Neuland Laboratories Ltd

The Quiet CDMO Compounder Finds Its Inflection

A record FY26, a CMS-led margin step-up, and a peptide bet timed to the GLP-1 era

NSE: NEULANDLAB | BSE: 524558 | Sector: Pharmaceuticals — APIs / CDMO | Promoters: Davuluri family

Founded 1984 | HQ: Hyderabad, Telangana | Leadership: Sucheth Rao & Saharsh Rao Davuluri | ~1,800 employees

CMP (NSE)*	MARKET CAP*	FY26 REVENUE	FY26 EBITDA MARGIN
~Rs 17,000	**~Rs 21,800 cr**	**Rs 2,023 cr**	**29.4%**
Early Jun'26; verify live	52wk: Rs 11,011 – 19,747	+37.0% YoY	vs 21.9% FY25

FY26 NET PROFIT	Q4FY26 REVENUE	Q4FY26 EBITDA MGN	TRAILING P/E*
Rs 364 cr	**Rs 776 cr**	**40.5%**	**~60x**
+39.9% YoY | EPS ~Rs 284	+136% YoY (record)	vs 17.3% Q4FY25	Premium CDMO multiple

THE ONE-PAGE THESIS

Neuland is a 40-year-old Hyderabad API maker that has quietly re-rated into one of India's most credible mid-cap **CDMO** stories. The business has three engines: **Prime APIs** (mature, large-volume molecules like Levetiracetam and Mirtazapine), **Specialty GDS** (complex generics), and the fast-growing **CMS/CDMO** arm that manufactures for innovators. FY26 was a record year — revenue up **37% to Rs 2,023 cr**, PAT up **40% to Rs 364 cr**, and a full-year EBITDA margin of **29.4%** — capped by an exceptional Q4 (revenue Rs 776 cr, EBITDA margin 40.5%) as commercial CMS projects shipped.

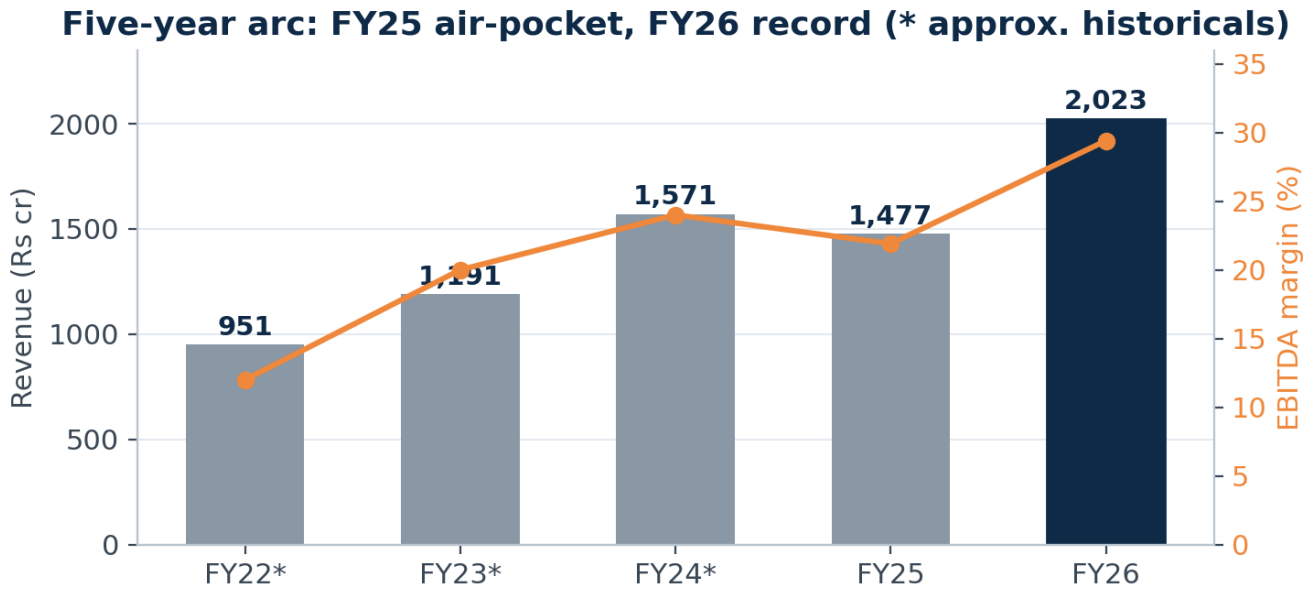
The forward story is two-pronged: (1) the **CMS pivot** — now over half of revenue — pulls Neuland up the value chain into stickier, higher-margin innovator work; and (2) a **large-scale peptide facility** going live by **July 2026**, positioning the company for the GLP-1/peptide CDMO wave with 5–6 innovator projects already underway. The catch: the business is intensely **lumpy** (quarterly revenue swung from Rs 293 cr to Rs 776 cr within FY26), FY26 free cash flow was **negative Rs 49 cr** on a Rs 397 cr capex year, working capital stretched to 137 days, and the stock trades at a demanding ~60x trailing earnings.

VERDICT: A high-quality CDMO compounder at an inflection — but priced for execution. Judge it in 3-year blocks, not quarters.

*Price/market-cap/P-E approximate as of early June 2026 (quote services showed Rs 16,000–17,250 across May–June 2026); verify live before acting.
Sources: Q4/FY26 results & earnings call (12 May 2026), company filings, NSE/BSE, Screener.in. Prepared by Stratinv FZE for informational purposes only.

FY26 in one line: the CDMO pivot shows up in the P&L

After a soft FY25 and a weak start to FY26, Neuland delivered a record year as commercial CMS projects ramped. Consolidated revenue rose 37% to Rs 2,023 cr, net profit grew 40% to Rs 364 cr, and the full-year EBITDA margin expanded to 29.4% (from 21.9%). The shape of the year matters as much as the total: a Rs 293 cr Q1 trough gave way to a Rs 776 cr Q4 with a 40.5% EBITDA margin, as over two-thirds of Q4 revenue came from CMS/CDMO work. This is the clearest evidence yet that Neuland's multi-year transition from generics API supplier to innovator manufacturing partner is converting into operating leverage.



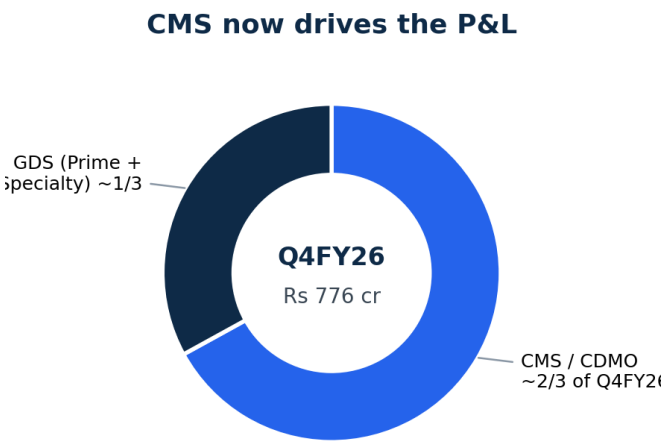
Why this matters now

- **CMS is now the engine.** The custom-manufacturing/CDMO business has crossed half of revenue; Q4 saw it drive ~2/3 of the top line, with one new commercialization and ramp-up of previously commercialized molecules.
- **Margins re-rated structurally.** Q4 gross margin hit 62.1% (from 56.3%) and EBITDA margin 40.5% — mix, not one-offs, did the heavy lifting, though management stresses Q4 is a peak, not a run-rate.
- **The peptide option goes live.** A large-scale peptide facility (adjacent to Unit 1) is slated to be operational by July 2026, with 5–6 innovator projects underway and a target of at least one commercial peptide deal by FY27.
- **But it's lumpy and cash-hungry.** FY26 FCF was negative Rs 49 cr on Rs 397 cr capex; working-capital days rose to 137; cash fell to Rs 75 cr. Management guides to FY27 normalisation.

HOW TO READ THIS COMPANY
Management explicitly asks investors to judge Neuland over **annual periods or three-year blocks**, not quarters, because CDMO and specialty-GDS order flow is inherently uneven. The Q4 blowout and any single soft quarter are two sides of the same lumpiness — the signal is the multi-year trajectory of CMS share and margins, both of which are rising.

Four decades of complex-API credibility

Incorporated in 1984 and Hyderabad-headquartered, Neuland has spent four decades manufacturing complex APIs in a GMP environment, building a regulatory track record across US FDA, EDQM and other regulated-market authorities. That heritage — first serving generic formulators, more recently innovators — is the foundation of its CDMO credibility. The promoter Davuluri family (Sucheth Rao, Vice-Chairman & CEO; Saharsh Rao, Vice-Chairman & MD) runs a business now organised around three engines.

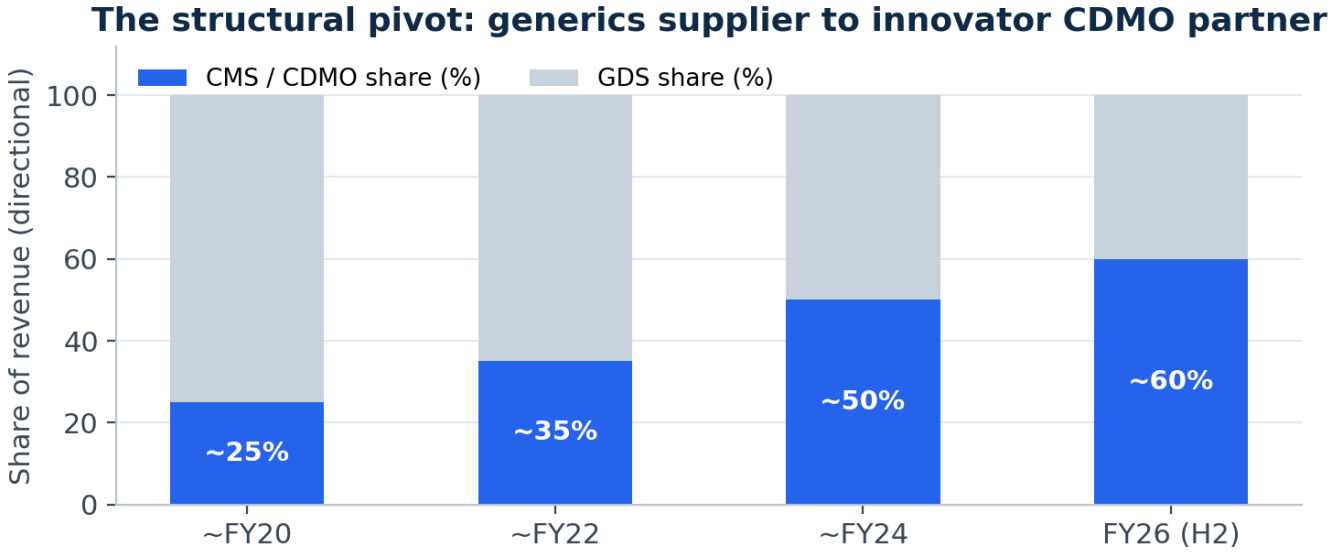


The three engines:

- **Prime APIs:** ~15 mature, large-volume molecules (e.g. Levetiracetam, Mirtazapine) in competitive generic markets — the stable cash base.
- **Specialty GDS:** complex, lower-volume generic APIs (e.g. Dorzolamide, Ezetimibe) with higher margins but uneven order flow.
- **CMS / CDMO:** custom manufacturing for innovators — now >50% of revenue and the primary growth and margin driver.
- **Peptides (emerging):** a new high-value CDMO vector built on Neuland's synthesis expertise.

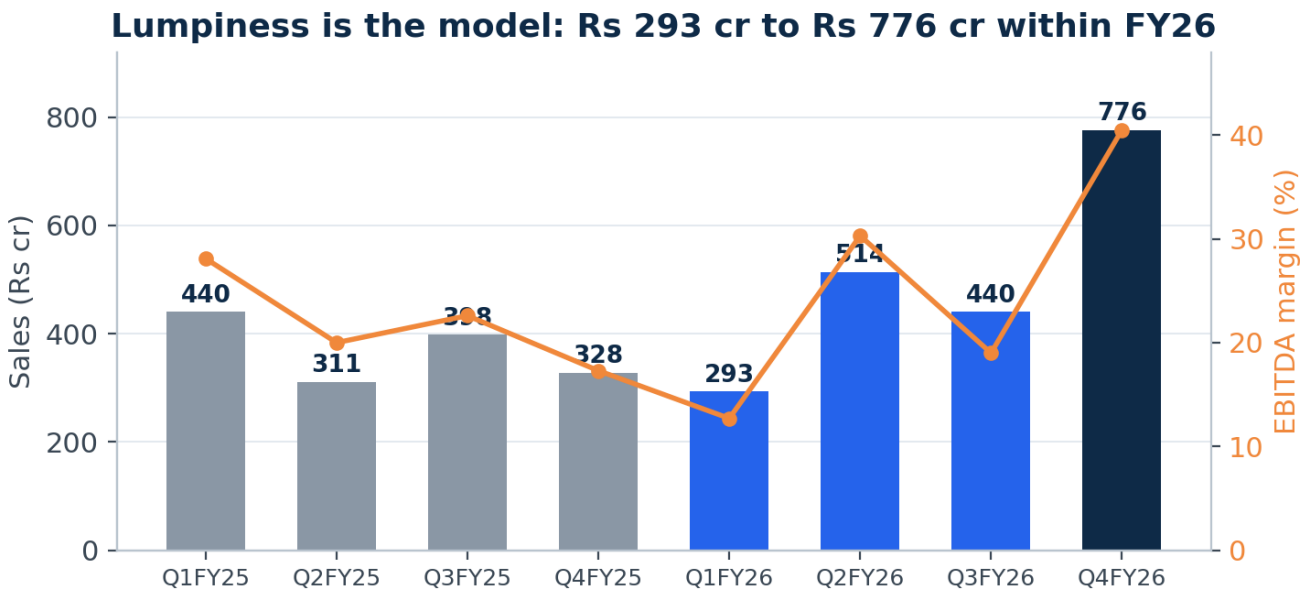
WHERE THE VALUE IS MIGRATING
The CMS business is the re-rating engine: innovator relationships are stickier, multi-year, and command better economics than commodity generics — but they bring the

The structural pivot, in one picture



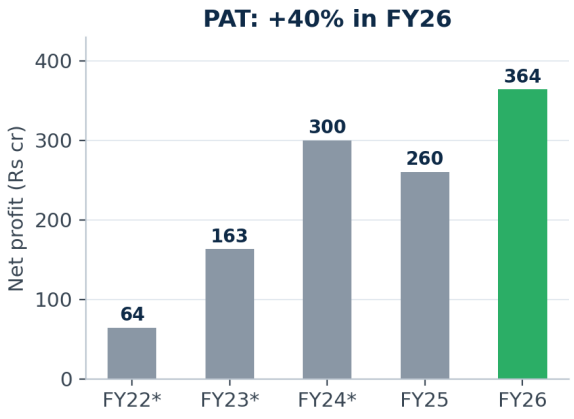
Over the past several years Neuland's mix has migrated from a generics-led base toward an innovator-CDMO-led one. This is the single most important slow-moving variable in the equity story: each percentage point of CMS share tends to bring better margins, deeper customer lock-in, and a higher-quality (if lumpier) revenue stream. The directional path shown above is indicative of management's commentary that more than half of revenue now comes from CMS/CDMO.

REVENUE	EBITDA MARGIN	NET PROFIT	EPS
Rs 2,023 cr	**29.4%**	**Rs 364 cr**	**~Rs 284**
+37.0% YoY	+750 bps YoY	+39.9% YoY	vs ~Rs 203 FY25



Reading the quarterly cadence

FY26's quarters tell the lumpiness story vividly: a Rs 293 cr Q1 (12.7% EBITDA margin) on a weak shipment schedule, a sharp Rs 514 cr Q2 recovery, a softer Rs 440 cr Q3 as product mix and overheads compressed margins to ~19%, and a record Rs 776 cr Q4 at 40.5% EBITDA margin as commercial CMS volumes shipped. Full-year numbers smooth this into a clean up-year — which is precisely why management insists on annual or three-year evaluation windows.



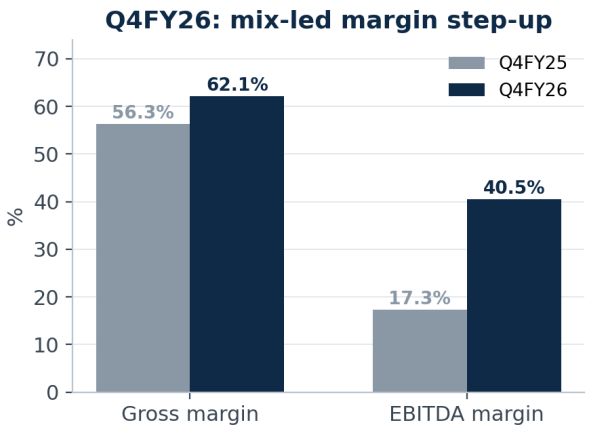
What drove the FY26 step-up:

- Ramp-up of previously commercialized CMS molecules plus one new commercialization.
- Favourable mix shift toward higher-margin CDMO work in H2.
- Operating leverage on a largely fixed manufacturing cost base as volumes rose.
- Q4 gross margin of 62.1% (vs 56.3% Q4FY25) flowing through to a 40.5% EBITDA margin.

GUIDANCE SIGNAL
Management framing: Q4's 40.5% EBITDA margin is a **peak, not a run-rate**. A normalised through-cycle margin in the high-20s to low-30s is the more defensible planning assumption.

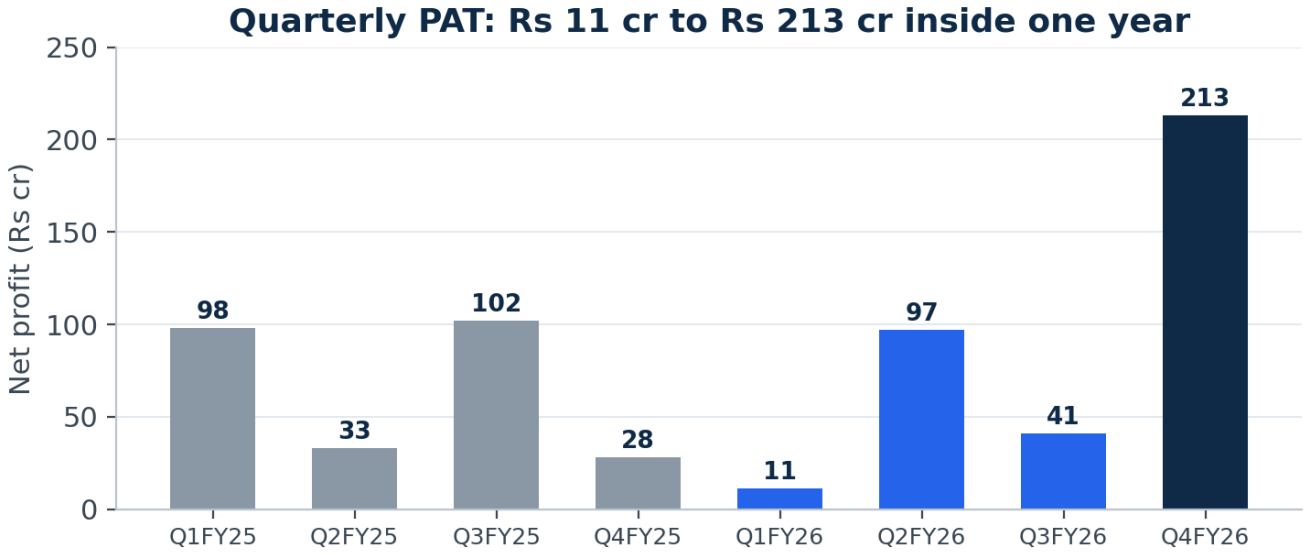
The Q4 margin step-up, decomposed

Neuland's Q4FY26 margin print was the headline number of the year: gross margin expanded to 62.1% and EBITDA margin to 40.5%, versus 56.3% and 17.3% respectively a year earlier. Crucially, management attributed the jump to **product mix and operating leverage**, not one-time items — the higher CMS share carries richer economics, and a fixed cost base amplifies incremental volume. That said, the same mechanism works in reverse: a quarter heavy on Prime APIs or light on shipments (as in Q1 and Q3) compresses margins just as sharply.



Earnings-quality checklist:

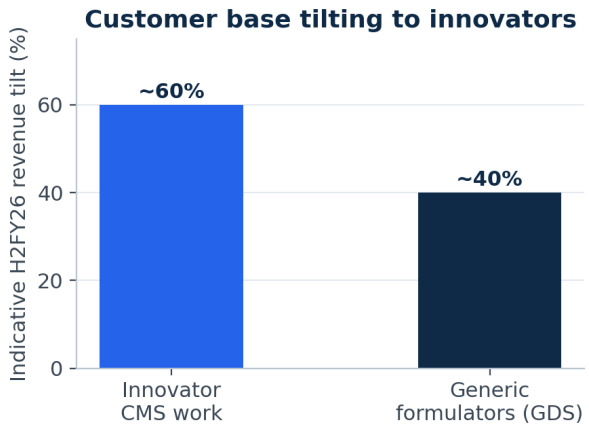
- **Recurring vs one-off:** FY26 PAT growth looks operationally driven, not inflated by non-operating gains — a cleaner print than a headline number alone.
- **Gross-margin band:** roughly 52–62% across quarters, swinging with mix between Prime API, Specialty GDS and CMS.
- **EBITDA volatility:** 12.7% to 40.5% within one year — the defining feature to model around.
- **Tax & below-the-line:** watch for normalised tax rates as profitability scales.



STRATINV VIEW — DON'T ANNUALISE THE QUARTER
Quarterly PAT ranged from Rs 11 cr (Q1) to Rs 213 cr (Q4) inside FY26 — a 19x spread. Any valuation or growth model that annualises a single quarter will be badly wrong in both directions. The honest approach is full-year run-rates with explicit scenario bands for CMS shipment timing.

From generics supplier to innovator partner

The CMS (Custom Manufacturing Solutions) business — increasingly branded CDMO — is the heart of the bull case. Neuland manufactures complex APIs and intermediates for innovator pharma companies, typically under multi-year arrangements that progress from development through validation to commercial supply. Over two-thirds of Q4FY26 revenue came from commercial CMS projects, driven by ramp-up of previously commercialized molecules plus a new commercialization. This is structurally higher-quality revenue than commodity generic APIs: stickier, better-margin, and harder for customers to re-source given regulatory switching costs.



Why CMS revenue is worth more per rupee:

- **Regulatory lock-in:** once an innovator validates Neuland in its filing, re-sourcing is slow and costly — multi-year stickiness.
- **Margin premium:** complex, lower-competition chemistry commands better economics than Prime APIs.
- **Pipeline optionality:** development-stage molecules can graduate to commercial supply, compounding revenue.
- **The cost — lumpiness:** milestone- and shipment-driven flow makes any single quarter unrepresentative.

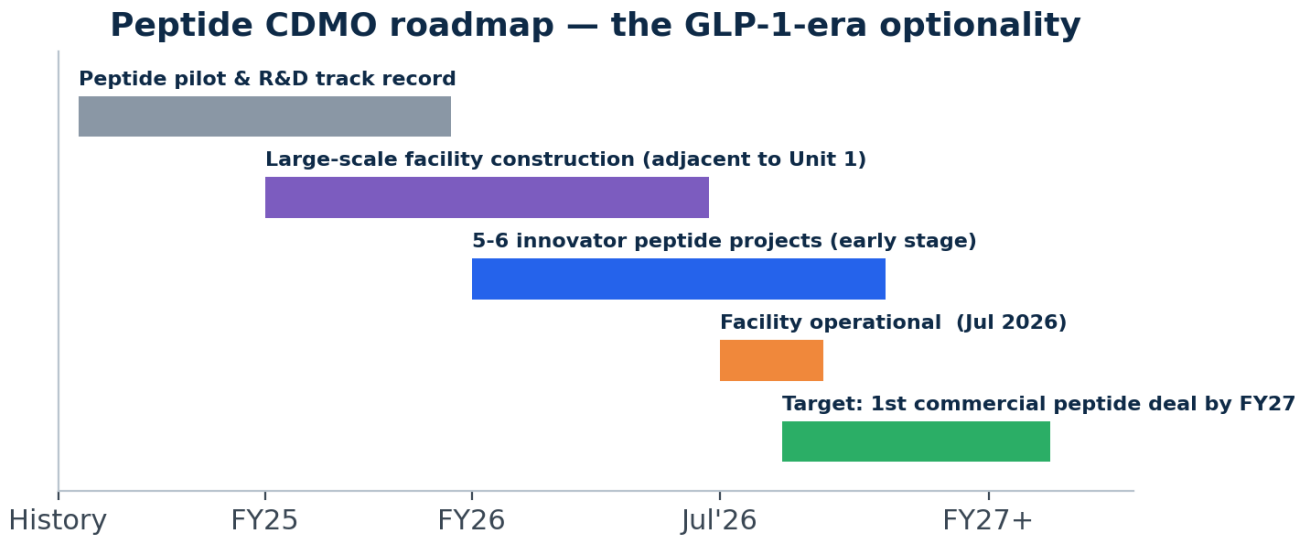
The lumpiness is the price of admission

The flip side of innovator CDMO work is genuine revenue unevenness. FY26 alone saw Paliperidone shipments disrupted by operational issues at a customer's end, a subdued specialty-GDS quarter where only Dorzolamide contributed meaningfully, and then a Q4 surge as commercial volumes landed. None of these single data points is diagnostic; the portfolio's breadth (Prime + Specialty GDS + CMS) is designed to smooth — but not eliminate — this volatility over a full year.

STRATINV VIEW — WATCH THE GRADUATION RATE
The key forward question for the CMS engine is **graduation rate**: how many development/validation-stage molecules convert to commercial supply, and on what timeline. Each commercialization is a step-change in run-rate. Track new commercializations and pipeline disclosures quarter to quarter — they, not headline revenue, drive the multi-year trajectory.

Why peptides, why now

The most consequential optionality in the Neuland story is its push into peptide CDMO. The global surge in GLP-1 and other peptide therapeutics (obesity, diabetes and beyond) has created a multi-year demand wave for peptide manufacturing capacity, and Neuland is leveraging decades of synthesis expertise to move from pilot to large-scale commercial production. A dedicated peptide facility — built on land adjacent to Unit 1 as part of an integrated-site strategy — is slated to be operational by **July 2026**.



Where it stands today

• **5–6 innovator peptide projects underway** — early-stage, but evidence that innovators view Neuland as a credible peptide development partner.

• **Target: at least one commercial peptide manufacturing arrangement by FY27** (management goal stated on calls).

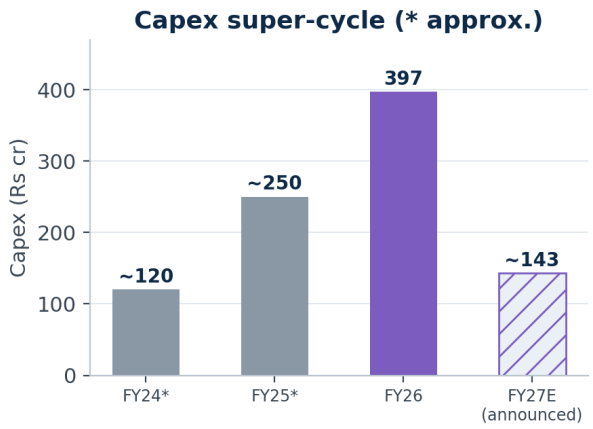
• **Margin-accretive by design:** management expects peptides to be accretive to mix, leveraging technical depth as a competitive edge amid rising industry interest.

• **Integrated-site strategy:** capacity added adjacent to Unit 1 rather than greenfield Units 4/5 — faster, more capital-efficient scaling.

STRATINV VIEW — OPTION VALUE, NOT YET EARNINGS
Peptides are real optionality, not yet earnings. The bull case: Neuland converts early innovator interest into commercial supply just as GLP-1 capacity demand peaks, adding a high-margin growth vector for years. The bear case: early-stage projects slip, the facility ramps slowly, and capex/depreciation lands before revenue does. The July 2026 commissioning and the first commercial deal are the two milestones that convert this from story to substance.

Building ahead of demand

Neuland is in the midst of a capex super-cycle to support both the CMS ramp and the peptide entry. FY26 capex was ~Rs 397 cr (up from ~Rs 250 cr guided for the year), spanning the new Unit 3 production block (validated and commercialising), the peptide facility, and Unit 1 land acquisition for future expansion. A further ~Rs 143 cr capex has been announced for capacity expansion at Unit 1, funded by accruals and debt. The integrated-site philosophy — adding capacity adjacent to existing units rather than greenfield — is intended to compress time-to-capacity.



Capacity build-out map:

- **Unit 1:** integrated site; land acquired for faster-than-greenfield expansion; ~Rs 143 cr further capex announced.
- **Unit 3:** new production block validated, commencing commercial production — supports CMS ramp.
- **Peptide facility:** large-scale, adjacent to Unit 1; operational target July 2026.
- **Strategy:** one large integrated site over scattered Units 4/5 — capital efficiency and speed.

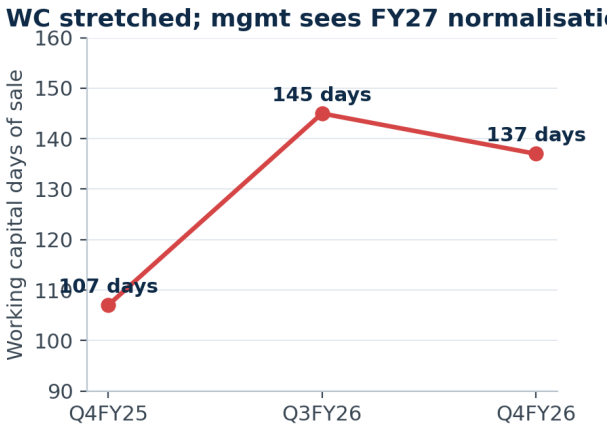
THE BUILD-PHASE TRADE-OFF
Capex ahead of revenue means depreciation and interest land first. This is the mechanical reason near-term FCF is negative even as the P&L; improves — a feature of the build phase, not a red flag in isolation.

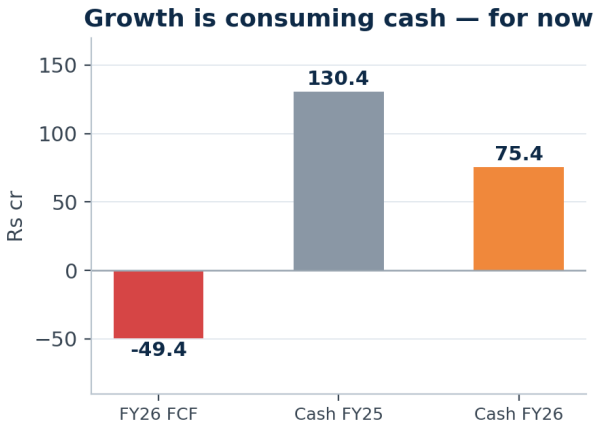
Regulatory track record — the licence to compete

Neuland's competitive moat in CDMO rests heavily on its regulatory standing. Over the years its units have cleared US FDA inspections and EDQM audits, and the company has built a multi-decade GMP compliance history across regulated markets. For innovator customers, this audit pedigree is a prerequisite — it is the reason a small-cap Indian API maker can win multi-year manufacturing mandates from global pharma. Any future adverse inspection outcome would be a material risk to the CDMO thesis, making the compliance record both a moat and a monitorable.

Growth is consuming cash — by design, for now

The cost of Neuland's expansion shows up in cash. FY26 free cash flow was negative Rs 49.4 cr, the product of Rs 397 cr capex and a working-capital build. Working-capital days of sale rose to 137 (from 107 a year earlier and a peak of 145 in Q3FY26), driven by higher inventories — partly built ahead of anticipated demand — and receivables tied to uneven order flow. The closing cash balance fell to Rs 75.4 cr (from Rs 130.4 cr). Management expects working-capital levels to normalise in FY27 as shipments even out and inventory unwinds.



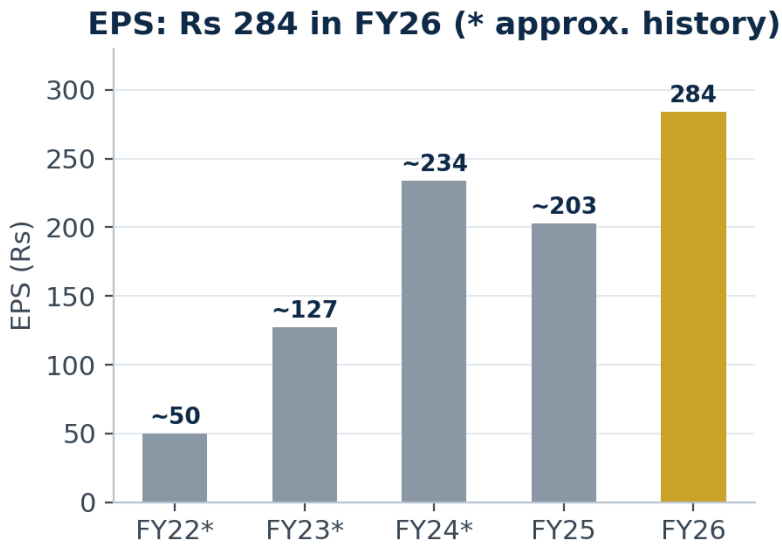


Balance-sheet posture

- **Modest leverage:** Neuland has historically used debt sparingly; the announced ~Rs 143 cr capex is funded by accruals and debt — manageable against Rs 364 cr of FY26 PAT.
- **Working-capital intensity is structural:** complex APIs and lumpy CDMO flow inherently tie up inventory and receivables; expect WC to remain elevated versus asset-light businesses.
- **Dividend:** final dividend of Rs 34/share declared for FY26 — a token yield (~0.07%) consistent with a reinvestment-led capital-allocation stance.
- **The watch-item:** if FY27 working capital does NOT normalise as guided while capex stays high, the cash-conversion story weakens and the premium multiple becomes harder to defend.

STRATINV VIEW — THE FCF CROSSOVER TO WATCH
Negative FCF in a heavy-build, high-growth CDMO year is acceptable; negative FCF that persists into FY27 alongside slipping working-capital normalisation would not be. This is the single most important cash-flow monitorable for the next four quarters.

FY26 EPS	FY26 PAT	FINAL DIVIDEND	P/B*
~Rs 284	Rs 364 cr	Rs 34 / sh	~11–13x
+~40% YoY	Record	Token; reinvestment-led	Premium to book



The earnings-power arc

Neuland's EPS has compounded from roughly Rs 50 a few years ago to Rs 284 in FY26, with an FY25 air-pocket in between — a trajectory that mirrors the lumpy-but-rising revenue base. The capital-allocation philosophy is unambiguous: reinvest. A token Rs 34/share dividend coexists with a Rs 397 cr capex year, signalling that management sees the CMS ramp and peptide build as the highest-return use of capital. For shareholders, the implied bet is that reinvested rupees earn well above cost of capital as innovator molecules graduate to commercial supply.

STRATINV VIEW — INCREMENTAL ROCE IS THE SCOREBOARD

Returns math to monitor: as the FY26 capex cohort (Unit 3, peptide facility, Unit 1 expansion) comes online, the test is incremental ROCE. If new capacity fills with high-margin CMS and peptide work, returns on the build justify the premium multiple. If capacity utilisation lags — because innovator projects slip or graduate slowly — depreciation drags returns and the re-rating reverses. The build is a bet on demand arriving on schedule.

Riding two structural tailwinds

Neuland sits at the intersection of two powerful trends. First, the **China+1 / India CDMO** shift, as global innovators diversify complex-API and intermediate manufacturing away from single-country dependence — reinforced by trade dynamics such as the India-EU arrangement reducing tariffs on API imports and making Indian APIs more attractive to European pharma. Second, the **peptide / GLP-1 capacity wave**, which is creating multi-year demand for specialised peptide manufacturing that few mid-cap players are positioned to serve.

Where Neuland fits among peers

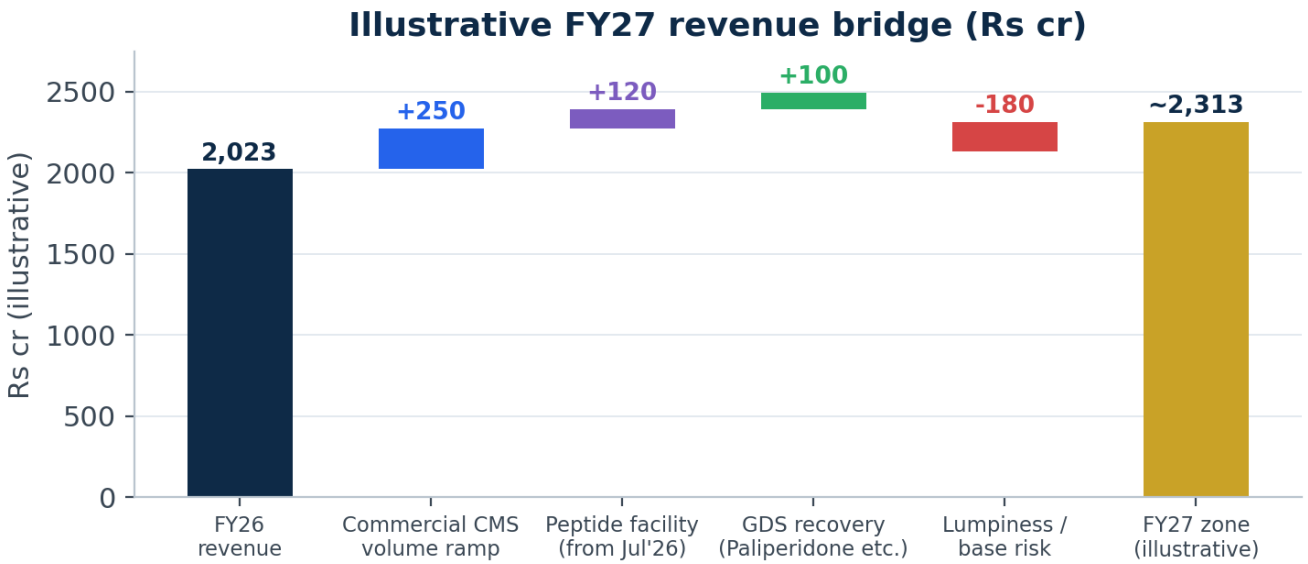
Company	FY-recent revenue	Positioning
Neuland Labs	Rs 2,023 cr (FY26)	Complex APIs + fast-growing innovator CDMO + peptide entry
Divi's Labs	Far larger	Large-cap API/CDMO leader; scale and balance-sheet strength
Laurus Labs	Far larger	ARV/API + growing CDMO; broader formulations exposure
Other API SMIDs	Varied	Mostly generics-API led; less innovator-CDMO depth

Neuland's differentiation is not scale — Divi's and Laurus are materially larger — but **complex-chemistry depth plus an innovator-CDMO orientation and an early peptide position**. It is a focused, higher-beta way to play the India-CDMO theme, with more torque and more lumpiness than the large-caps.

STRATINV VIEW — FOCUSED, NOT DOMINANT
The competitive risk is twofold: (1) larger peers with deeper balance sheets can out-invest Neuland in peptide and CDMO capacity; and (2) the same China+1 tailwind draws new entrants. Neuland's defence is its regulatory track record and incumbency on validated innovator molecules — switching costs that protect existing programs but must be continually renewed by winning new ones.

What management will and won't say

True to form, management declined precise FY27 guidance, citing shipment lumpiness — but the directional commentary is consistent: continued momentum in commercial CMS volumes, GDS recovery as customer-end issues (e.g. Paliperidone) resolve, the peptide facility commissioning in July 2026, and an expectation that working capital normalises through the year. The honest way to frame FY27 is a scenario zone, not a point estimate.



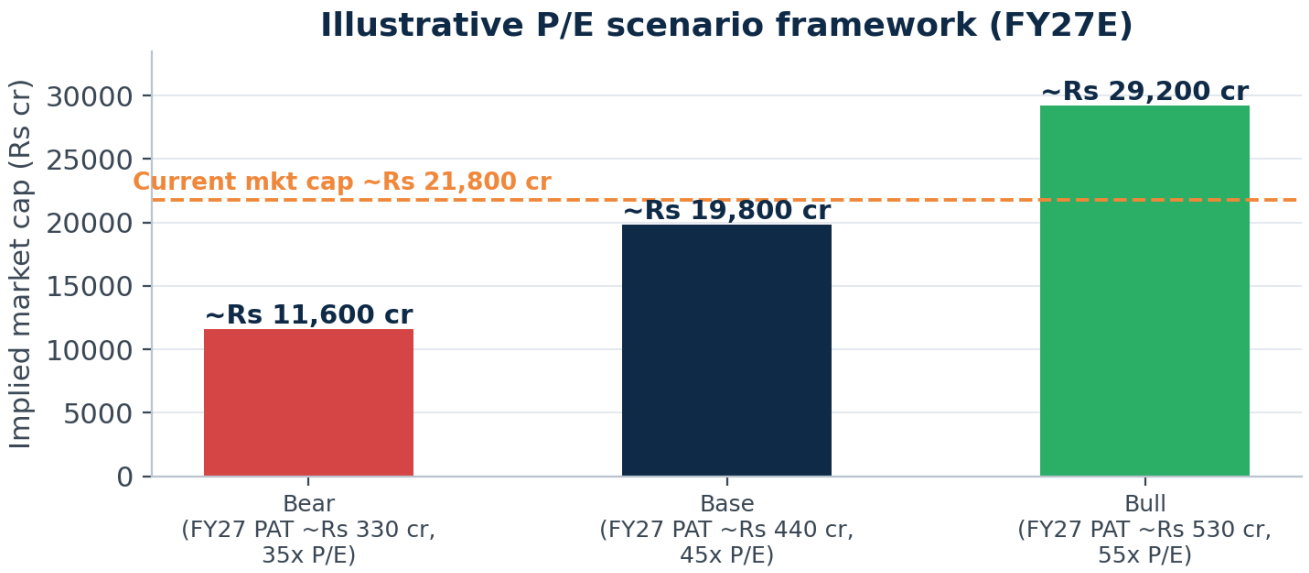
Reading the bridge

The illustrative bridge layers management's qualitative drivers onto the FY26 base: CMS volume ramp and GDS recovery push revenue up, the peptide facility adds an early contribution from H2, and a lumpiness/base-risk haircut acknowledges that any single program slipping can swing a quarter. The resulting FY27 zone is roughly Rs 2,200–2,500 cr — a wide band by design, reflecting genuine uncertainty in shipment timing. This is Stratinv scenario math, not company guidance.

STRATINV VIEW — THE FY27 ASYMMETRY
The asymmetry in FY27: the upside lever is a faster-than-expected CMS commercialization or an early peptide commercial deal (either could add materially to the top line); the downside lever is a slipped program or a soft GDS year that defers revenue into FY28. Because the cost base is largely fixed, both flow disproportionately to EBITDA — which is why margin guidance is wider than revenue guidance for this business.

Where the stock stands

At ~Rs 17,000 (early-June 2026 quotes ranged Rs 16,000–17,250; verify live), market capitalisation is roughly Rs 21,800 cr against FY26 PAT of Rs 364 cr — a trailing P/E in the ~55–60x range (some services show higher on different earnings bases), with P/B around 11–13x and EV/EBITDA elevated. This is a full CDMO multiple: the market is capitalising not just FY26 earnings but the CMS trajectory and peptide optionality. The 52-week range (Rs 11,011–19,747) shows how violently sentiment swings with each lumpy print.



How to think about the multiple

- **P/E logic:** a premium multiple is defensible only if CMS commercializations and peptide ramp deliver multi-year earnings growth; on trailing FY26 it looks expensive, on forward FY27–FY28 it compresses if execution lands.
- **Quality premium:** regulated-market track record, innovator stickiness and peptide optionality justify a premium to commodity-API peers — but not an unlimited one.
- **The lumpiness discount that isn't:** the market has largely looked through quarterly volatility, rewarding the annual trajectory; that goodwill reverses fast on any multi-quarter disappointment.

STRATINV SCENARIO SUMMARY

Scenario math (illustrative, not advice): Base case ~Rs 440 cr FY27 PAT at 45x supports ~Rs 19,800 cr — roughly flat to modestly below the current ~Rs 21,800 cr, i.e. the market already pays for FY27 execution. The bull case (faster CMS + early peptide deal, ~Rs 530 cr PAT at 55x) implies ~Rs 29,000 cr; the bear case (a soft, lumpy year, ~Rs 330 cr PAT de-rating to 35x) implies ~Rs 11,600 cr — roughly 45% downside. The risk/reward improves materially on drawdowns toward the Rs 12,000–14,000 cr zone. All figures depend on the live price — re-verify before acting.

Key risks, ranked by potential thesis damage

1. Revenue lumpiness & concentration

CDMO/specialty-GDS order flow is milestone- and shipment-driven; a slipped or cancelled innovator program can swing a quarter or a year. Highest-frequency risk — track new commercializations and pipeline disclosure.

2. Premium valuation / de-rating

At ~55–60x trailing earnings, the stock prices in multi-year flawless execution. Any disappointment or margin normalisation toward through-cycle levels can trigger a sharp de-rating, as the 52-week range shows.

3. Peptide execution slippage

The July 2026 facility commissioning and first commercial peptide deal are key catalysts; delays in commissioning, validation, or innovator project graduation defer the optionality and leave capex/depreciation stranded.

4. Working capital & FCF persistence

FY26 FCF was negative Rs 49 cr; WC days rose to 137. If FY27 normalisation doesn't materialise while capex stays high, cash conversion weakens and the quality narrative is challenged.

5. Regulatory / inspection risk

The CDMO moat rests on US FDA / EDQM compliance. An adverse inspection at a key unit would directly threaten innovator relationships and is the highest-severity tail risk.

6. Customer & geographic concentration

Innovator CDMO revenue can concentrate in a few large programs/customers; loss or pause of a major molecule (cf. Paliperidone disruption) has outsized impact.

7. Competitive & macro pressure

Larger peers (Divi's, Laurus) can out-invest in capacity; raw-material/supply-chain volatility and geopolitical/tariff shifts can pressure costs and coverage.

The quarterly watch-list (in order of importance)

1) New CMS commercializations and pipeline graduation; 2) peptide facility commissioning (Jul'26) and first commercial deal; 3) full-year (not quarterly) revenue and EBITDA-margin trajectory; 4) working-capital days and FCF normalisation; 5) regulatory inspection outcomes at key units; 6) customer/molecule concentration commentary; 7) capex pace vs capacity utilisation.

The Stratinv scorecard

CMS / CDMO growth engine	STRONG
Margin trajectory (FY26 29.4%, Q4 40.5%)	STRONG
Peptide optionality (facility Jul'26)	PROMISING
Earnings quality (operational, not one-off)	GOOD
Revenue predictability (lumpiness)	WEAK
Cash conversion / FCF (FY26 negative)	WEAK — build phase
Balance sheet (low leverage)	ADEQUATE
Valuation comfort (~55–60x trailing)	DEMANDING

Bottom line

Neuland is a high-quality, founder-led CDMO compounder that spent FY26 proving its model works: 37% revenue growth, a margin step-up to 29.4% (40.5% in Q4), and clear evidence that the CMS pivot toward innovator manufacturing is converting into operating leverage. Layered on top is a credibly-timed peptide bet that, if it lands, adds a high-margin growth vector for years. The offsets are equally clear: the business is genuinely lumpy, FY26 burned cash on a heavy capex year, working capital stretched, and the stock already trades at a full CDMO multiple that prices in much of the forward optionality. This is a name to own through the cycle, not trade through the quarter — and to accumulate on the volatility the lumpiness inevitably creates, sized for the possibility that a soft year or a slipped program triggers a sharp de-rating. Let new commercializations and the peptide milestones — not headline quarterly revenue — drive every add/trim decision.