

SELL

TP: Rs 4,527 | ▼ 12%

ALKEM LABS

| Pharmaceuticals

| 08 February 2025

Slower growth in a seasonally strong quarter

- Domestic sales were 6% below our estimates mainly due to slower recovery in the acute therapies and no price hike in NLEM portfolio
- ALKEM guides for EBITDA margin of 19% for FY25 despite reporting 21.6% in 9MFY25. It implies Q4FY25E EBITDA margin of 17-18%
- ALKEM to remain acute focus despite GLP launches, we ascribe acute centric P/E of 22x (from 29x) to arrive at a TP of Rs 4,527 (from Rs 7225)

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Mixed set of earnings in Q3: ALKEM reported in-line earnings growth, where revenue grew by 1.5% (-1.2% below our estimate) due to lower international sales which offset 5.7% growth in the domestic branded market. Healthy growth in domestic branded business resulted in 64% gross margin and 22.5% EBITDA margin, resulting in 5.2% EBITDA growth (4.2% above our estimate). Lower other income due to forex loss and higher interest cost resulted in 2.7% YoY growth in PAT (6% below our estimate).

Unlikely to surpass IPM growth in FY25E: ALKEM reported 5.9% YoY growth in the branded generic segment vs IPM growth of 7.2% primarily due to no price hikes in its NLEM portfolio which is 30% of sales. Though key brands like PAN-D recorded the highest growth rate of 15.5% in Q3FY25 and the PAN brand saw a ~1.9% increase in market share, rising from 38.5% to 40.4% YoY, the entire domestic region growth for FY25 is guided to grow in line with the IPM of 7%.

To be an acute focused despite GLP launch - Though ALKEM is on track to participate in the first wave of Semaglutide in India and expects to grow from a one-player market of Rs 5bn. Despite the launch of GLP products, ALKEM's chronic segment contribution is expected to remain ~20%. Due to Acute heavy portfolio, the company expects a mediocre growth rate of above 10% in FY26E.

Are med tech device companies valued so steeply? ALKEM acquired Bombay Ortho for Rs 1.47bn, with Rs 55mn of sales in FY24, implying EV/Sales of ~26x. Earlier, ALKEM had acquired US-based company Exactech for Rs 1.3bn. Overall, the focus of the company is not to spend more than Rs 20bn on med tech as it prefers core Rx businesses over medical devices.

Valuation outlook: ALKEM continues to guide for 19% EBITDA margin guidance in FY25, implying 17-18% margin in 4QFY25. Hence, we lower our EPS by 8%/7%/6% for FY25E/FY26E/FY27E. We downgrade the stock to SELL from BUY ascribing a P/E of 22x (earlier 29x) in-line with acute focused companies on Dec'26 rollover to arrive at a TP of Rs 4,527 (from Rs 7,225).

Key changes

Target	Rating
▼	▼

Ticker/Price	ALKEM IN/Rs 5,151
Market cap	US\$ 7.0bn
Free float	41%
3M ADV	US\$ 15.2mn
52wk high/low	Rs 6,440/Rs 4,407
Promoter/FPI/DII	57%/6%/16%

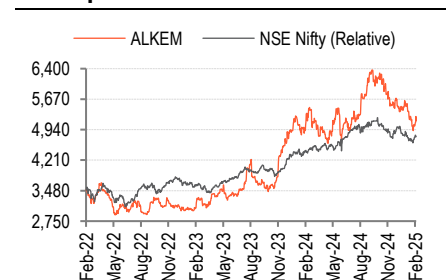
Source: NSE | Price as of 7 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	126,677	135,164	147,973
EBITDA (Rs mn)	22,456	27,016	30,408
Adj. net profit (Rs mn)	19,174	20,434	23,400
Adj. EPS (Rs)	160.4	170.9	195.7
Consensus EPS (Rs)	160.4	181.0	210.0
Adj. ROAE (%)	23.2	21.5	21.1
Adj. P/E (x)	32.1	30.1	26.3
EV/EBITDA (x)	27.1	22.5	20.1
Adj. EPS growth (%)	76.4	6.6	14.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Financial Highlights

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Net Sales	33,743	33,239	1.5	34,147	(1.2)	98,208	94,397	4.0	126677	135164	147973	162637
Total Expenses	26,149	26,017		26,618		76,999	78,737		104,221	108,148	117,565	126,646
(%) of net sales	77	78		78		78	83					
Raw material consumed	12,043	13,045	(7.7)	12,047	0.0	34,849	38,302	(9.0)	49375.8	49096.5	53749.2	57479.1
(%) of net sales	35.7	39.2		35		35	41					
Staff cost	6,248	5,722	9.2	6,105	2.3	18,376	16,952	8.4	22010.1	23884.8	25421.9	27142.9
(%) of net sales	18.5	17.2		17.9		18.7	18.0					
R&D cost	1,312	1,111	18.1	1,465	(10.4)	4,034	3,471	16.2	5229.0	6634.7	7263.4	7983.2
(%) of net sales	3.9	3.3		4.3		4.1	4					
Manufacturing & Other Expenses	6,546	6,139	6.6	7,002	(6.5)	19,740	20,012	(1.4)	27606.0	28532.0	31130.8	34040.4
(%) of net sales	19.4	18.5		20.5		20	21					
EBITDA	7,594	7,222	5.2	7,528	0.9	21,209	15,661	35.4	22,456	27,016	30,408	35,992
Depreciation	853	696	22.6	789		2,447	2,159		2993.0	3290.2	3657.7	3937.7
EBIT	6,741	6,526	3.3	6,739		18,763	13,502	39.0	19,463	23,726	26,750	32,054
Interest	360	255	41.5	281	28.0	933	856		1124.1	1191.5	1119.5	1007.5
Other Income	930	936	(0.7)	1,345	(30.9)	3,478	2,227		3108.4	1444.2	1840.8	2056.2
PBT	7,311	7,208	1.4	7,803	(6.3)	21,308	14,873	43.3	21,447	23,979	27,472	33,103
Less: Taxation	903	506		783		2,377	1,488		2116.7	3357.0	3846.0	4634.4
Less: Minority Interest	150	93		133		334	48		156.9	188.3	225.9	271.1
Recurring PAT	6,258	6,609	(5.3)	6,886	(9.1)	18,597	13,337	39.4	19,174	20,434	23,400	28,197
Exceptional items	0	(513)		0		0	(1,090)					
Reported PAT	6,258	6,096	2.7	6,886	(9.1)	18,597	12,248	51.8	19,174	20,434	23,400	28,197
Key Ratios (%)												
Gross Margin	64.3	60.8	356	64.7	(41)	64.5	59.4	509	100.0	100.0	100.0	100.0
EBITDA Margin	22.5	21.7	78	22.0	46	21.6	16.6	501	17.7	20.0	20.5	22.1
Tax / PBT	12.3	7.0		10.0		11.2	10.0		9.9	14.0	14.0	14.0
NPM	18.5	19.9	(134)	20.2	(162)	18.9	14.1		15.1	15.1	15.8	17.3
EPS (Rs)	52.3	55.3		57.6		155.6	111.6		160.4	170.9	195.7	235.9

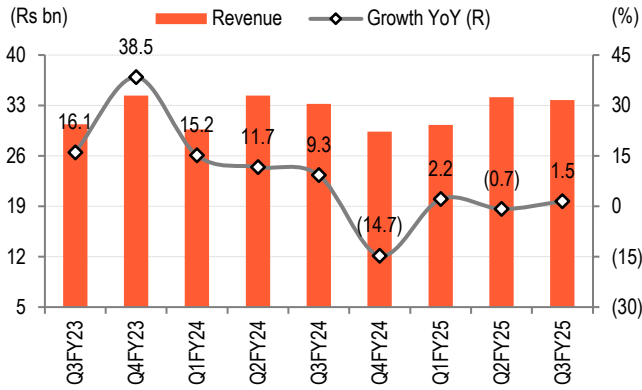
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Formulations												
India	23,649	22,328	5.9	24,767	(4.5)	68,639	64,613	6.2	84337	93117	102937	114272
US	6,340	6,838	(7.3)	5,976	6.1	18,732	21,468	(12.7)	27709	26030	27430	29001
RoW	3,265	3,402	(4.0)	3,205	1.9	9,731	9,459	2.9	12315	13547	14901	16391
Net Sales	33,254	32,568	2.1	33,948	(2.0)	97,102	95,540	1.6	124,361	132,693	145,268	159,664
Other Op. Income	489	671	(27.1)	198	146.3	1,105	(1,143)	(196.7)	2,316	2,471	2,705	2,973
Revenue	33,743	33,239	1.5	34,147	(1.2)	98,208	94,397	4.0	126,677	135,164	147,973	162,637

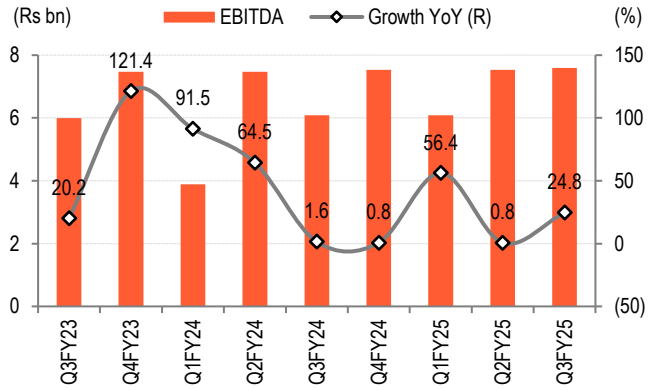
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth lower due to slower recovery in the acute segment



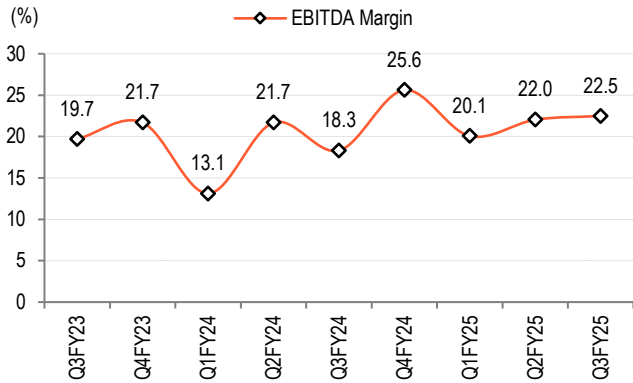
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth driven by domestic branded sales



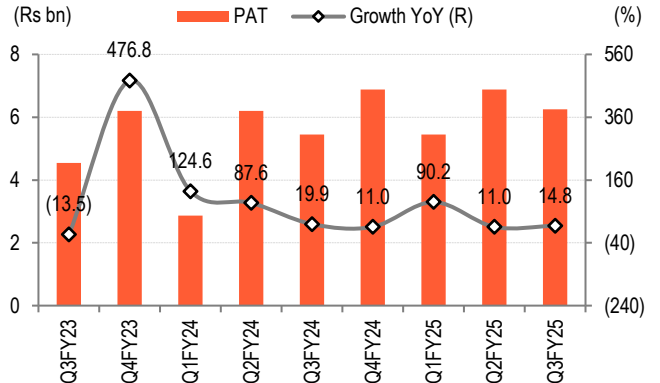
Source: Company, BOBCAPS Research

Fig 5 – Margin at its high due to higher sales in branded Rx business



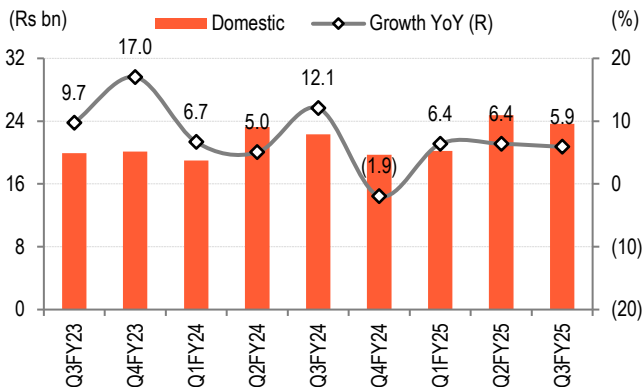
Source: Company, BOBCAPS Research

Fig 6 – PAT higher amidst to lower Other Income on forex loss



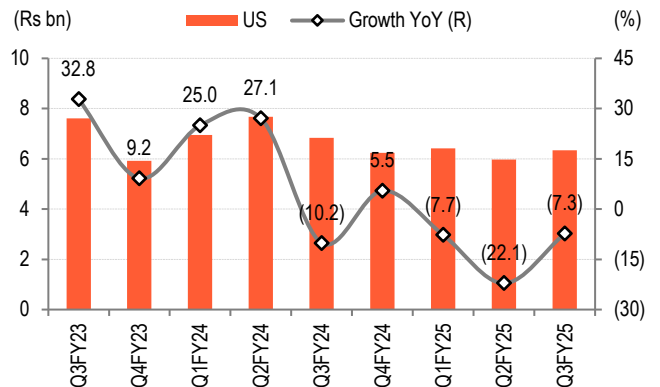
Source: Company, BOBCAPS Research

Fig 7 – Domestic sales below IPM level due to no price hike in NLEM portfolio



Source: Company, BOBCAPS Research

Fig 8 – US sales recovering led by easing of pricing pressure



Source: Company, BOBCAPS Research

Concall highlights

Outlook for FY25

- ALKEM guided for growth of 7% in FY25, in-line growth with IPM, and 9.5-10% growth for Q4FY25.
- R&D as a percentage of sales is at 4.5-5% in Q4FY25.
- US sales to remain flattish in Q4FY25.
- EBITDA margin guidance for FY25 remains at 19%.

India segment

- The contribution of domestic sales to total sales in Q3FY25 was 71.1% vs. 68.6% in Q3FY24.
- In Q3FY25, ALKEM outperformed IPM in seven therapies: VMN grew by 1.6x; Anti-diabetic grew by ~1.3x; Gastro intestinal grew by 1.3x; Neuro/CNS grew by ~1.2x; Gynaec ~1.9x, Respiratory ~1.4x and Urology ~1.3x.
- ALKEM registered positive volume growth of 1.1% in a challenging market that witnessed marginal 0.3% volume growth in Q3FY25.
- 30% of ALKEM's portfolio is in NLEM (National List of Essential Medicines).
- The company currently has 11,000 medical representatives.

Bombay Ortho market acquisition

- ALKEM acquired a 100% stake in Bombay Ortho for Rs 1.47bn. Bombay Ortho had a revenue of Rs 55mn in FY24.
- A few months ago, ALKEM announced its entry into the ortho business by licensing Exactech's technology. Exactech is one of the most popular hip and knee replacement brands in the US.
- To launch product in Dec'25 in the premium segment.
- Acquisition to give ALKEM a capacity of 2,000 hip and knee replacements on a monthly basis.
- According to the company, the market size of hip and knee replacements in India is Rs 2.4bn currently.
- The value segment is growing very fast and going forward this implant could be covered under Ayushman Bharat.
- ALKEM signed a contract to sell the knee and joint replacement device in the Indian market and eventually export to the ROW market.

Semaglutide

- Looking at a big opportunity in the domestic market in Semaglutide any one player will be able to service the entire market fully.

- It will not be as crowded as any other oral anti-diabetic that goes off patent and then there a large number of players. Almost 50-100 players are entering the Indian market with any molecule that goes off patent.
- Management expects the Semaglutide market to be Rs 5bn in India with a single player as of now and only in orals.
- ALKEM developed this product on its own and has filed with the regulator and will launch it in the first wave of patent expiry.

US

- Filed three ANDAs on a YTD basis and expects to file five more ANDAs in Q4FY25.
- As of 31 December 2024, the company filed 179 ANDAs and two new drug applications (NDAs) with the USFDA. Of these, it received approvals for 154 ANDAs (including 15 tentative approvals) and two NDAs.

Valuation methodology

ALKEM's sales was impacted by (1) slower pickup in the acute season in the domestic branded market, (2) ROW market declining due to currency issue in Chile, and (3) price erosion pressure of 5% in the base portfolio. However, due to raw material cost rationalisation, gross margin and EBITDA margin were healthy at 64% and 22.5% respectively. The company also acquired Bombay Ortho for a hefty valuation of 29x its sales where it expects to manufacture 2,000 units on a monthly basis.

However, going forward the company's focus remains on its core Rx branded business over medical device, where the company does not intend to invest more than Rs 20bn over four to five years. ALKEM expects to be in the first wave of the GLP launch in India and expects to launch Semaglutide in FY26 through its own development. From its core business, ALKEM expects its core brands like PAN, PAN-D, CLAVAM to be bigger, and to surpass IPM growth. However, the company has retained its IPM level growth in FY25 and ~10% growth in FY26 despite good launches.

The company also retains its 19% EBITDA margin guidance for FY25 despite achieving 21.6% margin in 9MFY25 due to higher R&D cost on account of the filing of five ANDAs, implying 17-18% margin in Q4FY25. Hence, we have lowered our EPS estimates by 8% for FY25, 7% for FY26 and 6% for FY27. Thus, we downgrade the stock to SELL from BUY. We ascribe an acute focused P/E of 22x (earlier 29x) on Dec'26 rollover due to (1) slower recovery in the acute segment, (2) lower-than-industry EBITDA margin of ~19% guided for FY25, (3) uncertainties in the ROW market, and (4) higher valuation for the medical device (Bombay Ortho) acquisition to arrive at a TP of Rs 4,527 (from Rs 7,225).

Fig 9 – Change in estimates

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	126,677	135,164	147,973	162,637	141,518	154,873	170,019	(4.5)	(4.5)	(4.3)
EBITDA	22,456	27,016	30,408	35,992	28,942	32,533	38,374	(6.7)	(6.5)	(6.2)
EBITDA margin (%)	17.7	20.0	20.5	22.1	20.5	21.0	22.6	(46bps)	(46bps)	(44bps)
EPS (Rs)	160	171	196	236	186	211	252	(7.9)	(7.0)	(6.4)

Source: Company, BOBCAPS Research

Fig 10 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	126,677	135,164	147,973	162,637
EBITDA	22,456	27,016	30,408	35,992
PAT	19,174	20,434	23,400	28,197
EPS (Rs)	160.4	170.9	195.7	235.9
EBITDA Margin (%)	17.7	20.0	20.5	22.1
PAT Margin (%)	15.1	15.1	15.8	17.3

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster recovery in the Acute segment in the domestic market,
- faster growth in the US and ROW markets,
- positive surprise on margins due to lower expenses, and
- faster growth in the Chronic segment.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	115,993	126,677	135,164	147,973	162,637
EBITDA	16,095	22,456	27,016	30,408	35,992
Depreciation	3,104	2,993	3,290	3,658	3,938
EBIT	12,991	19,463	23,726	26,750	32,054
Net interest inc./(exp.)	(1,074)	(1,124)	(1,191)	(1,119)	(1,008)
Other inc./(exp.)	2,161	3,108	1,444	1,841	2,056
Exceptional items	0	0	0	0	0
EBT	14,078	21,447	23,979	27,472	33,103
Income taxes	2,980	2,117	3,357	3,846	4,634
Extraordinary items	(1,030)	(1,215)	0	0	0
Min. int./Inc. from assoc.	226	157	188	226	271
Reported net profit	9,842	17,959	20,434	23,400	28,197
Adjustments	(1,030)	(1,215)	0	0	0
Adjusted net profit	10,872	19,174	20,434	23,400	28,197

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	11,650	17,481	16,359	14,726	15,310
Other current liabilities	10,178	12,672	14,596	15,980	14,370
Provisions	7,421	4,267	4,553	4,985	5,479
Debt funds	13,967	14,184	15,603	16,383	17,202
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	81,086	91,757	106,234	122,812	142,790
Shareholders' fund	81,325	91,996	106,473	123,051	143,029
Total liab. and equities	124,542	140,601	157,584	175,124	195,390
Cash and cash eq.	26,169	15,794	21,459	24,536	30,434
Accounts receivables	21,322	22,528	23,630	25,472	27,558
Inventories	26,075	26,612	27,266	33,830	39,369
Other current assets	14,696	40,516	47,106	53,023	59,874
Investments	6,218	4,838	4,838	4,838	4,838
Net fixed assets	26,829	28,728	31,938	32,280	32,342
CWIP	3,232	1,586	1,348	1,146	974
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	124,542	140,601	157,584	175,124	195,390

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	21,331	(315)	17,657	14,036	18,134
Capital expenditures	1,354	(3,250)	(6,500)	(4,000)	(4,000)
Change in investments	(2,508)	1,380	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,154)	(1,870)	(6,500)	(4,000)	(4,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12,715)	217	1,418	780	819
Interest expenses	(1,074)	(1,124)	(1,191)	(1,119)	(1,008)
Dividends paid	(3,169)	(5,589)	(5,956)	(6,821)	(8,220)
Other financing cash flows	(2,836)	(1,694)	238	202	172
Cash flow from financing	(19,794)	(8,190)	(5,492)	(6,958)	(8,236)
Chg in cash & cash eq.	383	(10,375)	5,665	3,078	5,897
Closing cash & cash eq.	26,169	15,794	21,459	24,536	30,434

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	82.3	150.2	170.9	195.7	235.9
Adjusted EPS	90.9	160.4	170.9	195.7	235.9
Dividend per share	22.7	40.1	42.7	48.9	59.0
Book value per share	647.7	735.9	857.0	995.6	1,162.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.3	4.8	4.5	4.1	3.7
EV/EBITDA	38.1	27.1	22.5	20.1	16.9
Adjusted P/E	56.6	32.1	30.1	26.3	21.8
P/BV	8.0	7.0	6.0	5.2	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	77.2	89.4	85.2	85.2	85.2
Interest burden (PBT/EBIT)	108.4	110.2	101.1	102.7	103.3
EBIT margin (EBIT/Revenue)	11.2	15.4	17.6	18.1	19.7
Asset turnover (Rev./Avg TA)	29.4	31.4	29.6	28.3	27.1
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.2	1.2	1.2
Adjusted ROAE	14.4	23.2	21.5	21.1	21.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	9.1	9.2	6.7	9.5	9.9
EBITDA	(21.6)	39.5	20.3	12.6	18.4
Adjusted EPS	(34.5)	76.4	6.6	14.5	20.5
Profitability & Return ratios (%)					
EBITDA margin	13.9	17.7	20.0	20.5	22.1
EBIT margin	11.2	15.4	17.6	18.1	19.7
Adjusted profit margin	9.4	15.1	15.1	15.8	17.3
Adjusted ROAE	14.4	23.2	21.5	21.1	21.9
ROCE	15.4	22.4	22.1	21.9	22.8
Working capital days (days)					
Receivables	67	66	65	64	63
Inventory	82	78	75	85	90
Payables	37	51	45	37	35
Ratios (x)					
Gross asset turnover	2.9	2.9	2.7	2.7	2.8
Current ratio	3.0	3.1	3.4	3.8	4.5
Net interest coverage ratio	12.1	17.3	19.9	23.9	31.8
Adjusted debt/equity	(0.2)	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Brand Name: **BOBCAPS**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

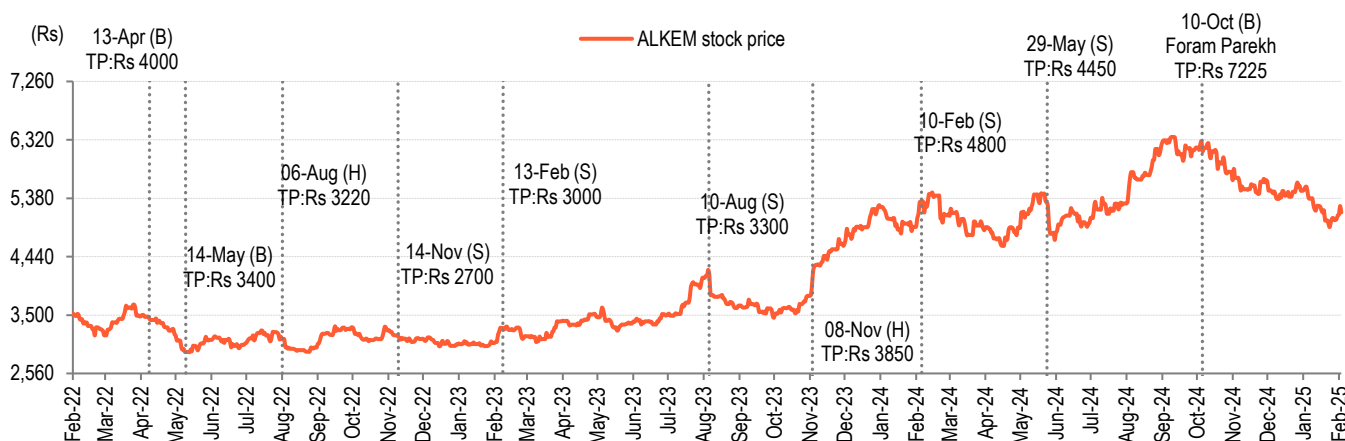
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ALKEM LABS (ALKEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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