Midas
Equities and Research

# SMS Pharmaceuticals Ltd

## Q1FY27 Result Update

03 Aug 2026

- ✗ Revenue missed estimates by 3%, with softer Ibuprofen sales offsetting ARV momentum.
- ✓ Gross margins expanded 287 bps Y-o-Y on superior unit economics and product mix.
- ✗ PAT growth was limited to 2% Y-o-Y due to a weaker VKT Pharma contribution.

| Rating | BUY<br>Maintained |
|---|---|
| 1Y Target Price | Rs. 448<br>Revised Marginally Lower |
| CMP | Rs. 374<br>1Y Upside: 20% \| 21.8x FY28E P/E |

**Estimate Update:** FY27E Revenue Rs. 1,011 cr (-0.7%) | FY27E PAT Rs. 116 cr (-3.7%) | FY28E Revenue Rs. 1,308 cr (-0.5%) | FY28E PAT Rs.161 cr (-4.4%) | Target valuation multiple maintained at 26x FY28E P/E

# Spark Result Update Reports – Rebooted!

## Outlining the framework from our desk

In our new, rejuvenated approach to publishing fundamental research ideas, we aim to balance a traditional, time-tested framework with a contemporary and, hopefully, refreshing approach to stock-picking. Accordingly, our Result Update reports will be presented in four sections: **(1) Business Assessment Scores, (2) Valuation Framework, (3) Decision Tree, and (4) Stock Buzz & Influencing Factors.**

This report is underpinned by three key beliefs: (1) business assessment should be separated from valuation frameworks, allowing equity research to objectively calibrate the mix when making stock calls; (2) the decision tree we publish makes this process simple and objective, highlighting the three major factors that underpin our recommendation; and (3) reactions to "buzz" and other factors that influence price action must be identified and given due regard when timing stock calls, particularly in the current environment, where information flow is incessant.

### Business Assessment Scores

To assess whether a company's business can emerge as a long-term winner, we draw on Porter's Five Forces framework to examine key aspects such as revenue models, pricing risks, market positioning, and competitive moats. Our financial analysis and estimates are anchored in our assessment of both the company's current performance and its long-term potential. To ensure that this assessment remains objective and is not influenced by subjective judgment, we employ a scoring model that captures the key drivers of business quality across five composite vectors. The resulting scores form the basis of our call on the business.

### Valuation Framework

We have often observed how markets can make target multiples seem to emerge like the proverbial rabbits out of a hat. To avoid the temptation of retrospectively justifying valuations in line with the broader market, we returned to first principles while designing our Valuation Framework. Anchored in market, peer, and historical absolute benchmarks, our valuation scores incorporate Economic Value Added, return profiles, growth prospects, and leadership positions, mapped against relevant valuation multiples. Ultimately, the central question remains: given everything we know about the business, markets, and peers, does the current pricing appear attractive? This question forms the bedrock of stock-picking in equity research.

### Stock Buzz & Influencing Factors

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

### Decision tree

A schematic view of what we hinge our stock recommendation on. In our opinion, a discerning investor can identify the essence of our pitch from a limited, yet reasonably exhaustive, set of factors that can be organized as branches of a tree. The decision tree we publish makes this process simple and objective, highlighting the three major factors that underpin our recommendation.

*Source: Company, and Midas Research*

# Q1FY27 Results Summary

*(In Rs. cr)*

| Rs crs | 1QFY26 | 4QFY26 | 1QFY27 | Y-o-Y | Q-o-Q | Midas estimate | vs Midas estimate |
|---|---|---|---|---|---|---|---|
| **Net Sales** | **196** | **238** | **207** | **6%** | **-13%** | **214** | **-3%** |
| COGS | (131) | (157) | (132) | 1% | -16% | (138) | -5% |
| Gross Profit | 65 | 81 | 75 | 15% | -8% | 76 | -1% |
| ***Gross Margin*** | *33.3%* | *34.2%* | *36.2%* | 287bps | 204bps | *35.3%* | 87bps |
| Employee cost | (18) | (29) | (24) | 29% | -20% | (19) | 22% |
| *% of revenue* | -9.3% | -12.4% | -11.4% | -210bps | 101bps | -9.1% | -232bps |
| Other expenses | (8) | (12) | (10) | 34% | -12% | (13) | -17% |
| *% of revenue* | -4.0% | -5.0% | -5.0% | -107bps | -4bps | -5.9% | 87bps |
| **EBITDA** | **39** | **40** | **41.0** | 4% | 3% | **44** | -6% |
| ***EBITDA Margin*** | ***20.1%*** | ***16.8%*** | ***19.8%*** | -29bps | 302bps | ***20.4%*** | -59bps |
| Depreciation | (10) | (10) | (10) | 2% | -1% | (12) | -17% |
| ***% of revenue*** | *-5.0%* | *-4.3%* | *-4.8%* | 15bps | -57bps | *-5.6%* | 79bps |
| **EBIT** | **30** | **30** | **31** | 5% | 4% | **32** | -2% |
| ***EBIT Margin*** | ***15.1%*** | ***12.5%*** | ***15.0%*** | -15bps | 245bps | ***14.8%*** | 20bps |
| Other Income | 1 | 3 | 2 | 194% | -32% | 2.0 | -13% |
| ***% of revenue*** | *0.3%* | *1.1%* | *0.8%* | 54bps | -24bps | *0.9%* | -9bps |
| Interest | (6) | (5) | (5) | -6% | 4% | (9) | -36% |
| ***% of revenue*** | *-3.0%* | *-2.2%* | *-2.7%* | 32bps | -44bps | *-4.0%* | 139bps |
| Exceptional Items | - | - | - | n/a | n/a | - | na |
| ***% of revenue*** | - | - | - | 0bps | 0bps | - | |
| **PBT** | **24** | **27** | **27** | **12%** | **1%** | 25 | **9%** |
| ***PBT Margin*** | *12.4%* | *11.4%* | *13.1%* | 71bps | 177bps | *11.6%* | 150bps |
| Tax | (6) | (6) | (7) | 24% | 15% | (6) | 12% |
| ***Tax Rate*** | *-23.2%* | *-22.5%* | *-25.7%* | -254bps | -320bps | *-25.0%* | -75bps |
| Minority Interest | - | - | - | n/a | n/a | - | na |
| Share of associates | 2 | 12 | 1 | -60% | -94% | *4* | -82% |
| **Profit After Tax** | **20** | **33** | **21** | **2%** | **-36%** | 23 | **-8%** |
| ***PAT Margin*** | *10.5%* | *13.7%* | *10.1%* | -35bps | -365bps | *10.6%* | -50bps |
| **EPS** | **2.3** | **3.6** | **2.2** | -3% | -38% | **2.4** | -8% |
| **Adj EPS** | **2.3** | **3.6** | **2.2** | -3% | -38% | **2.4** | -8% |

**Revenue Y-o-Y**

**+6%**

Driven by ARVs and high-value APIs, despite softer Ibuprofen sales.

**Gross Margin**

**36.2%**

+287 bps Y-o-Y; superior unit economics.

**PAT Y-o-Y**

**2.0%**

Lower VKT Pharma contribution.

**Revenue vs Est.**

**-3.0%**

Softer-than-expected Ibuprofen sales.

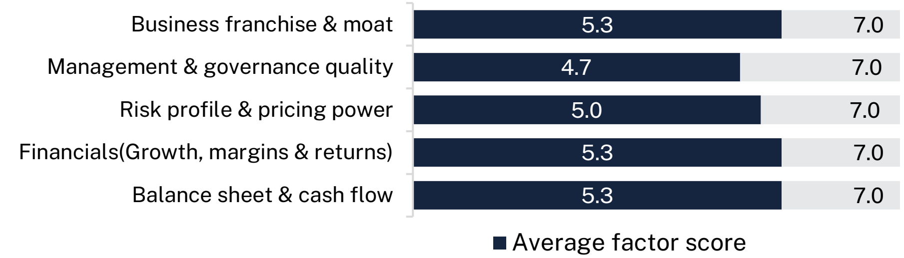
*Source: Company, and* Midas Research

# SMS Pharmaceuticals Ltd – Q1FY27 Result Update

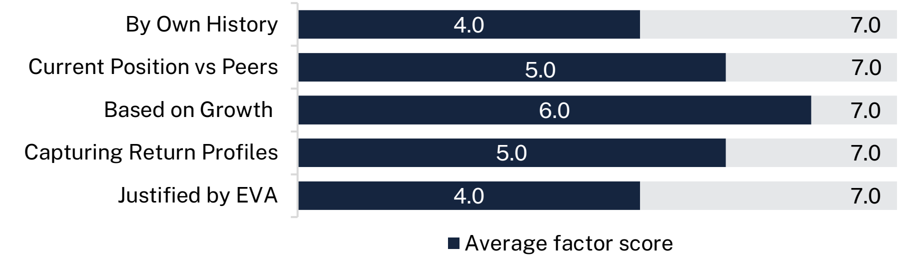
## SMS Pharmaceuticals - OUR COMMENTARY ON RESULTS

- SMS Pharmaceuticals reported a steady Q1FY27, with revenue increasing 6% Y-o-Y to Rs. 207 cr, supported by strong ARV performance and continued traction in high-value APIs, partly offset by a lower-than-expected contribution from Ibuprofen.
- Gross profit rose 15% Y-o-Y, with gross margins expanding 287 bps Y-o-Y to 36.2%, reflecting improved unit economics across Ibuprofen and ARVs. EBITDA grew 4% Y-o-Y, while EBITDA margins contracted by 29 bps Y-o-Y to 19.8% due to higher employee (+29% Y-o-Y) and other operating costs related to capacity expansion.
- PBT grew 12% Y-o-Y to Rs. 27 cr, aided by stronger operating profitability, while PAT rose only 2% Y-o-Y to Rs. 21 cr, as the company's share of profit from VKT Pharma fell to Rs. 0.7 cr (vs. Rs. 1.8 cr in Q1FY26). The lower associate contribution was mainly due to seasonality in VKT's formulations business and the ongoing ramp-up of expanded manufacturing capacities, which temporarily weighed on profitability.
- Management maintained its FY27 guidance of 15% revenue growth and 20% EBITDA margins.

## 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 | 63.5 | 32.8 | 4.9 |
| **FY25** | 783 | 17.8 | 8.8 | 8.2 | 11.7 | 11.8 | 45.8 | 27.5 | 4.5 |
| **FY26** | 887 | 19.3 | 11.5 | 11.2 | 14.3 | 12.5 | 33.5 | 22.3 | 3.9 |
| **FY27E** | 1,011 | 20.3 | 11.5 | 12.4 | 13.8 | 12.4 | 30.1 | 18.6 | 3.5 |
| **FY28E** | 1,308 | 21.3 | 12.3 | 17.2 | 16.5 | 14.5 | 21.8 | 13.7 | 2.7 |

**03 Aug 2026**

| | |
|---|---|
| Industry | Pharmaceuticals |

### Key Stock Data

| | |
|---|---|
| Bloomberg | SMSPH IN |
| Shares o/s (cr) | 9.37 |
| Market Cap (Rs. cr) | 3,502 |
| 52-wk High/Low | 448/208 |
| 3M ADV (In '000) | 390 |
| Index | Nifty 500 |
| F&O | N |

### Latest Shareholding (%)

| | Jun 26 | Mar 26 | Dec 25 |
|---|---|---|---|
| Promoters | 68.1 | 68.1 | 68.1 |
| Institutions | 3.5 | 3.3 | 3.3 |
| Public | 28.5 | 28.6 | 28.7 |
| Pledge | 18.0 | 18.0 | 18.0 |

### Stock Performance (%)

| | 1M | 3M | 12M |
|---|---|---|---|
| SMSPH | (8.4) | (7.4) | 63.6 |
| Nifty 500 | 1.5 | 3.4 | 3.5 |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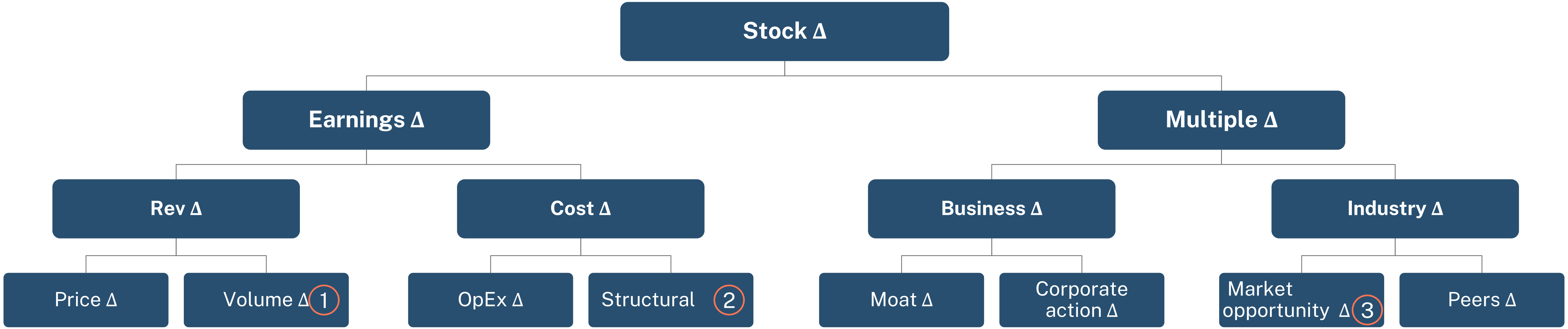
*Source: Company reports, Bloomberg, Midas Research*

# Decision Tree – Stock call




## 1 Reasoning 1

- SMS is scaling dedicated Ibuprofen capacity from 500 MT/month in FY26 to 800 MT/month by FY28E. As one of the lowest-cost, regulatory-qualified manufacturers, the company is well positioned to drive volume-led growth as capacity utilization improves, with Ibuprofen prices largely bottomed.
- Beyond Ibuprofen, growth is supported by ARV expansion, four-to-five high-value API launches from the brownfield block, and the Chemo JV.
- Collectively, these growth drivers are expected to deliver a ~21% revenue CAGR over FY26–FY28E.

## 2 Reasoning 2

- The completion of 100% backward integration into IBB (isobutyl benzene) lowers the Ibuprofen cost base by internalizing the intermediate margin, structurally improving unit economics.
- This structural cost advantage is expected to support ~200 bps of EBITDA margin expansion, from 19.3% in FY26 to 21.3% by FY28E.

## 3 Reasoning 3

- SMS is evolving into a diversified, backward-integrated API platform spanning 14 therapeutic segments, 55+ APIs & 124+ DMFs, following 4 new filings in Q1FY27 and keeping the company on track with its long-term filing trajectory. This is complemented by emerging CDMO & peptide opportunities.
- The broader API landscape remains favorable, led by China+1 sourcing & regulated-market supply security.
- Given these structural tailwinds and improving business quality, we assign a target multiple of 26x FY28E P/E, versus the current valuation of 21.8x.

*Source: Company, and* Midas Research

# Change in Estimates

**Context:** We retain our target valuation multiple of 26x FY28E P/E while marginally revising our FY27E/FY28E revenue & PAT estimates by ~1% and ~4%, respectively.

| | New estimates | | Old estimates | | Change | |
|---|---|---|---|---|---|---|
| **Description** | **New FY27E** | **New FY28E** | **Old FY27E** | **Old FY28E** | **Chg FY27E** | **Chg FY28E** |
| **Net Sales (Rs. cr)** | 1,011 | 1,308 | 1,018 | 1,315 | -0.7% | -0.5% |
| **EBITDA (Rs. cr)** | 206 | 278 | 208 | 280 | -0.9% | -0.7% |
| **EBITDA Margin** | 20.3% | 21.3% | 20.4% | 21.3% | -5bps | -4bps |
| **Adj PAT (Rs. cr)** | 116 | 161 | 121 | 168 | -3.7% | -4.4% |
| **PAT Margin** | 11.5% | 12.3% | 11.8% | 12.8% | -36bps | -49bps |
| **EPS (Rs.)** | 12.4 | 17.2 | 12.9 | 18.0 | -3.7% | -4.4% |

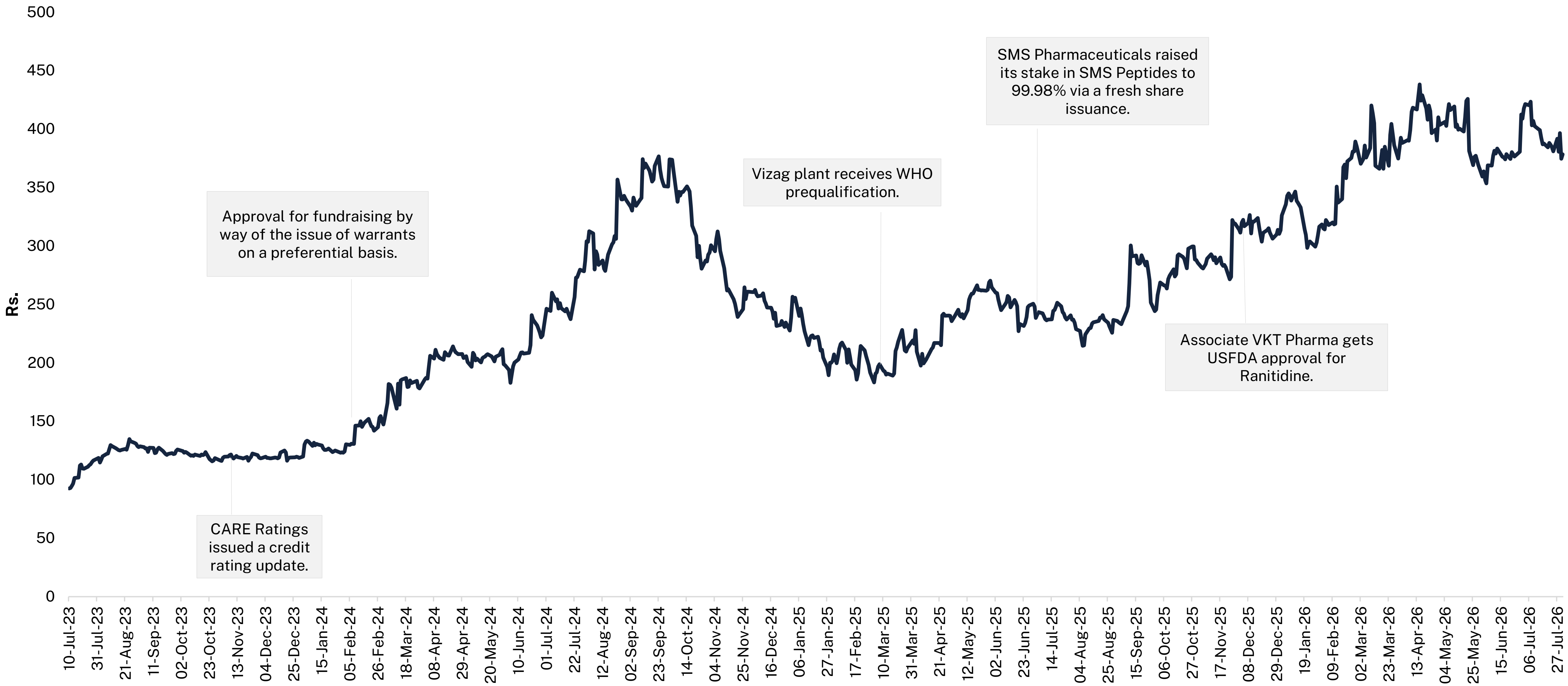
**Why we trimmed estimates:** Following a softer-than-expected Q1FY27, we revise our FY27E/FY28E estimates, lowering revenue by ~1% and PAT by ~4% to reflect weaker Ibuprofen sales and a lower contribution from VKT Pharma. We continue to expect a stronger H2, supported by improving utilization and key growth initiatives, with our overall investment thesis remaining intact.

| Valuation Summary | Target Multiple | Target EPS | 1Y TP | PEG Ratio | 1Y Upside (Incl. Dividends) |
|---|---|---|---|---|---|
| | **26x FY28E P/E** | **Rs. 17.2** | **Rs. 448** | **~1.0x** | **20%** |
| | Maintained | FY28E EPS | Incl. dividends | Attractive vs peers | From CMP |

*Source: Company, and* Midas Research

# Stock Buzz & Influencing Factors

## Follow the money




*Source: Company, Midas Research, Bloomberg*

# Financial Summary

All figures in Rs. cr

| Particulars | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|
| **Profit & Loss** | | | | | |
| Revenue | 709 | 783 | 887 | 1,011 | 1,308 |
| Gross profit | 212 | 259 | 300 | 354 | 471 |
| EBITDA | 117 | 139 | 171 | 206 | 278 |
| Depreciation | (32) | (34) | (40) | (48) | (62) |
| EBIT | 85 | 105 | 131 | 158 | 216 |
| Other Income | 4 | 6 | 8 | 8 | 11 |
| Interest expense | (23) | (19) | (23) | (35) | (41) |
| Exceptional items | - | - | - | - | - |
| PBT | 66 | 92 | 117 | 131 | 186 |
| Reported PAT (after Non-Controlling Interests) | 50 | 69 | 102 | 116 | 161 |
| Adj PAT | 50 | 69 | 102 | 116 | 161 |
| EPS (Rs.) | 5.9 | 8.2 | 11.2 | 12.4 | 17.2 |
| **Balance Sheet** | | | | | |
| Net Worth | 536 | 640 | 786 | 898 | 1,055 |
| Total debt | 281 | 312 | 365 | 500 | 530 |
| Non-Controlling Interests | - | 0 | 0 | 0 | - |
| Other liabilities and provisions | 216 | 201 | 212 | 225 | 265 |
| **Total Net worth and liabilities** | **1,034** | **1,153** | **1,362** | **1,623** | **1,850** |
| 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 | 87 | 108 |
| Cash and bank balances | 36 | 41 | 46 | 77 | 29 |
| Loans & advances and other assets | 28 | 25 | 25 | 18 | 19 |
| Net working capital | 319 | 374 | 447 | 490 | 565 |
| **Total assets** | **1,034** | **1,153** | **1,362** | **1,623** | **1,850** |
| Capital Employed | 818 | 952 | 1,151 | 1,398 | 1,585 |
| Invested Capital (CE - cash - CWIP) | 751 | 876 | 983 | 1,222 | 1,531 |
| Net debt | 245 | 271 | 319 | 423 | 501 |
| **Cash Flows** | | | | | |
| Cash flows from Operations (Pre-tax) | 66 | 102 | 83 | 159 | 203 |
| Cash flows from Operations (post-tax) | 50 | 82 | 59 | 126 | 157 |
| Capex | (52) | (123) | (131) | (200) | (200) |
| Free cashflows | (2) | (42) | (71) | (74) | (43) |
| Free cashflows (post interest costs) | (24) | (59) | (93) | (109) | (85) |
| Cash flows from Investing | (52) | (123) | (131) | (192) | (189) |
| Cash flows from Financing | 31 | 47 | 76 | 97 | (15) |
| **Total cash & liquid investments** | **36** | **41** | **46** | **77** | **29** |

| Particulars | FY24 | FY25 | FY26 | FY27E | FY28E |
|---|---|---|---|---|---|
| **Growth ratios (%)** | | | | | |
| Revenue | 35.9% | 10.4% | 13.3% | 14.0% | 29.3% |
| EBITDA | 114.0% | 19.2% | 23.2% | 20.0% | 35.3% |
| Adj PAT | NA | 37.5% | 48.6% | 13.9% | 38.6% |
| **Margin ratios** | | | | | |
| Gross | 29.8% | 33.1% | 33.8% | 35.0% | 36.0% |
| EBITDA | 16.4% | 17.8% | 19.3% | 20.3% | 21.3% |
| Adj PAT | 7.0% | 8.8% | 11.5% | 11.5% | 12.3% |
| **Performance ratios** | | | | | |
| Pre-tax OCF/EBITDA | 56.2% | 73.1% | 48.6% | 77.3% | 73.0% |
| OCF/IC (%) | 6.7% | 9.3% | 6.0% | 10.3% | 10.2% |
| RoE (%) | 10.0% | 11.7% | 14.3% | 13.8% | 16.5% |
| RoCE (%) | 11.1% | 11.8% | 12.5% | 12.4% | 14.5% |
| 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 | 2.1 | 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) | | | 3,502 | | |
| P/E (x) | 63.5 | 45.8 | 33.5 | 30.1 | 21.8 |
| P/OCF(x) | 69.9 | 42.9 | 59.1 | 27.8 | 22.4 |
| EV (Rs.cr) (ex-CWIP) | | | 3,821 | | |
| EV/ EBITDA (x) | 32.8 | 27.5 | 22.3 | 18.6 | 13.7 |
| EV/ OCF(x) | 76.2 | 46.8 | 64.5 | 30.3 | 24.4 |
| FCF Yield | -0.1% | -1.2% | -2.0% | -2.1% | -1.2% |
| Price to BV (x) | 6.5 | 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% | 5.5% | 1.8% |

# 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 |
| The terms defined above are applicable to fundamental research reports published by the Research Analyst. For technical research reports, the expected (target) price is given in the report along with the time period within which it can be achieved. For Momentum Ideas the expected timeline to achieve the price target would be upto 3 months from the date of publication of the research report. | | | |

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