti-inflammatory segment, which includes ibuprofen, is a high-volume segment contributing around 20% of total sales. ▪ Anti-diabetics make up 15% of revenue. ▪ Anti-Retro Viral segment contributes ~28% of the company's revenue .
Key products	▪ The company has a 55+ product portfolio as of FY26. ▪ Ibuprofen, Dexibuprofen, Ibuprofen Sodium, Ibuprofen Aragine, Ibupofen Lysinate, Fenoprofen Calcium (Anti-inflammatories) ▪ Tenofovir, Dolutegravir, Raltegravir, Lamivudine, Efavirenz (Anti-Retrovirals) ▪ Vildagliptin, Sitagliptin, Rosiglitazone, Empagliflozin, Dapagliflozin (Anti-Diabetics) ▪ Sumatriptan, Almotriptan, Zolmitriptan, Rizatriptan, Eletriptan (Anti-Migraine)
Manufacturing facilities	**Hyderabad facility:** A 120 KL facility for small-volume molecules, spread across 48,158 m^2. The facility has received approvals from EUGMPA, KFDA, CDSCO, PMDA, and six USFDA inspections. **Vizag facility:** A 3,000 KL facility for large-volume molecules, spread across 345,007 m^2. The facility has received approvals from KFDA, CDSCO, PMDA, and three USFDA inspections.
Key facts	SMS's 36 years of experience, coupled with its scale of operations and depth of capabilities, position it as a global and domestic leader in key products. The company is supported by a strong R&D team of over 100 scientists and offers 55+ APIs across 14 diverse therapeutic segments. It has filed over 120 DMFs to date and has a presence in more than 75 countries, with regulated markets contributing around 88% of revenue.
Key Management Personnel	▪ Mr. Ramesh Babu Potluri, Executive Director, Chairperson, MD ▪ Mr. Vamsi Krishna Potluri, Executive Director ▪ Sri Shravan Kudravalli, Independent Director ▪ Sri Sarvepalli Srinivas, Director
Auditors	Suryanaranya & Suresh
Corporate action	The Board has approved a Rs. 250 cr capacity expansion and a further Rs. 30 cr for greenfield land acquisition. The capex will be funded through a mix of internal accruals and external debt.
Credit rating	Long term bank facilities- CARE A; Positive (350.87), Short term bank facilities- CARE A1 (52.83)
Employee count	1,600+

Category (Mar '26)	% Share
Promoter Group	68.1
FII	0.3
DII	3.0
Government	0.0
Others (Public)	28.6
Total	**100%**

Key Metrics	FY23	FY24	FY25	FY26
Revenue (Rs. cr)	522	709	783	887
EBITDA (Rs. cr)	55	117	139	171
EBITDA Margin	10.4%	16.4%	17.8%	19.3%
PBT (Rs. cr)	5	66	92	117
PBT Margin	1.0%	9.3%	11.8%	13.2%
Adj PAT (Rs. cr)	(7)	50	69	102
Net worth (Rs. cr)	461	536	640	786
Net debt (Rs. cr)	247	245	271	319
NWC – ex cash (Rs cr)	259	319	374	447
Total assets (Rs. cr)	880	1,034	1,153	1,362
FCF	(7)	(2)	(42)	(71)
ROCE %	3%	11%	12%	12%

Source: Company, Midas Research

2.1 - Business Franchise & Moat (1/3)

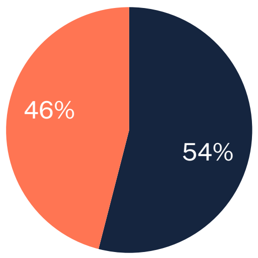
Scale driven by innovation and a balanced product mix

SMS Pharma combines a diversified API portfolio, balancing high-volume commodity products with stickier high-value APIs, which contributed 46% of FY26 revenue, while its process chemistry capabilities and cost leadership have driven EBITDA margin expansion from ~10% to ~19%.

Diversified API portfolio across high-value and high-volume segments

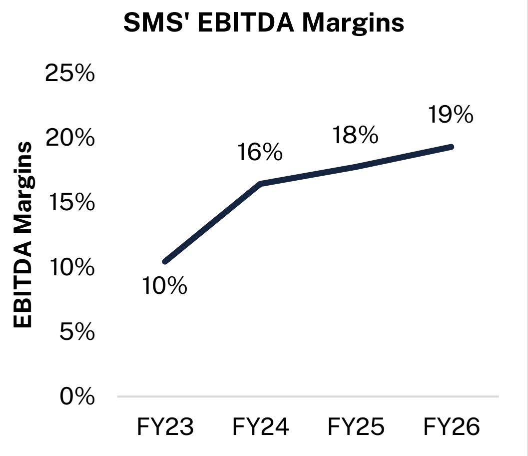
High-value API segments	High-volume API segments
Anti-diabetic	Anti-inflammatory
Anti-migraine	Anti-retro Viral
Anti-Erectile disfunction	Anti-ulcer
Anti-epileptic	
Anti-anginal	

Revenue split as of FY26



- SMS operates across a well-balanced mix of high-volume commodity APIs and high-value, complex API segments, reducing dependence on any single segment or pricing cycle.
- High-volume products such as ibuprofen enable large-scale production, better capacity utilisation & operating leverage. Over time, ibuprofen is likely to generate margins comparable to those of complex molecules, aided by SMS's low-cost positioning.
- High-value APIs, on the other hand, require process expertise, regulatory filings, and customer validation, resulting in higher realisations and a stickier business model.
- High-value segments contributed 46% of FY26 revenue, creating a natural hedge against commodity pricing pressures.

Superior process chemistry enables cost leadership



- SMS's key competitive edge lies in its ability to develop, optimise, and scale complex manufacturing processes at a lower cost than its peers, creating a sustainable cost leadership position in ibuprofen APIs and across its broader portfolio.
- Decades of process chemistry expertise have enabled the company to improve yields, reduce conversion costs, and commercialise products efficiently, supporting margin expansion even in highly competitive and commoditised markets.
- This process-led cost advantage allows SMS to price competitively, gain market share during industry downcycles, and maintain profitability across varying pricing environments.

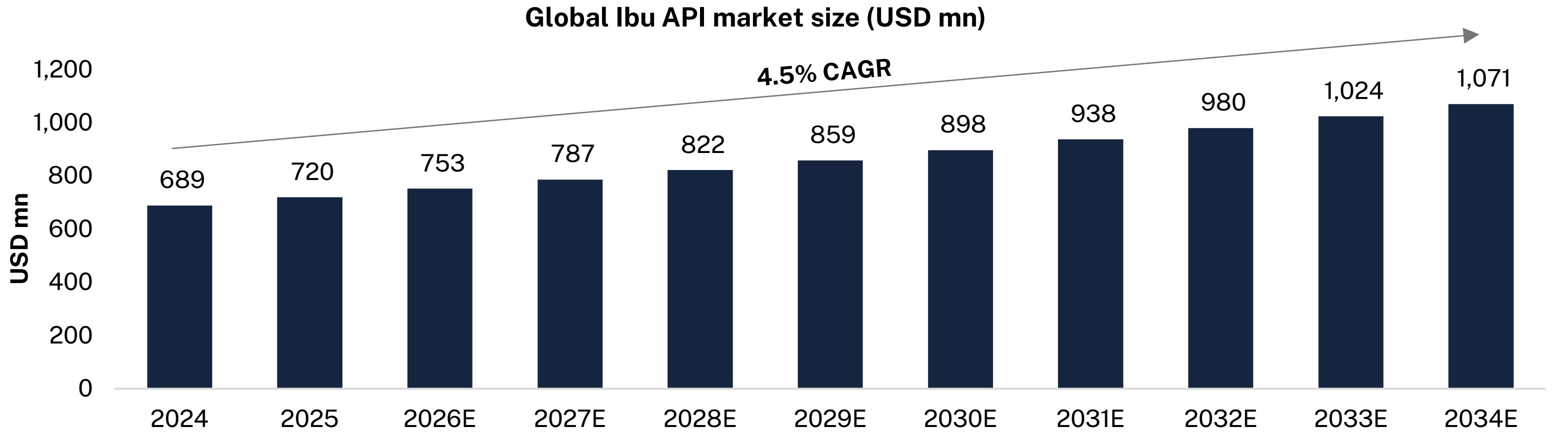
Process development → **Optimized chemistry** → **Low-cost producer** → **Competitive pricing** → **Scale & market share gain**

Source: Company, Midas Research.

2.1 - Business Franchise & Moat (2/3)

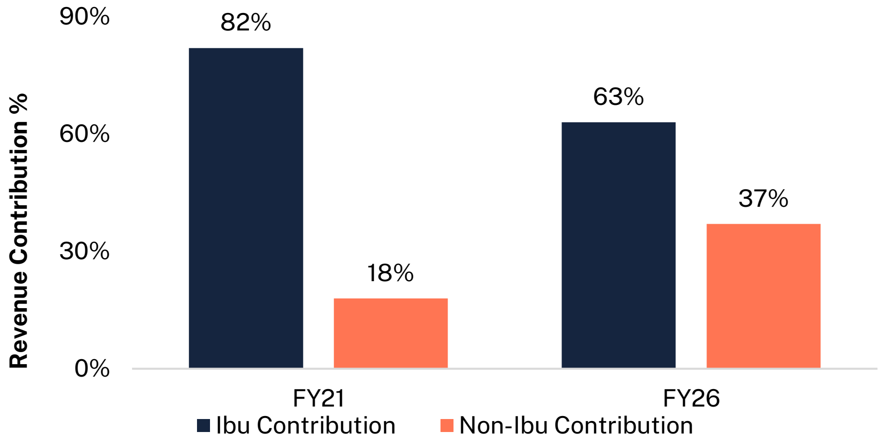
Cost competitiveness across the portfolio drives deep market penetration and steady margins

Cost leadership in ibuprofen through a fully backward-integrated model

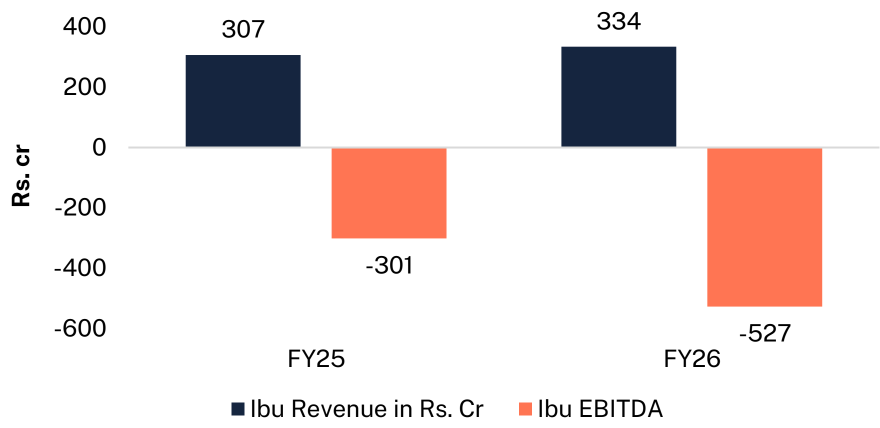


- Ibuprofen is a commoditised molecule with limited product differentiation, resulting in a consolidated global market where a handful of leading producers account for the majority of supply. Competitiveness is therefore determined by cost position and capacity utilisation rather than product attributes. The principal global producers are BASF, Hubei Biocause, IOL Chemicals & Pharmaceuticals, and Solara Active Pharma Sciences..
- The competitive set is structurally constrained at the top. IOL, the largest producer at ~30% global share, runs at peak ibuprofen utilization with no announced capacity additions, having redirected investment toward its non-ibuprofen portfolio
- Solara carries a higher-cost manufacturing base that confines it to large-pharma accounts at a 15–17% price premium, and is reportedly in advanced discussions to divest or restructure its ibuprofen API business. A capacity-capped cost leader alongside a high-cost marginal producer in retreat leaves an addressable supply gap across regulated and ROW markets.
- SMS is well positioned to benefit from this favorable industry backdrop, with ~6,000 MT of dedicated ibuprofen capacity and further expansion underway. The completion of backward integration into isobutylbenzene (IBB) in Q4FY26, coupled with process optimization initiatives, has structurally lowered production costs, positioning the company among the most cost-competitive ibuprofen manufacturers globally.

IOL's ibuprofen capacity utilisation peaking as the company employs a diversification strategy



Solara's ibuprofen portfolio remains a drag on margins as the company looks to divest the business



Source: Grand View Research, Midas Research

2.1 - Business Franchise & Moat (3/3)

Diversifying and scaling the franchise beyond a single anchor

Establishing strong presence in the ARV segment

New products scaling
Lamivudine & new launches expanding franchise

Second client onboarded
Diversification beyond Laurus Labs

Established ARV base
Cost-efficient scale; anchor client Laurus Labs

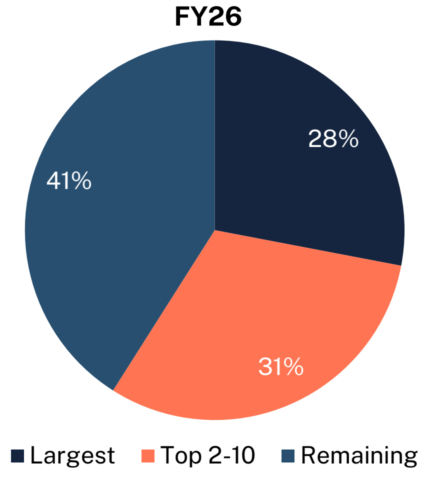
- The ARV segment contributed ~28% of FY26 revenue, with SMS leveraging its cost leadership, scale, and strong execution track record.
- Its key customer, Laurus Labs, is increasingly investing in in-house CDMO capabilities; however, SMS continues to retain business by offering a more cost-effective manufacturing solution.
- SMS has onboarded a second ARV client, diversifying beyond Laurus Labs and reinforcing the scalability of its cost-competitive platform.
- Besides client diversification and sustained demand from Laurus Labs, new products such as lamivudine further strengthen the ARV portfolio.

VKT recovery in place, aided by Ranitidine approval

SMS API
↓
VKT formulations
↓
USFDA-approved Ranitidine
↓
Incremental consolidated revenue

- VKT Pharma, in which SMS Pharmaceuticals holds a ~36% stake, is focused on formulations and provides SMS exposure to the finished-dosage segment, complementing its core API business.
- Its key product, ranitidine, is an acid-reducing drug that was historically a large global molecule with stable demand. However, it was withdrawn globally around 2020 due to safety concerns related to carcinogenic impurities.
- VKT successfully developed a reformulated version addressing regulatory concerns and secured USFDA approval, enabling re-entry into key markets.
- VKT is now a near-exclusive global supplier, creating a strong turnaround opportunity.
- SMS Pharmaceuticals also benefits directly by supplying the API for ranitidine, strengthening its CDMO linkage and participation across the value chain.

Sticky customer base translating into steady revenue

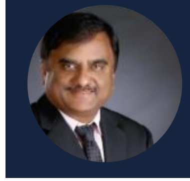


2.2 - Management & Governance Overview (1/2)

4.7 7.0

The board is structurally compliant, with four independent directors and a stable management team. While both executive directors belong to the promoter family, with two additional family members represented on the board, management continuity and the company's governance standards have remained strong.

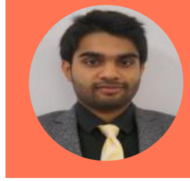
The senior management team comprises competent professionals from reputed organizations and universities



Shri. Ramesh Babu Potluri

Chairman & Managing Director

- The Founder Chairman of SMS Pharmaceuticals Ltd. is widely regarded as a humanitarian with a focus on making medicines affordable for a wide patient base.
- He has served on the boards of organisations such as CHEMEXCIL and has advised the Government of Andhra Pradesh on pharmaceutical industry matters.
- Mr. Ramesh Babu has travelled extensively, is an avid reader, and possesses a strong understanding of both upstream and downstream segments of the pharmaceutical industry.



Shri. Vamsi Krishna Potluri

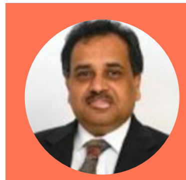
Executive Director

- Mr. Vamsi Krishna completed his Master’s in Engineering Management at Missouri University of Science and Technology, United States, after graduating from BITS Pilani, Dubai.
- He worked in supply chain at OHM Laboratories before joining SMS Group at a young age.
- He currently oversees SMS Pharmaceuticals’ operations and is focused on shaping the company to meet the evolving demands of the next generation.

Shri. Shravan Kudravallii

Independent Director

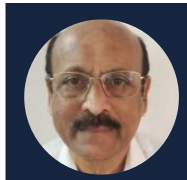
- A fellow member of the Institute of Chartered Accountants of India and a commerce graduate from Osmania University.
- He has expertise in auditing, accounting, company law, income tax, and finance, and is a partner in a reputed chartered accountancy firm.
- He also designs ERP systems for companies and handles internal and statutory audits for a range of public and private businesses.



Shri. Sarvepalli Srinivas

Director

- Mr. Sarvepalli Srinivas holds a B.Com. from the University of Delhi and a postgraduate degree in Mass Communication from the Indian Institute of Mass Communication.
- He is a seasoned business leader with over thirty years of leadership experience across both public and private sector organisations.
- He has a proven track record of driving sales growth and improving profitability while leading operational enhancements across multiple business verticals.



Shri. Dr. Suresh Kumar Gangavarapu

Independent Director

- Dr. Gangavarapu Suresh Kumar holds an M.S. in General Surgery from Gulbarga University, Karnataka, and an M.B.B.S. from Gandhi Medical College, Hyderabad.
- He serves as a consultant surgeon across multiple multispecialty hospitals in Hyderabad and is currently the Clinical Director of Robotic Surgery at the KIMS Group of Hospitals, Hyderabad.
- He brings extensive expertise in corporate affairs, financial strategy, strategic planning, and business development, with a focus on the pharmaceutical industry.

Source: Company, Midas Research

2.2 - Management & Governance Overview (2/2)

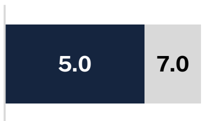
✅: Positive
☑: Neutral
❌: Negative

Rating	Corporate factsheet
✅ **Board of Directors-Independence & diversity**	▪ The Board of SMS Pharmaceuticals comprises eight members, including two Executive Directors (Mr. Ramesh Babu Potluri and Mr. Vamsi Krishna Potluri), four Non-Executive Independent Directors (Mr. Shravan Kudaravalli, Mr. Sarvepalli Srinivas, Dr. Suresh Kumar Gangavarapu, and Mrs. Shanti Sree Bolleni), and two Non-Executive Non-Independent Directors (Mr. Trilok Potluri and Dr. Sunkara Venkata Satya Shiva Prasad). ▪ The board includes one woman director (12.5% of board strength), Mrs. Shanti Sree Bolleni, who serves as an Independent Director. ▪ Promoter representation on the board is meaningful, with three out of eight directors belonging to the promoter group, including the Chairman & Managing Director and the Executive Director.
✅ **Board of Directors-changes in directors**	▪ Mr. Vamsi Krishna Potluri: Re-appointed as the Whole-Time Director designated as Executive Director for a second term of three years, effective July 1, 2025. ▪ Mr. Sarvepalli Srinivas: Re-appointed as an Independent Director for a second term of five years, effective August 12, 2024. ▪ Dr. Suresh Kumar Gangavarapu: Appointed as an Independent Director for a term of five consecutive years, effective August 12, 2024. ▪ Mrs. Shanti Sree Bolleni: Appointed as an Independent Director (Women Director) for a term of five consecutive years, effective August 12, 2024. ▪ Mr. Trilok Potluri: Appointed as a Non-Executive Non-Independent Director effective August 12, 2024. ▪ Mr. Sarath Kumar Pakalapati: Retired as an Independent Director on August 11, 2024, upon the completion of his second consecutive five-year term. ▪ Mrs. Neelaveni Thummala: Retired as an Independent Director on August 11, 2024, upon the completion of her second consecutive five-year term.
✅ **Board of Directors-Independence in board committees**	▪ Audit Committee comprises three members, including two Independent Directors (Mr. Shravan Kudaravalli & Dr. Suresh Kumar Gangavarapu) and one Executive Director (Mr. Vamsi Krishna Potluri). ▪ The Nomination and Remuneration Committee comprises three members, including two Independent Directors (Mrs. Shanti Sree Bolleni and Dr. Suresh Kumar Gangavarapu) and one Non-Executive Non-Independent Director (Dr. Sunkara Venkata Satya Shiva Prasad).
✅ **Changes in Key Managerial Personnel**	▪ Management continuity is good, no meaningful changes in the past two financial years.
✅ **Management continuity**	▪ Mr. Vamsi Krishna Potluri is under a three-year contract as Whole-Time Director designated as Executive Director, effective July 1, 2025, to June 30, 2028. ▪ M/s. Suryanarayana & Suresh, Chartered Accountants, have served as the company's statutory auditors following their appointment at the Annual General Meeting held on September 30, 2022. They are currently serving their second five-year term. This term is scheduled to expire at the conclusion of the 39th AGM in 2027.
☑ **Promoter remuneration**	▪ In FY25, total executive director remuneration stood at Rs. 10.37 cr representing ~14.9% of FY25 PAT, shared equally between Mr. Ramesh Babu Potluri (Rs. 5.18 cr) and Mr. Vamsi Krishna Potluri (Rs. 5.18 cr). Both directors saw a 40.57% year-over-year increase in their compensation compared to the previous financial year. ▪ Non-executive directors, including those related to the promoter family, are compensated through sitting fees only.
☑ **Governance Structure**	▪ Executive authority is fully concentrated within the promoter family, with 100% of Executive Director positions held by family members (father and son). This concentration extends to the Board of Directors, which includes the Chairman, his two sons, and a related member, Dr. Sunkara Venkata Satya Shiva Prasad (father-in-law of the Executive Director).
✅ **Promoter holding**	▪ Sri. Ramesh Babu Potluri (20.48%), Smt. Hima Bindu Potluri (16.93%), and Sri. Vamsi Krishna Potluri (15.03%); Promoter Group: Potluri Infra Projects LLP (9.98%), Sri. Trilok Potluri (2.47%), and M/s. Potluri Laboratories Private Limited (1.26%). ▪ Promoter holdings increased from 64.67% in FY24 to 66.27% in FY25, primarily due to additional share acquisitions and the conversion of warrants into equity.
✅ **Stock-based compensation**	▪ Nil. The company does not operate a stock option scheme.
✅ **Related-party transactions**	▪ SMS Pharmaceuticals Limited engages in related party transactions with its associate VKT Pharma Private Limited (36% stake) and promoter-linked entities including SMS Lifesciences India Limited, Eshwar Coal Movers, and Raghavendra Engineering Industries. In FY25, transactions with VKT Pharma included sales of Rs. 39.66 cr and rental income of Rs. 0.28 cr, along with a share of profit of Rs. 1.74 cr (FY24: Rs. 0.63 cr). Purchases from SMS Lifesciences totaled Rs. 19.24 cr, while procurement from Eshwar Coal Movers and Raghavendra Engineering Industries amounted to Rs. 2.78 cr and Rs. 14.57 cr, respectively. All transactions were disclosed as being in the ordinary course of business and at prevailing market rates.

Source: Company, Midas Research

2.3 - Risk Profile & Pricing Power

Risk profile and pricing power



Strong risk profile underpinned by global scale, backward integration, regulated market presence, and high barriers to entry. Supplier risk is well-managed through in-house intermediates. The rating is moderated by high customer concentration, heavy dependency on the API segment, and competitive pressure from patent expiries in key molecules.

Porter's 5 Forces

Threat of New Entrants - Moderate

- **High regulatory barriers:** Entering the regulated markets that contribute 88% of company revenue requires stringent, time-intensive, and investment-intensive customer onboarding.
- **Quality compliance:** New entrants must secure multiple international approvals.
- **Economies of scale:** SMS Pharma operates Asia's largest single-block Ibuprofen plant with a 3,000 KL reactor capacity, creating a major cost-entry barrier for smaller players.

Threat of Substitutes - Moderate

- **Commoditized nature:** High-volume APIs such as Ibuprofen, Tenofovir and Sitagliptin are relatively commoditized, with multiple qualified suppliers offering similar products.
- **Pricing offset:** This threat is mitigated by a cost leadership strategy and backward integration to deliver products in the most economical way.

Competitive Rivalry- Moderate

- **Patent expiry impact:** Expiry of key molecules (e.g., Sitagliptin) increases competition and market entry.
- **Market strategy:** Focus on off-patent APIs, competing with MNCs through cost efficiency and pricing.
- **Segment pressure & scale:** Pricing pressure in the anti-diabetic segment; large-scale Ibuprofen capacity supports competitive positioning and market share gains.

Bargaining power of Suppliers - Low

- **Strategic backward integration:** A Rs. 150 cr project was commissioned to produce key intermediates in-house, specifically designed to reduce dependency on suppliers from China.
- **Supply security:** The company maintains long-standing relationships and inventory buffers to mitigate disruption risks for remaining raw materials.

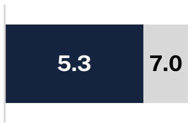
Bargaining power of Buyers - High

- **Customer concentration:** In FY25, the largest customer contributed ~22% of revenue, and the top 10 clients accounted for 60% of total sales.
- **Client leverage:** The company serves a "marquee customer base" including Teva, Sun Pharma, Cipla, and Dr. Reddy's, who possess significant negotiating power.
- **Commoditization risks:** Buyers can easily switch to competitors for high-volume products if orders are not fulfilled within lead time.

Source: Company, Midas Research

2.4 – Financials (1/2)

Scale, recovery, optionality, and platform ramp-up



Strong financial performance supported by revenue growth from ibuprofen and ARV expansion, EBITDA margin expansion led by ibuprofen, and PAT growth driven by backward integration and scale benefits despite ongoing capex.

Key growth levers include ibuprofen scale, steady ARV growth, US anti-diabetic market opening, VKT turnaround, and emerging CDMO revenues

Ibuprofen

- SMS achieved full backward integration in ibuprofen during Q4FY26, marking the first quarter in which 100% of its isobutylbenzene (IBB) requirements were sourced in-house. This eliminates dependence on external suppliers, enhances supply-chain control, and reduces exposure to raw material and solvent price volatility.
- This backward-integrated manufacturing, coupled with superior process chemistry, enables a lowest-cost positioning among peers.
- Going forward, ibuprofen remains the primary growth engine of the portfolio, with FY27 capex completion expected to lift installed capacity from 500 to 800 MT/month.
- We expect production volume to scale from ~225 MT/month in FY26 to ~600 MT/month by FY28E (~75% utilisation), driving ibuprofen revenue from Rs. 177 cr in FY26 to Rs. 490 cr in FY28E, a ~66% revenue CAGR.

ARV

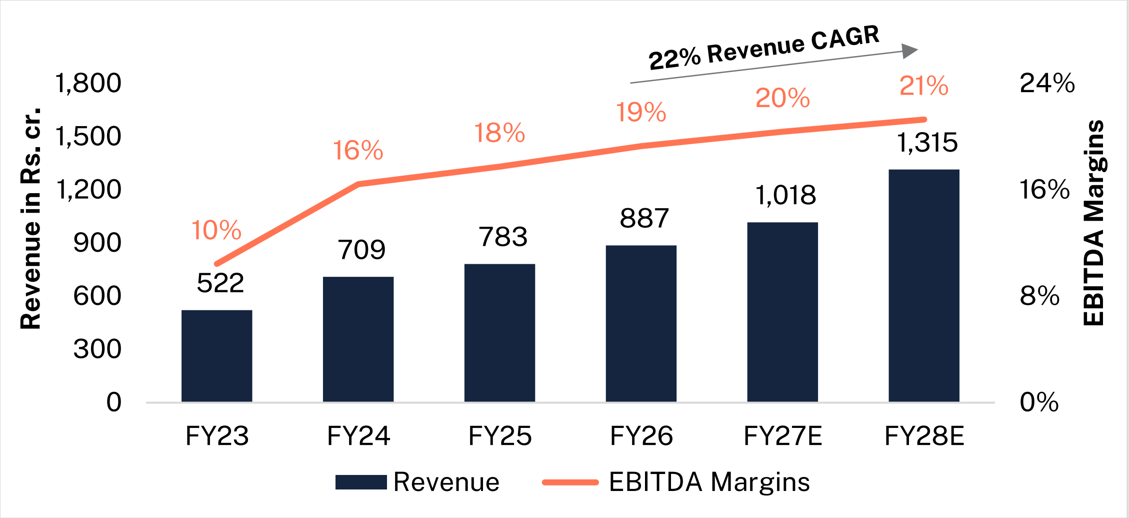
- ARVs contributed ~Rs. 252 cr in FY26, recovering from the FY23 decline, supported by the existing CMO relationship with Laurus, an additional client onboarded & new ARV APIs such as lamivudine in the pipeline.
- Aided by competitive pricing, the segment is positioned for a ~14% sales CAGR over FY26–FY28E.

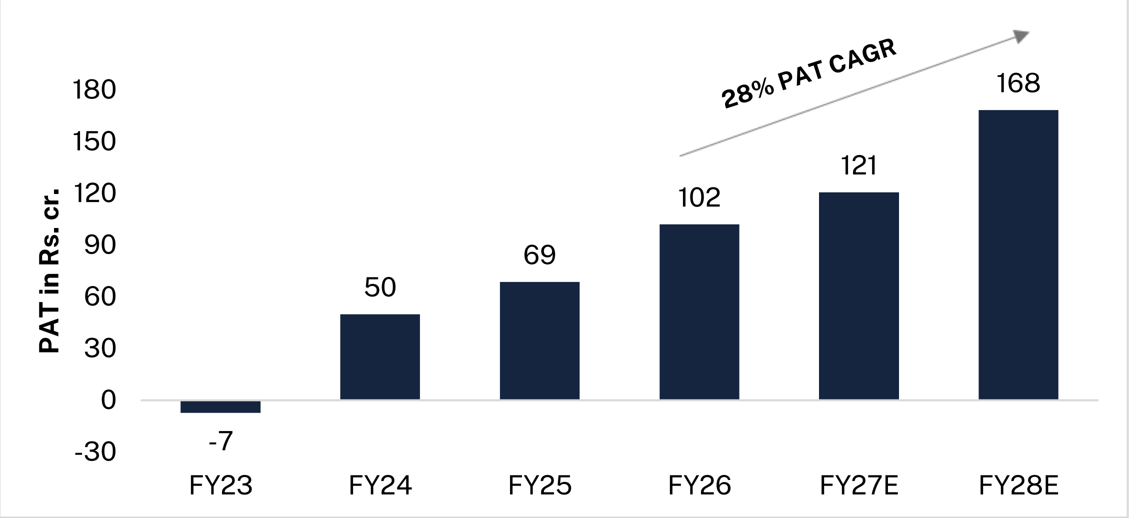
VKT Pharma turnaround

- VKT Pharma, in which SMS holds a ~36% stake, has evolved into a profitable (previously loss-making), USFDA-approved formulations platform with a growing product portfolio.
- The recent ranitidine approval provides a meaningful growth opportunity, with SMS supplying the underlying API, creating a vertically integrated value chain that strengthens supply security, improves execution, and supports profitability across both entities.

CDMO scale-up

- The ongoing Rs. 280 cr capex includes dedicated CDMO and peptide infrastructure, with commercialization expected post FY28. This adds a structurally higher-margin, sticky revenue stream, supporting a transition from pure API volumes to a more diversified revenue mix.



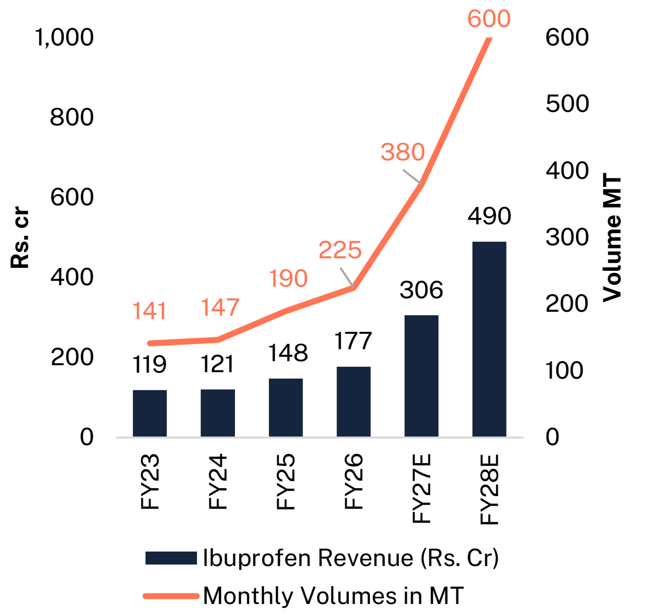


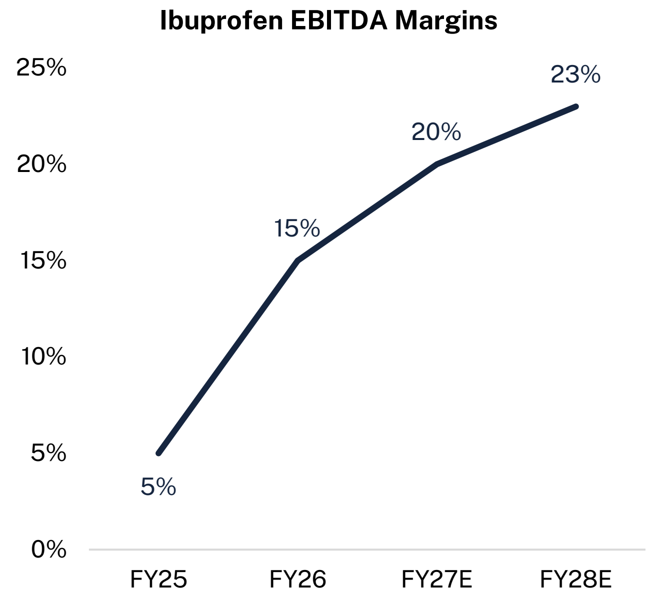
Source: Company, Midas Research

2.4 – Financials (2/2)

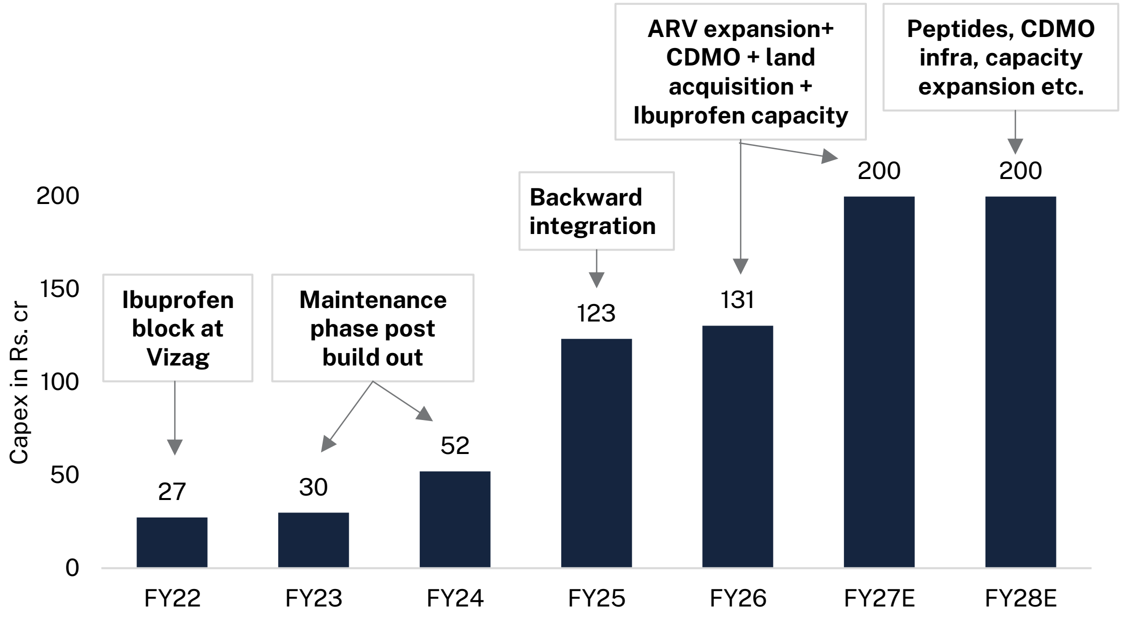
Ibuprofen volume growth and capacity utilization to drive margins

Ibuprofen volume growth to support margin expansion





Capacity expansion driving scale and cost leadership



Cost competitive and efficient manufacturing to aid in capturing market share

- Ibuprofen volumes are expected to scale from ~225 MT/month in FY26 to ~600 MT/month by FY28E, supported by capacity ramp-up and improving utilisation. Management commentary suggests prices have bottomed out, providing stability to realisations.
- Revenue contribution from Ibuprofen stood at ~Rs. 177 cr (~20% of sales) in FY26 and is expected to increase to ~Rs. 490 cr (~37% of sales) by FY28E, making it the primary driver of topline growth.
- SMS's fully backward-integrated and cost-efficient manufacturing makes it the lowest-cost producer, enabling market share gains through lower pricing.
- As volumes scale and utilisation improves, operating leverage is expected to drive a meaningful expansion in margins, supporting a structurally stronger profitability profile.

Targeted capex and utilisation uptrend to drive revenue and margins

- A Rs. 280 cr capex focused on scaling core APIs (led by Ibuprofen), adding capacity in ARVs, and building backward integration to structurally lower costs and improve margins is underway.
- In parallel, the company is allocating capital toward expanding capacities in ARVs and other specialty APIs.
- Additionally, investments in CDMO and peptide capabilities position the company to tap into higher-margin, more sticky revenue streams over the medium term, with meaningful contribution expected post FY28.

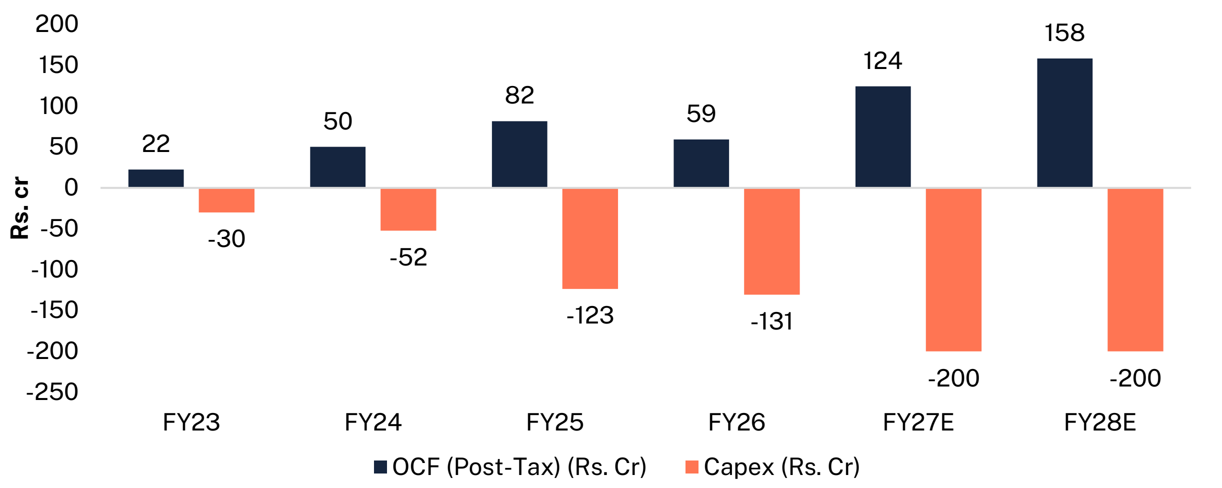
Source: Company, Midas Research

2.5 - Balance Sheet & Cash Flow Analysis

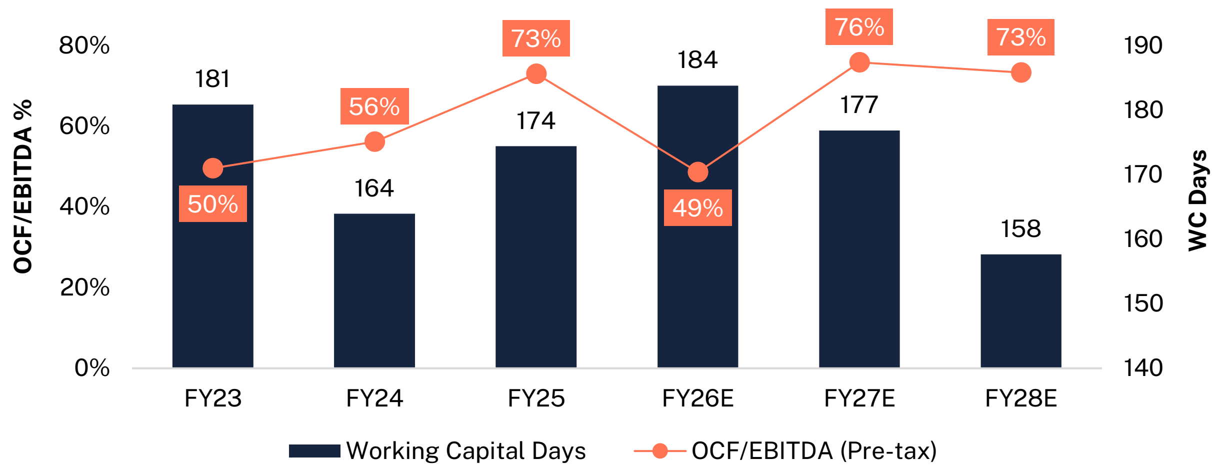
Revenue is vanity, profit is sanity, but cash is reality

SMS is funding its growth capex largely from rising internal cash generation, with earnings converting steadily into cash and working capital easing. Net debt climbs to ~Rs.501 Cr to fund the expansion, but with interest cover holding near ~5x, the balance sheet stays comfortably serviceable through the investment phase.

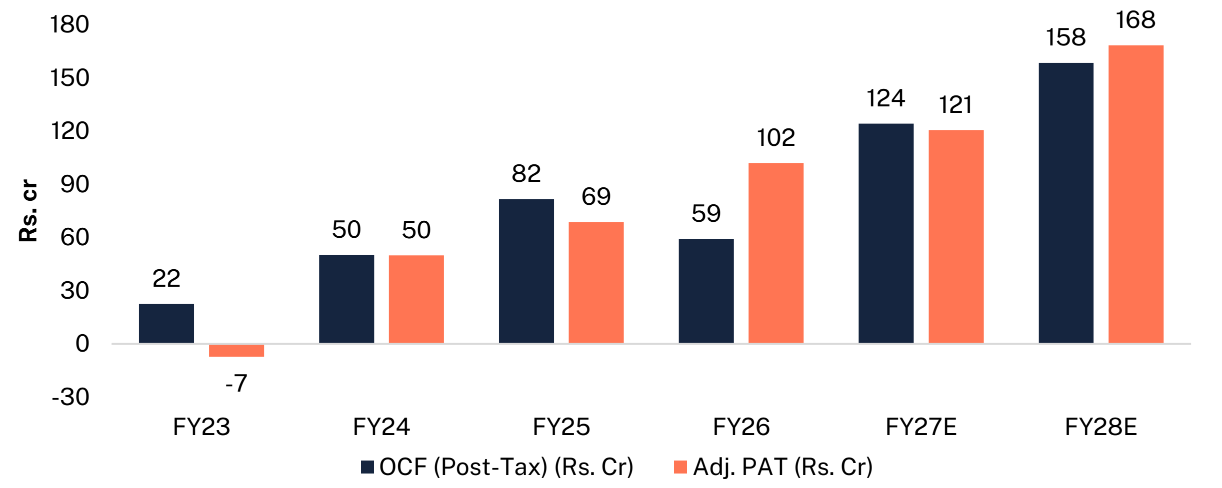
Rising cash generation keeps pace with sustained capex



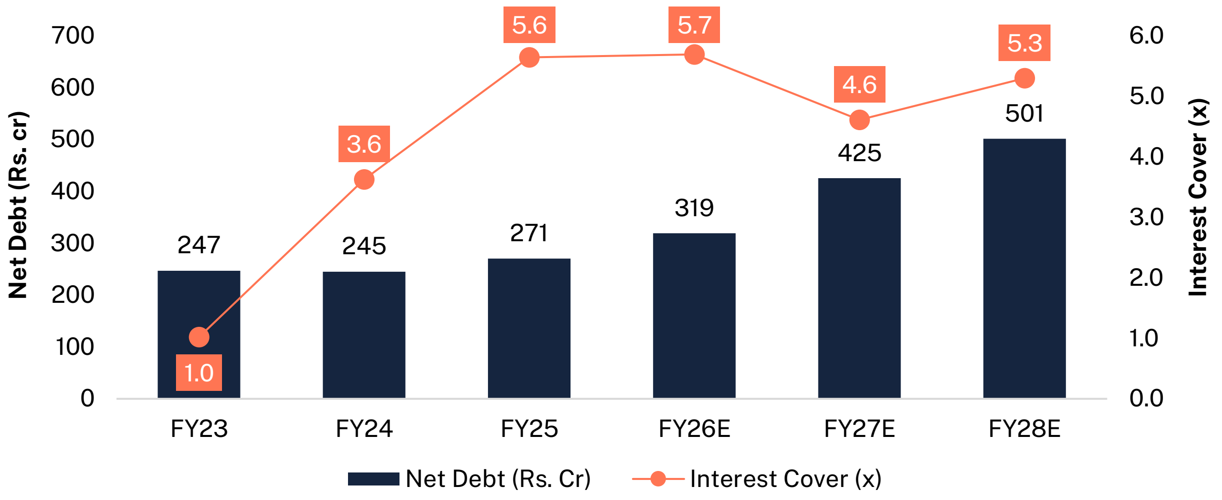
Cash conversion improves, and working capital days eases into FY28E



Earnings convert to cash — profit growth is real, not accounting



Net debt rises to fund capex while interest coverage remains healthy



Source: Company, Midas Research

3 - Valuation Framework

Valuation Framework - Summary

1

By Own History:

Valuation is mixed: P/E (~34x) sits just below its historical median and EV/EBITDA (~22x) is broadly in line, while P/B (~4.5x) and P/S (~3.9x) trade near or above the upper end of their historical ranges. Accordingly, we assign a rating of **4.0/7.0.**

2

Current Position Versus Peers:

SMS Pharma trades at a modest premium to peers, justified by superior growth visibility. With strong drivers from ibuprofen scale-up, ARV expansion, and operating leverage, sustained execution could drive further re-rating, though risks from concentration and commoditized exposure remain. Accordingly, we assign a rating of **5.0/7.0.**

3

Based on Growth:

SMS is expected to post the highest PAT and EBITDA growth among peers, yet trades at an undemanding ~13.7x EV/EBITDA and a PEG of just ~0.7x, pointing to an attractive risk-reward profile. Accordingly, we assign a rating of **6.0/7.0**.

4

Capturing Return Profiles:

SMS posts the highest RoE among peers, expanding from ~14% (FY26) to ~17% (FY28E), with RoCE broadly in line. Premium P/E, EV/EBITDA and P/CEPS multiples reflect this superior, improving return profile. Hence, we assign a rating of **5.0/7.0.**

5

Reflecting EVA:

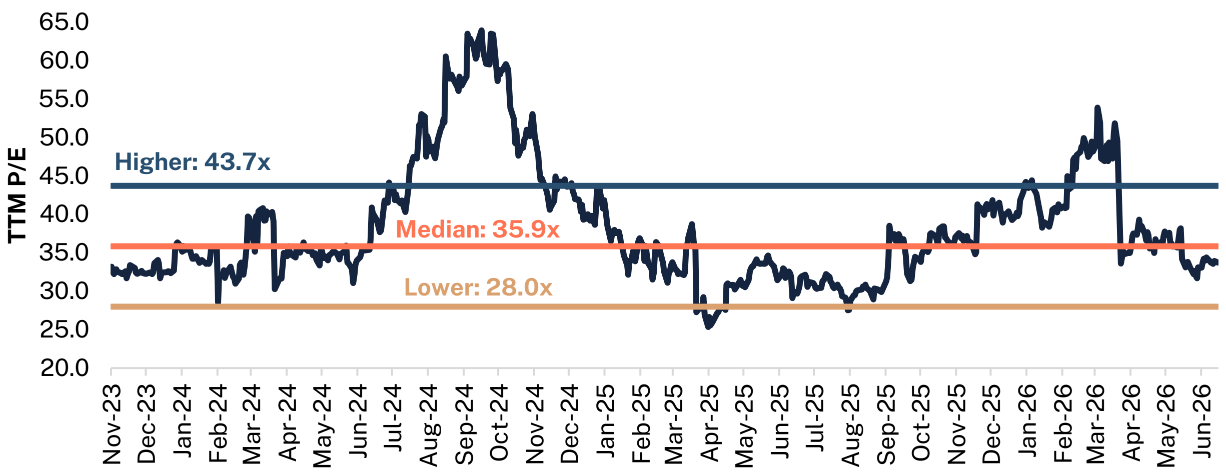
RoIC has historically tracked close to or below WACC, with heavy capex and low initial utilisation keeping the EVA spread thin; as a result, the business has not yet demonstrably created economic value above its cost of capital. However, the spread is expected to inflect as the capex programme completes and utilisation ramps up, leading to a rating of **4.0/7.0.**

3.1 – By Own History (In Charts)

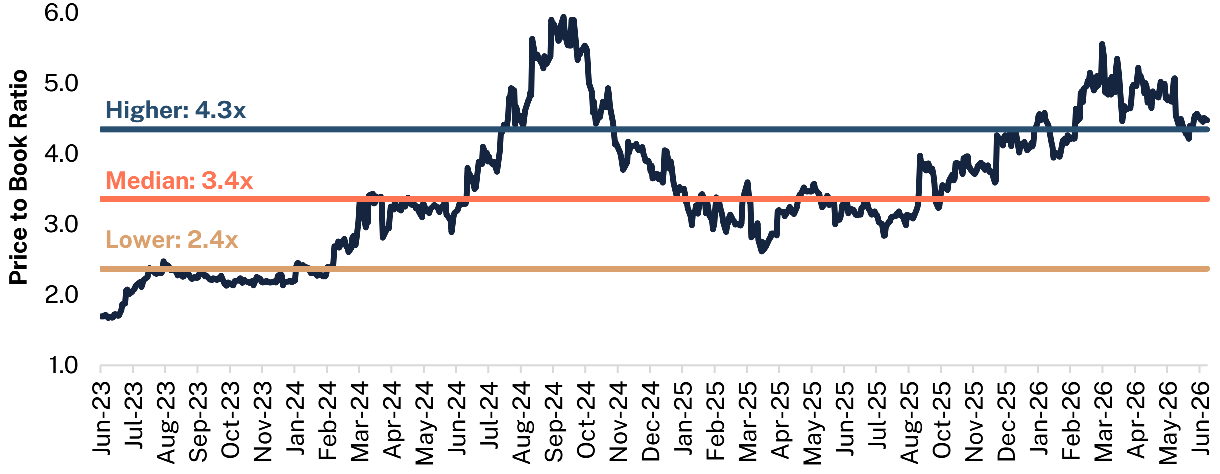
4.0 | 7.0

Valuation is mixed: P/E (~34x) sits just below its historical median and EV/EBITDA (~22x) is broadly in line, while P/B (~4.5x) and P/S (~3.9x) trade near or above the upper end of their historical ranges.

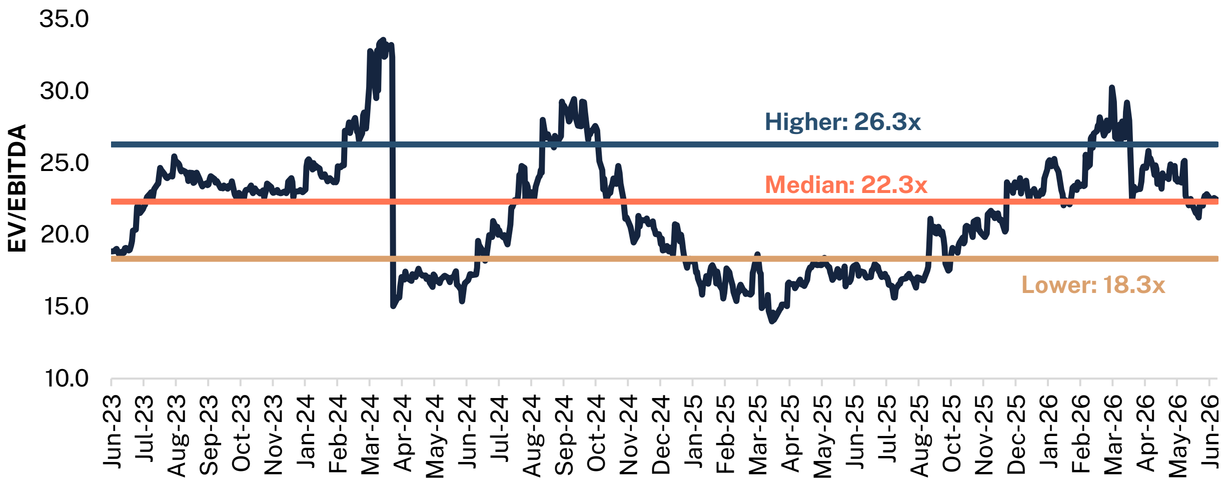
P/E at ~34x, just below its historical median of ~36x



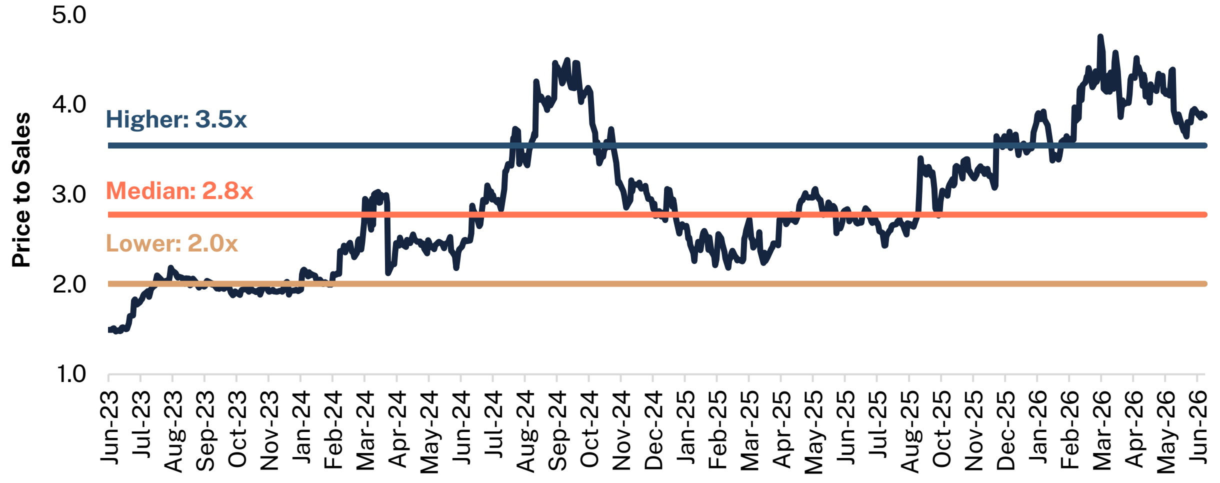
P/B at ~4.5x, above median and near the top of its range



EV/EBITDA at ~22x, broadly in line with its historical median



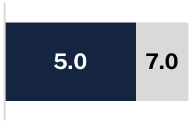
P/S at ~3.9x, stretched above its historical range



Source: Company, Midas Research, Bloomberg
Note: TTM P/E considered from November 2023 onwards, excluding the earlier loss-making period that distorted valuation multiples.

3.2 – Current Position Versus Peers:

Peer comparison



SMS Pharma trades at a modest premium to peers, justified by superior growth visibility. Strong drivers from ibuprofen scale-up, ARV expansion and operating leverage support earnings momentum, with sustained execution potentially driving further re-rating, though risks from concentration & commoditised exposure remain.

- SMS Pharmaceuticals currently trades at ~21x FY28E earnings, a modest premium to the peer average of ~20x, reflecting its meaningfully stronger growth and improving return profile. The company is expected to deliver EBITDA margins of ~21% by FY28E, ahead of the peer average of ~18%, driven by cost leadership in key APIs, benefits from backward integration, and a gradual shift towards higher-margin segments such as peptides.
- SMS stands out on the growth front, with PAT expected to grow at a ~28% CAGR over FY26–FY28E, well ahead of the peer average of ~17%. This is supported by revenue CAGR of ~22% (vs. ~14% for peers) and EBITDA CAGR of ~28% (vs. ~20%), reflecting both the scale-up in key products and operating leverage benefits.
- Return ratios are also expected to improve materially, with RoE rising from ~14% in FY26 to ~17% by FY28E, ahead of the peer average of ~12% and closer to higher-quality peers.
- In this context, the current valuation does not fully reflect the company's growth acceleration and improving capital efficiency, leaving room for a potential re-rating as execution sustains and earnings visibility improves.

Company	CMP Rs	Mkt cap Rs. cr	Revenue (Rs.cr)			EBITDA(Rs.cr)			PAT(Rs.cr)			EBITDA Margin		RoE		P/E
			FY26	FY28E	CAGR	FY26	FY28E	CAGR	FY26	FY28E	CAGR	FY26	FY28E	FY26	FY28E	FY28E
SMS Pharmaceuticals Ltd	**377**	**3,526**	**887**	**1,315**	**22%**	**171**	**280**	**28%**	**102**	**168**	**28%**	**19%**	**21%**	**14%**	**17%**	**21**
Aarti Drugs Ltd	373	3,402	2,565	3,215	12%	309	441	19%	195	241	11%	12%	14%	13%	13%	14
IOL Chemicals and Pharmaceuticals	134	3,923	2,319	2,999	14%	270	399	22%	138	218	26%	12%	13%	8%	11%	18
Aarti Pharmalabs Ltd	691	6,263	1,819	2,369	14%	369	530	20%	200	216	4%	20%	22%	8%	9%	29
Granules India Ltd	764	18,937	5,366	7,091	15%	1,173	1,652	19%	594	961	27%	22%	23%	14%	14%	20
Average	**-**	**8,131**	**3,017**	**3,918**	**14%**	**530**	**755**	**20%**	**282**	**409**	**17%**	**17%**	**18%**	**11%**	**12%**	**20**

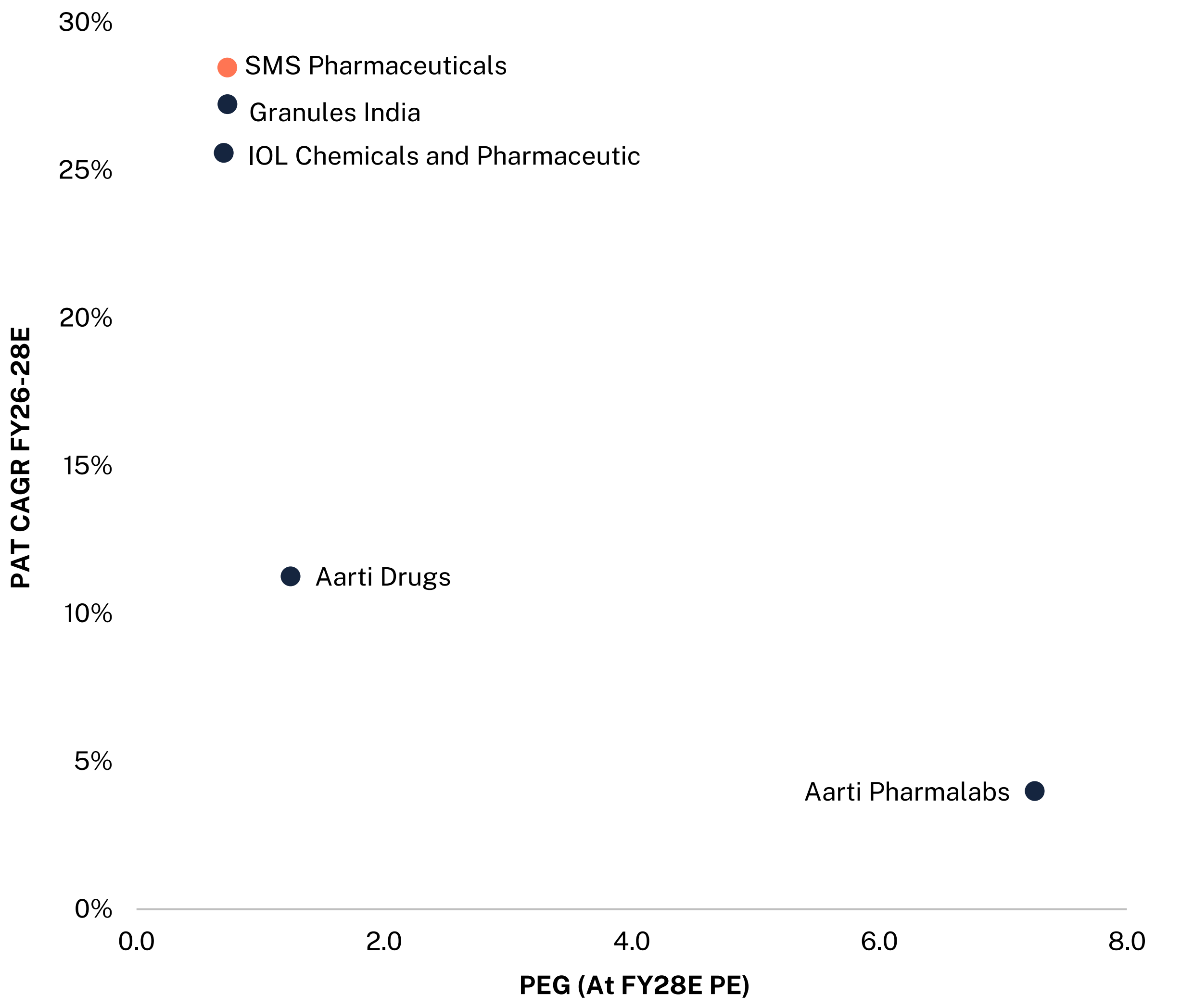
*Note; Peer Average includes *(Aarti Pharmalabs , Aarti Drugs, IOL Chemicals and Pharmaceutic, and Granules India)*
Source: Company, Midas Research, Bloomberg

3.3 – Based on Growth

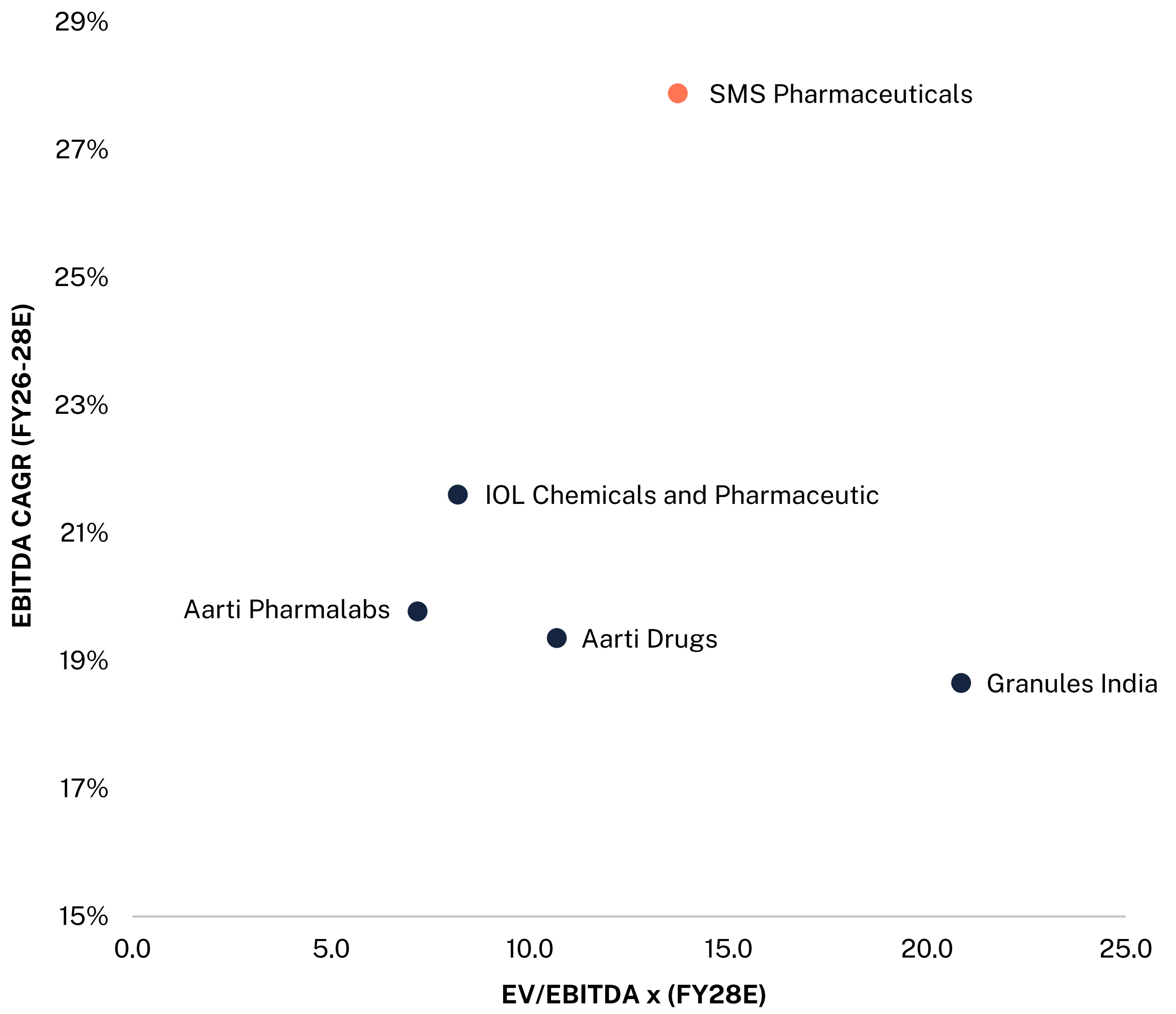
6.0 7.0

SMS is expected to deliver the highest PAT and EBITDA growth among peers, yet trades at an undemanding ~13.7x EV/EBITDA and a PEG of ~0.7x, indicating an attractive risk-reward profile.

Highest PAT CAGR (~28%) among peers at ~0.7x PEG — compelling value

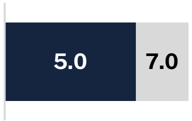


Highest EBITDA CAGR (~28%), yet trades at only ~13.7x EV/EBITDA



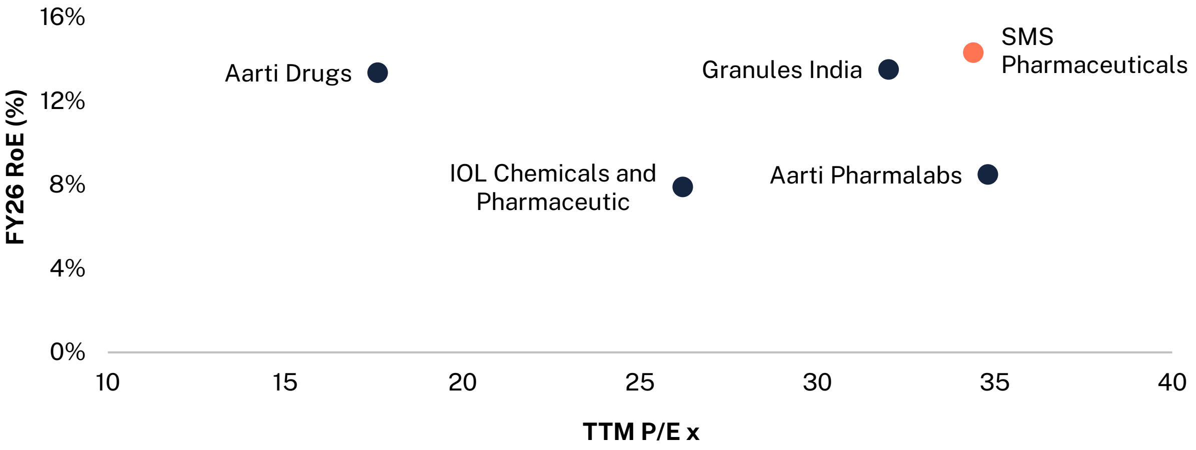
Source: Company, Midas Research, Bloomberg

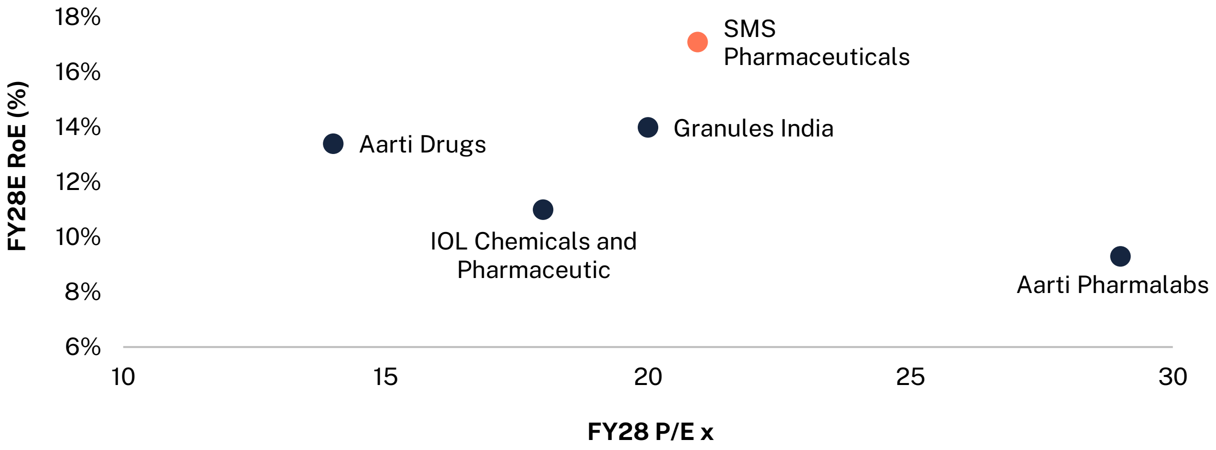
3.4 – Capturing Return Profiles



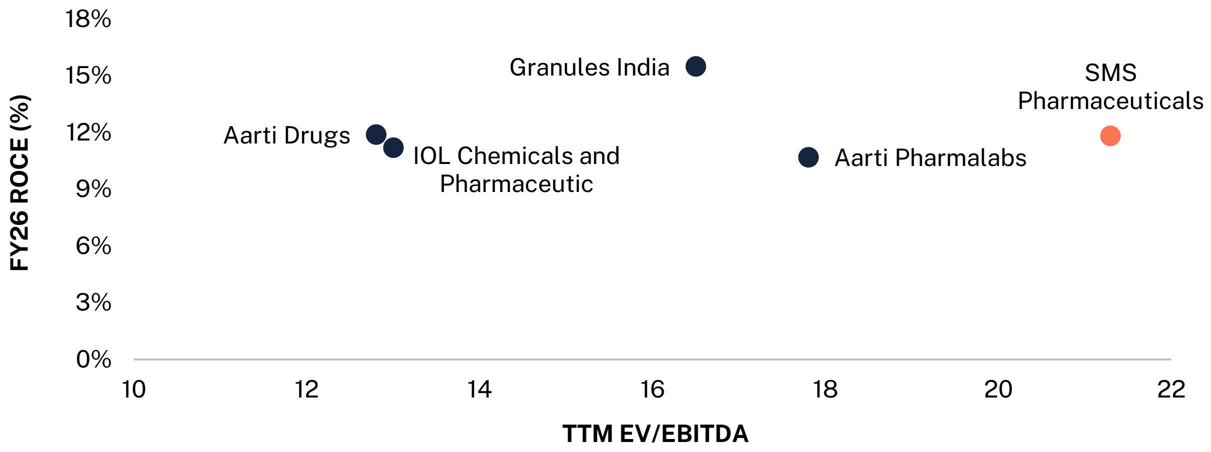
SMS delivers the highest RoE among peers, expanding from ~14% in FY26 to ~17% in FY28E, with RoCE broadly in line. Its premium P/E, EV/EBITDA, and P/CEPS multiples reflect this superior and improving return profile.

Highest RoE among peers, improving from ~14% (FY26) to ~17% (FY28E), supporting its premium P/E

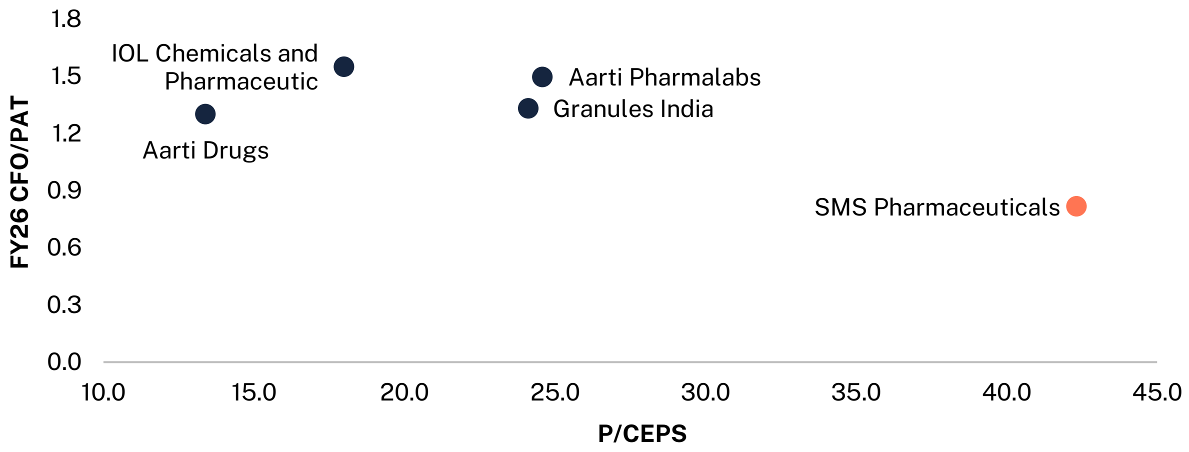




FY26 RoCE (~12%) broadly in line with peers, albeit at the highest TTM EV/EBITDA (~21x)

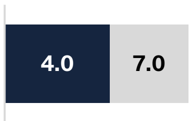


Premium P/CEPS (~42x); cash conversion (CFO/PAT ~0.8x) has room to improve vs peers



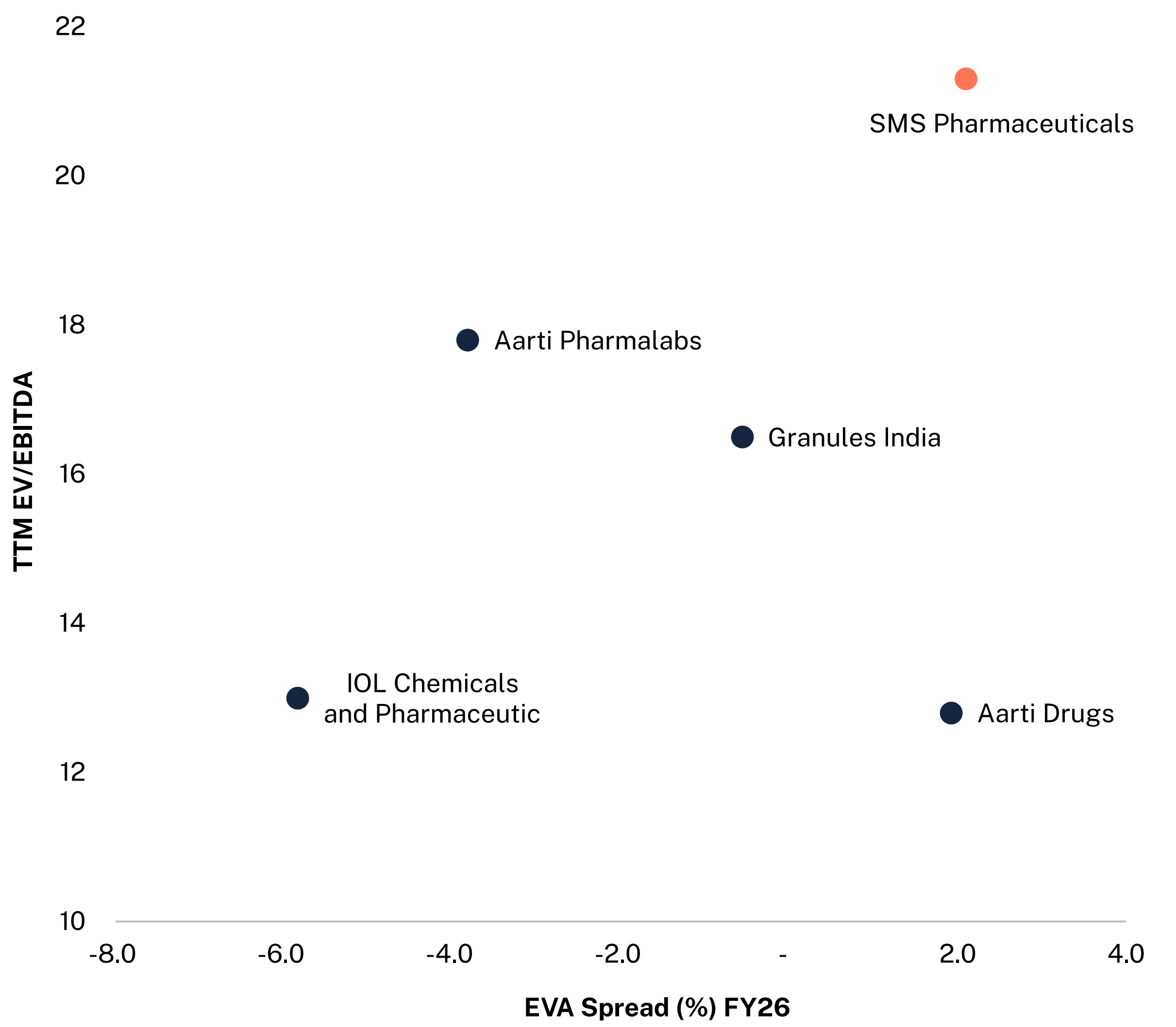
Source: Company, Midas Research, Bloomberg

3.5 – Reflecting EVA

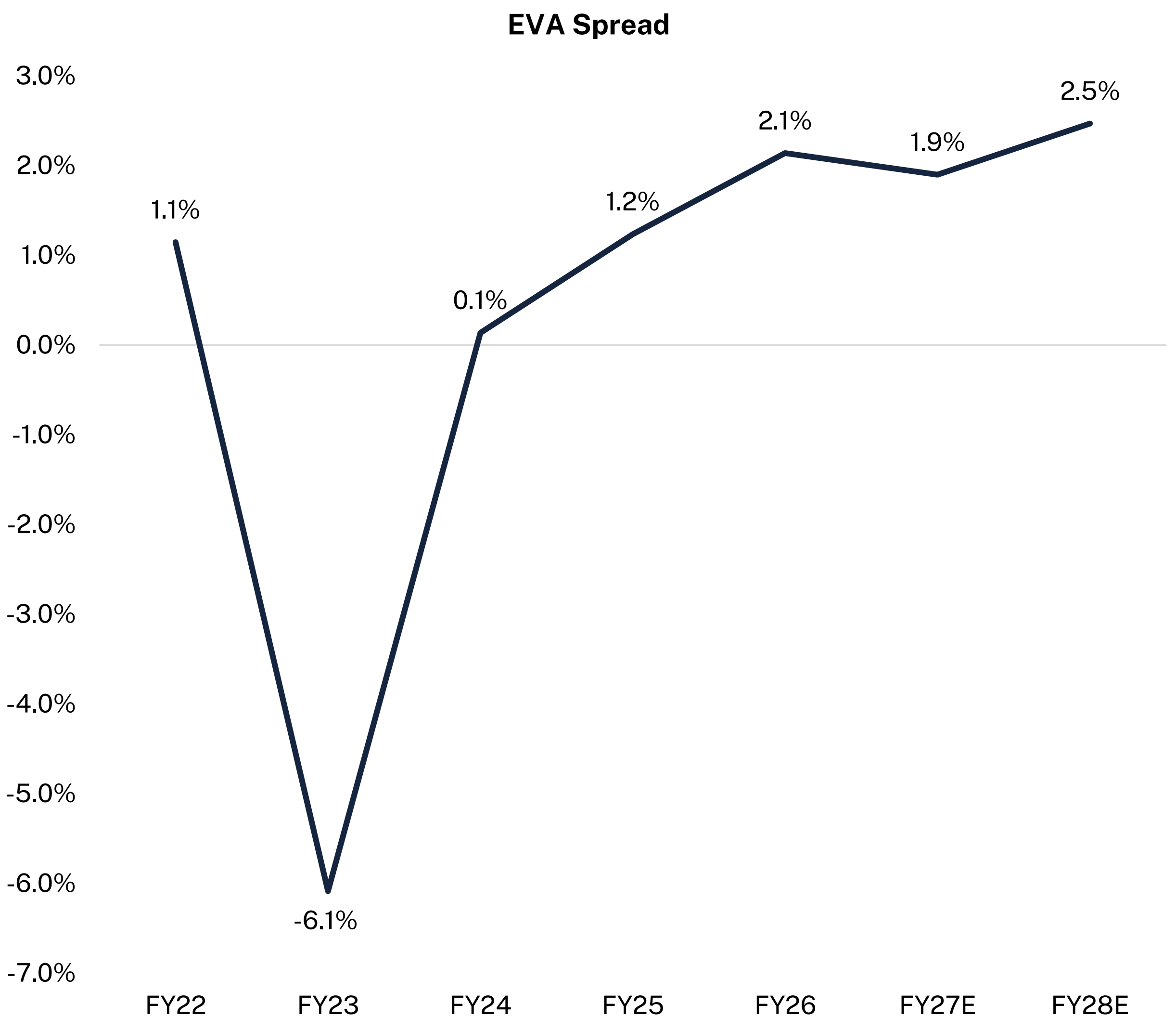


RoIC has historically tracked close to or below WACC, with heavy capex and low initial utilisation keeping the EVA spread thin. As a result, the business has not yet demonstrated sustained economic value creation above its cost of capital. However, the spread is likely to inflect as the capex cycle completes and utilisation ramps up.

Top of the valuation range, mid-pack on economic returns



EVA spread improves signalling a structural shift to value creation



Source: Company, Midas Research, Bloomberg

Valuation Rationale

We value SMS at 26x FY28E P/E, arriving at a target price of Rs. 467, implying a 1-year upside of 25% (incl. dividends)

Why do we use P/E as the valuation metric

- SMS is entering a period of accelerated earnings growth, supported by ibuprofen volume ramp-up, improving capacity utilisation, and benefits from backward integration, making earnings an appropriate measure of value creation over the medium term.
- The company maintains a manageable balance sheet, with investments largely directed toward strengthening cost leadership and building future growth platforms. Consequently, the expected increase in depreciation and finance costs is likely to be offset by higher volumes, an improving product mix, and expanding profitability.
- Given visibility on earnings growth, margin expansion, and improving asset turns, P/E remains an appropriate valuation framework to capture SMS's transition from a cyclical API manufacturer to a scaled specialty API and CDMO platform.

Rationale for 26x P/E multiple

- We assign a 26x FY28E P/E multiple to SMS Pharmaceuticals, supported by strong earnings visibility driven by the scale-up of its Ibuprofen franchise, improving operating leverage, and margin expansion aided by its low-cost manufacturing platform and backward integration capabilities.
- The assigned multiple is positioned at the lower end of its historical valuation range, while implying a premium to the FY28E peer average P/E of ~20x. We believe this premium is justified by SMS Pharma's superior earnings profile, reflected in the highest projected RoE in the peer group (~17% vs. ~12% peer average) and the strongest PAT CAGR of ~28% over FY26–FY28E.
- Our target multiple captures the company's transition from a traditional API manufacturer to a more diversified pharmaceutical platform. Key growth drivers include higher contribution from Ibuprofen and its derivatives, increasing participation in the ARV segment through both existing and newly launched products, and the scaling of VKT Pharma.

Future Lens

- SMS Pharmaceuticals' established process chemistry expertise and cost leadership in core APIs position it to capitalise on both volume-driven and value-driven opportunities over the next decade. The company's strategy of combining scale-driven APIs with higher-value specialty products provides a balanced platform for sustainable growth.
- We expect multiple growth drivers to converge by FY30E, including continued market share gains in ibuprofen, expansion of the ARV portfolio, increasing penetration in regulated markets, and commercialisation of products from the company's expanding R&D and process development pipeline. Accordingly, we expect a 20.4% revenue CAGR and 28.2% PAT CAGR over FY26–FY30E.
- The ongoing capex cycle across backward integration, peptides, and CDMO capabilities has the potential to materially reshape the company's earnings profile. While near-term growth is expected to be driven by ibuprofen and core APIs, peptides and CDMO are likely to emerge as meaningful contributors by FY30E, enhancing revenue quality, customer stickiness, and margin sustainability.
- Further, higher capacity utilisation across Hyderabad and Vizag, improving asset turns, and a rising contribution from specialty APIs and CDMO are expected to support operating leverage and margin expansion. As recently commissioned and upcoming capacities mature, SMS is well-positioned to transition from a cost-efficient API manufacturer to a scaled specialty pharmaceuticals platform with multiple growth engines.

Entry at **Rs. 377** @ 21x FY28E P/E

Exit multiple at **26x** on FY30E EPS

+

Cumulative Dividend of **Rs. 3/share**

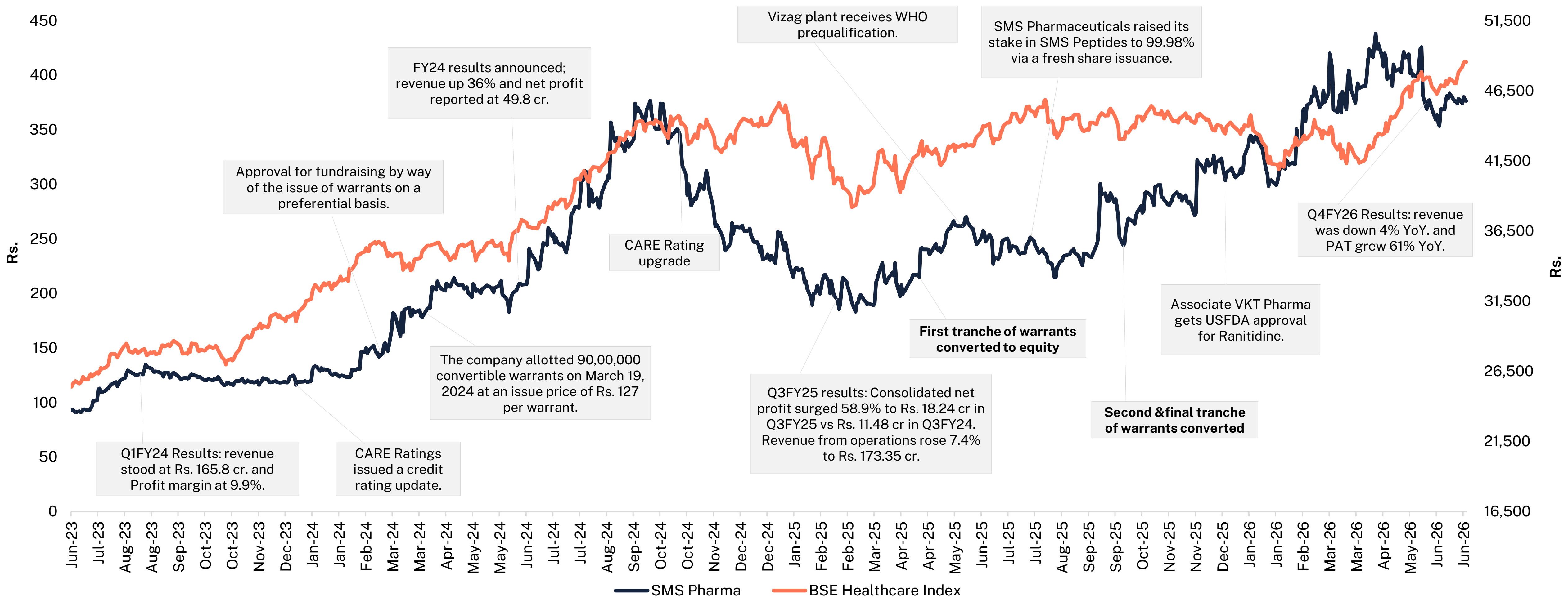
Total returns **104%**

Sensitivity of 3-yr TP (Ex-Dividends)

Target price sensitivity		EPS				
		24	26	29	32	36
Valuation multiple	22	525	585	650	710	785
	24	570	635	705	775	855
	26	620	690	765	840	925
	28	670	740	825	905	995
	30	715	795	885	970	1,070

4.1 - Stock Buzz & Influencing Factors

Noise vs signal: what really moved the stock?



Stock price movements are primarily driven by earnings performance, with strong results in revenue, margins, and PAT acting as key catalysts. Regulatory developments, including drug approvals, WHO prequalification, and USFDA events, along with corporate actions such as warrant issuances and ownership changes, also influence sentiment and valuation.

Source: Company, Midas Research, Bloomberg

4.2 - Stock Buzz & Influencing Factors

Follow the money

Warrant conversion & fund utilisation (Total issue size 114.3 cr)

19th Mar, 2024	**Allotment of 90 lakh warrants**	**25% of the allotment paid upfront at Rs. 127 per warrant. (28.57 cr)**
27th Mar, 2025	**1st conversion of 40 lakh warrants**	**Remaining 75% for 40 lakh warrants was received (Rs. 38.1 cr)**
10th Sep, 2025	**2nd Conversion of 50 lakh warrants**	**Remaining 75% for 50 lakh warrants was received(Rs. 47.62 cr)**

Purpose	Allocated (Rs. cr)	Utilised (till Mar'26) (Rs. cr)
Capital expenditure (expansion, KSM, new block)	62.9	63.4
Working capital (capacity expansion, KSM integration)	40.0	40.0
General corporate purposes	11.4	10.9
Total	**114.3**	**114.3**

MF	May-26		Apr-26		Mar-26	
	Shares held	Month change %	Shares held	Month change %	Shares held	Month change %
Bandhan BSE Healthcare Index Reg Gr	400	6.7%	375	5.9%	354	-1.1%
Quant Small Cap Gr	1,859,681	0.0%	1,859,681	0.0%	1,859,681	0.0%
Quant Healthcare Reg Gr	772,728	0.0%	772,728	-14.9%	908,071	0.0%
Motilal Oswal BSE Healthcare ETF	783	-9.6%	866	-3.6%	898	-1.4%
Total	**2,633,592**		**2,633,650**		**2,769,004**	

Shareholding details as on Mar 2026 quarter:

- Pledged shares remained unchanged at 17.99%.
- Promoter holding remained unchanged at 68.07%.
- FII/FPI holdings increased from 0.04% to 0.31%, with the number of investors rising from 10 to 22.
- Mutual fund holdings declined from 3.21% to 2.96%, while the number of schemes remained unchanged at 3.
- Institutional holdings increased marginally from 3.25% to 3.33% during the quarter.

Shareholding

Summary	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	64.3%	64.7%	64.7%	64.7%	64.7%	66.3%	66.3%	68.1%	68.1%	68.1%
FII	0.6%	0.2%	0.2%	0.5%	0.3%	0.1%	0.0%	0.2%	0.0%	0.3%
DII	0.0%	2.0%	2.1%	2.6%	2.6%	2.4%	3.0%	2.9%	3.2%	3.3%
Public	35.1%	33.2%	33.0%	32.3%	32.5%	31.2%	30.7%	28.7%	28.7%	28.6%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Trendlyne, Midas Research

5 - Technical Outlook

Post-breakout consolidation suggests a healthy pause within the broader uptrend

Technical View (Weekly)

Technical View

- **SMS Pharma broke out of a cup base that had been forming over the past two years in early 2026. After rallying to a high of Rs. 447.8, the stock has since pulled back and is now retesting its breakout pivot near Rs. 370, while finding support at its 100-DMA.**
- The stock decisively reclaimed its 200-DMA around July 2025 near the Rs. 260 level and has since trended higher, with the 20-DMA and 50-DMA acting as support on multiple occasions during its advance to Rs. 300, then Rs. 330, and beyond.
- The move accelerated from March 2026 onward, with the stock rallying from around Rs. 300 to a fresh all-time high of Rs. 450 in a matter of weeks, marking a sharp, momentum-driven extension well above its rising moving averages.
- Following this strong run-up, the stock has pulled back from the Rs. 447.8 high and is now consolidating just above the Rs. 380 level, with the 20-DMA acting as the first area of support.
- Resistance is placed at the recent swing high of Rs. 427. As long as the stock holds above its rising 200-DMA, the broader uptrend remains intact.
- **The current cool-off appears to be a healthy pullback within an established uptrend rather than a trend reversal.**

Pharmaceuticals	Reco/View	Buy	Last Day Close	Rs. 377

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Source: Trading View, Source: Midas Research

Key Risks

Capex-related risk

The Rs. 250 cr brownfield expansion is expected to be completed by the end of FY27. Any delays in project execution, cost overruns or a slower-than-expected ramp-up of the expanded capacity could defer the anticipated revenue and earnings contribution.

Ibuprofen scale risk

The company's growth outlook is closely tied to the successful ramp-up of its Vizag expansion, which targets a long-term ibuprofen capacity of 1,000 MT/month. Any adverse regulatory developments, global price corrections, or industry oversupply could impact capacity utilisation and revenue growth.

Customer concentration & ARV-related risk

The ARV segment has historically benefited from a concentrated customer base, particularly Laurus Labs. While the company is adding new customers and products, diversification remains a work in progress.

Source: Midas Research

Financial Summary

- Revenue is projected to grow at a ~22% CAGR over FY26–28E (Rs 887 Cr to Rs. 1,315 Cr), driven by capacity expansion in the Ibuprofen franchise, benefits from completed backward integration into IBB, continued strength in the ARV portfolio and commercialization of new APIs from the brownfield expansion.
- EBITDA is expected to grow at a ~28% CAGR (Rs. 171 Cr to Rs. 280 Cr), outpacing revenue growth on the back of a structurally lower cost base following it's backward integration and operating leverage.
- Adjusted PAT is projected to compound at ~28% (Rs 102 Cr to Rs. 168 Cr), supported by operating profit growth and margin expansion.

Particulars	FY24	FY25	FY26	FY27E	FY28E
Profit & Loss					
Revenue	709	783	887	1,018	1,315
Gross profit	212	259	300	356	473
EBITDA	117	139	171	208	280
Depreciation	(32)	(34)	(40)	(48)	(62)
EBIT	85	105	131	159	218
Other Income	4	6	8	8	11
Interest expense	(23)	(19)	(23)	(35)	(41)
Exceptional items	-	-	-	-	-
PBT	66	92	117	133	188
Reported PAT (after minority interest)	50	69	102	121	168
Adj PAT	50	69	102	121	168
EPS (Rs.)	5.9	8.2	11.2	12.9	18.0
Balance Sheet					
Net Worth	536	640	786	903	1,067
Total debt	281	312	365	500	530
Minority interest	-	0	0	0	-
Other liabilities and provisions	216	201	212	226	266
Total Net worth and liabilities	**1,034**	**1,153**	**1,362**	**1,629**	**1,863**
Gross Fixed assets	624	753	793	1,015	1,290
Net fixed assets	434	531	531	705	918
Capital work-in-progress	30	35	122	100	25
Intangible Assets	3	2	3	3	3
Investments	33	31	69	90	117
Cash and bank balances	36	41	46	75	29
Loans & advances and other assets	28	25	25	18	19
Net working capital	319	374	447	493	568
Total assets	**1,034**	**1,153**	**1,362**	**1,629**	**1,863**
Capital Employed	818	952	1,151	1,403	1,597
Invested Capital (CE - cash - CWIP)	751	876	983	1,228	1,543
Net debt	245	271	319	425	501
Cash Flows					
Cash flows from Operations (Pre-tax)	66	102	83	157	205
Cash flows from Operations (post-tax)	50	82	59	124	158
Capex	(52)	(123)	(131)	(200)	(200)
Free cashflows	(2)	(42)	(71)	(76)	(42)
Free cashflows (post interest costs)	(24)	(59)	(93)	(110)	(83)
Cash flows from Investing	(52)	(123)	(131)	(192)	(189)
Cash flows from Financing	31	47	76	97	(16)
Total cash & liquid investments	**36**	**41**	**46**	**75**	**29**

- Cash conversion is expected to improve meaningfully as the business scales, with pre-tax OCF/EBITDA recovering from ~49% in FY26 to ~73–76% over FY27E–28E.
- We expect RoCE to improve from ~12.5% in FY26 to ~14.6% in FY28E, as utilisation increases and recent investments begin contributing meaningfully to earnings.
- Growth remains capex-funded, with net debt projected to rise by FY28E. However, leverage remains comfortable, with Net Debt/EBITDA stable at ~1.8–1.9x and interest coverage around ~5x, providing ample balance-sheet flexibility to support expansion.

Particulars	FY24	FY25	FY26	FY27E	FY28E
Growth ratios (%)					
Revenue	35.9%	10.4%	13.3%	14.8%	29.1%
EBITDA	114.0%	19.2%	23.2%	21.2%	35.0%
Adj PAT	NA	37.5%	48.6%	18.3%	39.6%
Margin ratios					
Gross	29.8%	33.1%	33.8%	35.0%	36.0%
EBITDA	16.4%	17.8%	19.3%	20.4%	21.3%
Adj PAT	7.0%	8.8%	11.5%	11.8%	12.8%
Performance ratios					
Pre-tax OCF/EBITDA	56.2%	73.1%	48.6%	75.9%	73.4%
OCF/IC (%)	6.7%	9.3%	6.0%	10.1%	10.3%
RoE (%)	10.0%	11.7%	14.3%	14.3%	17.1%
RoCE (%)	11.1%	11.8%	12.5%	12.5%	14.6%
Fixed asset turnover (x)	1.2	1.1	1.1	1.1	1.1
Total asset turnover (x)	0.7	0.7	0.7	0.7	0.8
Financial stability ratios					
Net Debt to Equity (x)	0.5	0.4	0.4	0.5	0.5
Net Debt to EBITDA (x)	2.1	1.9	1.9	2.0	1.8
Interest cover (x)	3.6	5.6	5.7	4.6	5.3
Working capital days	164	174	184	177	158
Valuation metrics					
Fully Diluted Shares (cr)	8.5	8.9	9.4	9.4	9.4
Market cap (Rs cr)			3,526		
P/E (x)	70.7	51.4	34.6	29.2	20.9
P/OCF(x)	70.4	43.2	59.5	28.4	22.3
EV (Rs.cr) (ex-CWIP)			3,846		
EV/ EBITDA (x)	33.0	27.7	22.5	18.5	13.7
EV/ OCF(x)	76.7	47.1	64.9	31.0	24.3
FCF Yield	-0.1%	-1.2%	-2.0%	-2.1%	-1.2%
Price to BV (x)	6.6	5.5	4.5	3.9	3.3
Dividend pay-out (%)	7%	5%	4%	4%	4%
Dividend yield (%)	0.1%	0.1%	0.1%	0.1%	0.2%
Cash as a % of CE	4.4%	4.4%	4.0%	5.3%	1.8%

Glossary

CAPEX	Capital Expenditure	RoCE	Return on Capital Employed
API	Active Pharmaceutical Ingredient	RoIC	Return on Invested Capital
CDMO	Contract Development and Manufacturing Organization	R&D	Research and Development
CAGR	Compounded Annual Growth Rate	PBT	Profits Before Tax
CMP	Current Market Price	CMO	Contract Manufacturing Organization
EBIT	Earning Before Interest and Tax	IBB	Isobutyl Benzene
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	USDMF	United States Drug Master File
EPS	Earnings Per Share	CF	Cash Flow
EV	Enterprise Value	CEPs	Certificate of Suitability to the monographs of the European Pharmacopoeia
FCF	Free Cash Flow	KLPD	Kilo Litres Per Day
P/E	Price to Earnings	CoGS	Cost of Goods Sold
PBT	Profit Before Tax	Crs	Crores
RoE	Return on Equity	DCF	Discounted Cash Flow

Source: Company, Midas Research

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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