Sakar Healthcare Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 15 Oct 2026

CMP -> 993
Buying Range -> up to 1014
Upside Potential-> 15%
Investment Horizon -> 9 to 12 Months
Target price -> 1142

1. Business Overview, Operating Model & Geographical Footprint

Fully Integrated Oncology Engine & CDMO Operations: Sakar Healthcare operates a highly integrated pharmaceutical business model, transitioning from a traditional contract development and manufacturing organization (CDMO) to a specialized, research-driven oncology platform. The company manufactures its active pharmaceutical ingredients (APIs), formulates them into finished dosages and manages regulatory dossiers in-house, capturing value across the entire pharmaceutical supply chain. This vertically integrated capability insulates the company from supplier dependency and allows it to generate higher margins in regulated markets.

Key Business Segments & Product Portfolio: The company's operations are divided into two distinct value streams: a high-margin oncology business and a broad-based generics formulations segment. The oncology segment produces in-house high-potency APIs, oral solids and injectables (both liquid and lyophilized) at a single 39,121 square meter campus in Bavla. The non-oncology segment, operating from the Changodar campus, focuses on cephalosporin oral solids, dry powder injections, small-volume parenterals and oral liquids, serving 24 diverse therapeutic segments.

End-User Geographies & Application Sectors: Sakar Healthcare operates globally, exporting formulations to over 60 countries with a strategic footprint across Europe, Latin America, Africa & APAC region. The company's growth relies heavily on proxy healthcare sectors, specifically the expanding global market for cancer therapies and complex cytotoxics. By registering products in regulated markets like the UK & EU, alongside emerging economies like Uganda and Philippines, the company ensures diversified geographical revenue streams across critical healthcare applications.

2. Financial Performance, Balance Sheet Strength & Cash Flow Analysis

Robust Revenue & Profitability Growth: Sakar Healthcare demonstrated exceptional financial performance in Q1FY27, reporting consolidated revenue from operations of INR 7,297 lakhs, representing a 38% year-over-year growth. The company's operating margins expanded significantly, with Q1FY27 EBITDA reaching INR 2,125 lakhs at a 29% margin, while PAT surged 120% YoY to INR 1,028 lakhs. This builds on a strong FY26 foundation where total revenue reached INR 25,173.60 lakhs and Q4FY26 EBITDA margins spiked to 37% driven by operational efficiencies, improved product mix and better fixed-cost absorption.

Balance Sheet Deleveraging & Financial Flexibility: The company's balance sheet strength improved markedly during FY26, with net worth rising to approximately INR 324 crore. The debt position was optimized, resulting in a significantly reduced debt-to-equity leverage ratio of 0.14x, down from 0.23x in the previous year. Furthermore, the interest coverage ratio strengthened to 9.06x from 6.47x, reflecting robust financial flexibility supported by the complete conversion of 3,00,000 warrants and prepayment of term loans.

Exceptional Cash Flow Conversions: Management's operational rigor has translated into highly superior cash flow generation, underscoring the high quality of earnings. The conversion of Cash Flow from Operations (CFO) to both Operating Profits and Profit After Tax (PAT) has been consistently strong over the past three fiscal years, validating the underlying profitability.

Financial Metric	FY24	FY25	FY26
CFO to PAT	209%	194%	162%
CFO to Operating Profits	72%	73%	77%

3. Capital Expenditure, Operating Leverage & Capacity Utilization

Completed Capex Cycle Securing Future Growth: Sakar Healthcare has concluded its major capital expenditure phase, investing INR 27 crore in H1 FY26, which includes INR 17 crore in capital work-in-progress to be deployed over the next six months. Management guidance explicitly states that no major incremental capex is required beyond routine maintenance, as the existing Bavla facility is fully equipped with advanced containment systems and flow chemistry infrastructure. These strategic investments are designed to support a seamless transition toward higher-margin commercial execution in the medium term.

Massive Operating Leverage Potential: The company is perfectly positioned for structural margin expansion due to immense unutilized capacity. Currently, the Bavla oncology plant operates at just over 20% to 29% utilization, but management aims to scale this to 50% to 55% over the next two years. Because the fixed costs are already absorbed, every incremental point of utilization adds approximately INR 10 crore of direct revenue, allowing the facility to potentially support revenues of INR 800 crores to INR 1,000 crores at optimal utilization.

Margin Expansion via Product Mix & Efficiencies: Operating margins are projected to expand past the current 29% run-rate, with management targeting EBITDA margins exceeding 30% by the end of FY27. This margin accretion will be driven by higher capacity utilization, cost optimization initiatives, improved inventory planning and a decisive shift toward higher-margin oncology exports. Additionally, cross-selling opportunities across global geographies and new complex injectable launches will further optimize the product mix.

4. Growth Catalyst 1: Oncology Export Expansion & Direct Market Access

Targeting Exponential Oncology Revenue Growth: The primary growth catalyst over the next 2 to 4 quarters is the aggressive scaling of the oncology segment. Management has guided that oncology revenues will double from roughly INR 100 crore in FY26 to approximately INR 200 crore in FY27, with a medium-term target of INR 280-300 crore by FY28. Oncology exports are projected to surge from a quarterly run rate of INR 6.5 crore to INR 60-70 crore by the end of FY27, serving as the main driving force for enterprise growth.

Direct Commercialization via Proprietary Approvals: The company is pivoting from merely licensing to capturing full margins through direct commercialization of its own marketing authorizations. A pivotal operational milestone was achieved with the initiation of commercial exports to Bulgaria, where three purchase orders for proprietary products have been processed for dispatch by Q1FY27. This direct-to-market approach allows the company to retain the full product margin rather than settling for technology transfer fees.

Cluster-Based Geographic Penetration: Sakar is strategically deploying its oncology portfolio across high-growth international clusters. The company is aggressively targeting Europe, Latin American countries like Colombia and Mexico, East Africa and APAC nations including Australia and Vietnam. Over 90% of regulatory dossiers have been directed to these prioritized commercial corridors, ensuring a diversified and robust geographic growth pipeline.

5. Growth Catalyst 2: Global Regulatory Approvals & Dossier Engine

Compounding Marketing Authorizations: The company has built a formidable regulatory dossier engine that is now translating into tangible market access. Sakar has already received 16 marketing authorizations (MAs) and management expects to double this figure in the current FY. Medium-term guidance points to securing over 100 dossier approvals globally, which will structurally derisk revenue and provide predictable, compounding cash flows.

Robust Pipeline of Global Submissions: The scale of Sakar's regulatory outreach is a critical forward-looking indicator of growth. The company has shared 261 oncology dossiers globally and formally submitted 178 dossiers to various regulatory bodies. With a proven 90 to 150 days path from MA approval to first revenue, this massive backlog of submissions guarantees a steady cadence of product launches over the next 12 to 18 months.

Expanding the Complex Pipeline: Beyond its existing portfolio of 55 in-house developed oncology products, Sakar is aggressively expanding into more complex therapies. The R&D team is advancing formulations for cytotoxic liquids, hot-melt extrusion (HME) enhanced products, peptides and complex injectables like liposomal doxorubicin. These high-barrier-to-entry products command premium pricing and will sustain long-term structural growth as they move from pilot scale to commercial launch.

6. Growth Catalyst 3: Strategic Collaborations & Technology Transfers

Accord Healthcare Europe Partnership Validation: A landmark strategic collaboration completed recently is the technology transfer partnership with Accord Healthcare UK for the European market. This partnership covers a portfolio of 10 oncology products representing an INR 50-100 crore revenue opportunity. The successful EU-GMP site variation approval and subsequent commercialization of Imatinib serve as a powerful endorsement of Sakar’s quality compliance, unlocking new avenues with global generic majors.

Blue-Chip Client Consolidations: Sakar is executing a deliberate strategy to position itself as a strategic manufacturing partner rather than a simple supplier. The company has 33 ongoing oncology technology transfer projects and is collaborating with industry leaders including Torrent, Emcure, Glenmark and Zydus. These partnerships provide highly predictable volume off-takes and drastically reduce the commercialization risk associated with new product launches.

Tender Wins and Site Variation Approvals: Operational milestones over the recent quarters include securing 7 site variation approvals across the UK and EU. Collaborations have directly led to tangible tender wins, such as the Letrozole and Exemestane tenders awarded to Torrent in Germany. By acting as a replica manufacturing site under these variation approvals, Sakar benefits from immediate commercialization without traditional lag phases.

7. Growth Catalyst 4: API Backward Integration & Margin Accretion

In-House High-Potency API Capabilities: Sakar’s long-term growth is heavily supported by its strategic decision to manufacture its own active pharmaceutical ingredients. The company has developed 21 oncology APIs in-house, supported by a facility with 12.3 metric tons of annual capacity. By prioritizing captive consumption over merchant sales, the company completely insulates its supply chain from external raw material shocks while maximizing value retention.

CEP Approvals Unlocking Regulated Markets: To supply finished products to stringent markets like Europe, Sakar is actively securing Certificates of Suitability (CEPs) for its APIs. Company has successfully secured 2 CEP approvals (Gefitinib and Cytarabine) & has 5 additional applications in process. Management's goal to achieve 7 CEP-backed APIs in near quarters is a critical structural driver that will legitimize its end-to-end integration for top-tier global partners.

Structural EBITDA Margin Expansion: Financial impact of API backward integration is highly accretive. Management guidance explicitly states that API-integrated products will push the oncology division's EBITDA margins from the current 27% baseline to 35%. As the proportion of these fully integrated, CEP-backed export products increases over the next 9-12 months, the consolidated profitability of the company will undergo a permanent positive re-rating.

8. Growth Catalyst 5: Robust Non-Oncology CDMO & Branded Base

Sticky Domestic CMO Relationships: While oncology is the growth engine, the legacy non-oncology formulations business provides a highly stable financial bedrock. The domestic CMO business, which generated approx. INR 35 crore last year, is projected to double in FY27. Long-standing relationships spanning up to 20 years with titans like Zydus, Intas and Torrent ensure a sticky, recurring revenue base, with top clients contributing roughly 45% of total sales.

Emerging Market Branded Formulations: Sakar has successfully pivoted its non-oncology segment toward higher-value branded exports, which now account for over 70% of total non-oncology revenue. Company holds product registrations in over 14 countries and distributes 321 registered products across emerging markets in Africa, Southeast Asia and Latin America. This diversified footprint allows Sakar to capture premium pricing compared to traditional contract manufacturing.

Cash Flow Stability Funding Expansion: The Changodar facility operates as a reliable industrial backbone, producing a wide array of lyophilized and liquid injectables. Management strategically expects this non-oncology segment to grow at a steady industry rate of 7-8% YoY, specifically to generate the stable cash flows required to fund the aggressive working capital needs of the rapidly expanding oncology export franchise without relying on external debt.

9. Short-Term Headwinds & Regulatory Policy Risks

Prolonged Regulatory Approval Cycles: A prominent short-term risk for Sakar Healthcare is the inherently unpredictable nature of global regulatory timelines. Management has explicitly acknowledged that receiving a Marketing Authorization is a process over which the company has no direct control, with typical approval cycles taking around 12 months. Any regulatory delays from authorities in the UK, EU, or emerging markets could push expected revenue conversions into subsequent quarters, impacting near-term earnings predictability.

Government Pricing Policies & Capping Risks: Pharmaceutical sector remains highly sensitive to government policy risks, particularly regarding price controls. Recently, there have been proposed government policies regarding the capping of MRP for oncology products in the domestic Indian market. Although management clarified that this directive regulates trade margins without severely impacting manufacturer revenues—and that Sakar's business is skewing toward exports—sudden regulatory actions on drug pricing remain an ongoing industry headwind.

Execution Friction in New Geographies: Entering strictly regulated markets brings initial operational challenges that act as short-term headwinds. During the Q1FY27 concall, management highlighted "first-time teething problems" regarding commercialization in Europe, specifically citing logistics, serialization implementation and cross-border batch testing and release lab coordination in Bulgaria. This execution friction clearly demonstrates that regulatory approval does not immediately translate into revenue, creating a lag phase in realization.

10. Geopolitical Volatility & Macroeconomic Risks

Middle East Geopolitics & Conflict Exposure: Operating in a highly volatile and uncertain world, Sakar faces distinct macroeconomic risks stemming from geopolitical tensions. The current war and ongoing conflict in the Middle East present broader macro uncertainties. While management noted that the company does not have a heavy direct dependency on Middle Eastern revenues, they acknowledged the potential for indirect impacts affecting global pharmaceutical trade routes, raw material sourcing and overall regional stability.

Global Trade Uncertainties & Tariff Pressures: As Sakar aggressively transitions into a predominantly export-led franchise, it becomes inherently exposed to cross-border trade uncertainties. Shifting government policies worldwide, sudden imposition of tariffs and geopolitical alignments can disrupt export pipelines. Any adverse regulatory policies or actions by foreign governments targeting pharmaceutical imports could temporarily stall the company's aggressive 60+ country export expansion strategy.

Foreign Exchange Volatility: With management guiding that export contributions will rise significantly, the company faces exposure to foreign exchange fluctuations. Forex volatility can directly impact top-line realizations from newly launched products in Europe and Latin America, while simultaneously affecting the cost of any imported raw materials. While the company utilizes pass-through mechanisms to mitigate some pricing risks, severe currency swings remain a persistent short-term headwind.

11. Supply Chain Constraints & Logistical Headwinds

Elevated Freight Costs & Shipping Disruptions: The current global environment poses severe logistical headwinds that could threaten near-term gross margins. Management explicitly cited shipping disruptions and elevated logistics costs as ongoing operational challenges. As the company ramps up physical dispatches of bulk oncology injectables and oral solids across multiple continents, any spike in global freight rates due to international maritime disruptions will directly pressure operating leverage.

Order Execution & Delivery Delays: Supply chain bottlenecks introduce tangible delivery execution risks. Because the oncology business often relies on lumpy, tender-based institutional supplies, any delay in securing commercial purchase orders, finalizing artwork approvals, or navigating complex export logistics can defer revenue. Management confirmed that timing slippages of "a few weeks here and there" have occurred, highlighting the sensitivity of quarterly earnings to precise order execution.

Raw Material Availability & Inflation: Inflationary pressures on essential inputs serve as a critical industry headwind. Management has flagged crude oil prices and broader raw material (RM) inflation as factors requiring vigilant monitoring. Although Sakar's API backward integration insulates it partially, any broad-based scarcity in foundational chemical precursors or sudden spikes in raw material pricing could disrupt production schedules and temporarily compress the company's targeted 30%+ EBITDA margins.

Conclusion & BUY Investment Thesis

Compelling Medium-Term Earnings Trajectory: Sakar Healthcare presents a high-conviction BUY opportunity for a 9 to 12-month investment horizon, driven by its imminent transformation from a domestic CDMO to a high-margin, export-led oncology powerhouse. The financial trajectory is highly visible, with management explicitly guiding to double oncology revenues to INR 200 crore in FY27 and marching toward a broader corporate revenue goal of INR 500 crore. Q1FY27 results (38% revenue growth and 120% PAT growth) confirm that the inflection point has already been crossed.

Irreversible Structural Margin Expansion: The investment thesis is heavily anchored by unparalleled operating leverage. With the capital expenditure cycle completed and the Bavla plant operating at sub-30% utilization, incremental revenues will flow directly to the bottom line. Furthermore, the strategic backward integration of 21 in-house APIs backed by expanding CEP approvals is expected to structurally elevate oncology EBITDA margins past the 35% mark.

De-Risked Commercialization Catalysts: Next 2 to 4 quarters are packed with tangible, de-risked growth catalysts. Over 16 marketing authorizations are in hand with first commercial shipments to Europe (Bulgaria) commencing, alongside massive volume visibility from Accord Healthcare UK tech-transfers. Supported by an impeccable balance sheet (0.14x debt-to-equity) and superior cash flow conversions (CFO to PAT at 162%), Sakar's medium-term execution is highly secure, easily absorbing transient geopolitical or logistical headwinds to deliver robust shareholder returns.

Historical Financial Performance:

Particulars (INR in Lakhs)	Q1 FY27	Q1 FY26	Y-o-Y	Q4 FY26	Q-o-Q	FY26
Revenue from Operations	7,297.25	5,273.62	**38%**	7,109.70	**3%**	25,173.60
COGS	3,458.22	2,895.24		2,838.09		12,327.67
Gross Profit	**3,839.03**	**2,378.38**	**61%**	**4,271.61**	**-10%**	**12,845.93**
Gross Profit Margin (%)	**53%**	**45%**		**60%**		**51%**
Employee Expenses	1,145.51	754.96		1293.80		3,871.69
Other Expenses	568.63	352.84		354.24		2,085.42
EBITDA	**2,124.89**	**1,270.58**	**67%**	**2,623.57**	**-19%**	**6,888.82**
EBITDA Margin (%)	**29%**	**24%**		**37%**		**27%**
Other Income	154.39	39.39		17.12		228.74
Depreciation	654.24	557.23		593.57		2,356.45
Finance Cost	166.97	214.26		241.12		785.59
Profit before Tax	**1,458.07**	**538.48**	**171%**	**1,806.00**	**-19%**	**3,975.52**
Profit before Tax(%)	**20%**	**10%**		**25%**		**16%**
Tax	429.58	71.35		703.57		927.06
Profit After Tax	**1,028.49**	**467.13**	**120%**	**1,102.43**	**-7%**	**3,048.46**
PAT Margin (%)	**14%**	**9%**		**16%**		**12%**
Basic EPS (As per Profit after Tax)	4.62	2.11		4.96		13.70

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team