

SELL**TP: Rs 4,527 | ▼ 11%****ALKEM LABS**

| Pharmaceuticals

| 30 May 2025

FY26 to be as flat as FY25

- Alkem missed our estimates where Sales /EBITDA /PAT were 0.4%/17% and 15%. EBITDA margin was 160 bps lower than estimates
- Domestic region guided for IPM level growth, US at 5-7% and ROW in ~15%, op. loss from CDMO and Medtech led to lower EBITDA guidance
- Due to the transient nature of a steep impact from 35% ETR, we change our valuation meth to EV/EBITDA. Ascribe 17x on FY27E EBITDA

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Below estimates on a low base— ALKEM reported a weak set of numbers amidst a lower base where Sales/APAT grew by 7.1%/4.4% to Rs 31.4bn/3bn; EBITDA declined by 2.7% to Rs 3.9bn. Sales were driven by 8.3% YoY growth in the domestic region, -2.5% YoY decline in US and 28% YoY growth in the ROW. During the quarter, RM cost grew by 15% to Rs 12.7bn, leading to 297 bps decline in gross margin to 59.3%. Employee expenses were up by 21.8%, offset by 6.3% and 9.8% decline in Manufacturing and R&D costs; thereby resulting in 125 bps decline in EBITDA margin. There was a one-time cost of Rs 125 mn in 4QFY24, adjusting against this cost, PAT grew by 4% to Rs 3bn.

EBITDA margin guided flat for FY26 – As guided, ALKEM reported 19.4% EBITDA margin for FY25, driven by product mix. Going forward, product mix will remain healthy; however, CDMO & Medtech loss of Rs1-1.25bn and higher R&D cost to lead to flat EBITDA margin at 19.5% in FY26.

India region growth to underperform peers – ALKEM's key domestic market reported at par IPM growth of 8% in FY25. Being an acute-centric company, ALKEM's key therapy's (Anti Infective) growth was lower at 2.3% vs IPM growth of 3.3%, primarily due to 30% of portfolio being into NLEM. Trade generic segment also grew 5-7% and likely to moderate as the market has become competitive. Going forward, management has guided for at par IPM level growth of 7-9%, which is lower than the industry peers that intend to surpass IPM growth by 1.5-2x.

Valuations – ALKEM's Sikkim's SEZ tax benefit will expire in FY27. It has MAT credit of Rs 1.45bn, hence ALKEM's effective ETR would be 35%. However, the cash tax is ~20%. As MAT credit expires, tax rate would normalise to 25%. Factoring in higher ETR from FY27, we have reduced our FY27E EPS by 28% to Rs 169 per share. Due to the transient nature of a steep impact from higher ETR, we prefer to shift our valuation methodology to EV/EBITDA. The stock currently trades at 20x EV/EBITDA. Given a lower margin vs its acute peer Mankind, and lack of prudent cash utilisation, we ascribe lower multiple of 17x FY27 EV/EBITDA to arrive at our similar TP of Rs 4,527.

Key changes

Target	Rating
◀ ▶	◀ ▶

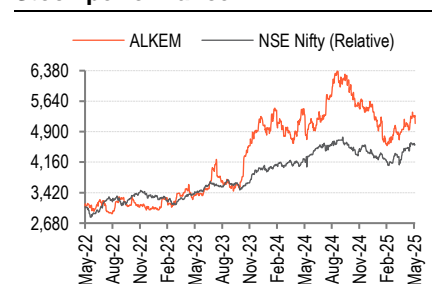
Ticker/Price	ALKEM IN/Rs 5,099
Market cap	US\$ 7.1bn
Free float	41%
3M ADV	US\$ 6.6mn
52wk high/low	Rs 6,440/Rs 4,407
Promoter/FPI/DII	57%/6%/16%

Source: NSE | Price as of 30 May 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	128,992	132,015	140,451
EBITDA (Rs mn)	22,455	25,122	27,848
Adj. net profit (Rs mn)	19,173	21,972	24,237
Adj. EPS (Rs)	160.4	183.8	202.7
Consensus EPS (Rs)	160.4	181.0	204.0
Adj. ROAE (%)	23.2	23.1	21.8
Adj. P/E (x)	31.8	27.7	25.1
EV/EBITDA (x)	26.8	23.9	21.6
Adj. EPS growth (%)	76.3	14.6	10.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Financial Summary

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Net Sales	31,438	29,358	7.1	33,743	(6.8)	126676	129645	140451	154407
Other Related Income									
Total Income						126,676	129,645	140,451	154,407
Total Expenses	27,525	25,338		26,149		104,221	104,524	112,603	123,068
(%) of net sales	88	86		77					
Raw material consumed	12,793	11,074	15.5	12,043	6.2	49375.8	47642.6	49654.5	54209.3
(%) of net sales	40.7	37.7		36					
Staff cost	6,164	5,058	21.8	6,248	(1.4)	22010.1	24539.2	26206.5	28810.6
(%) of net sales	19.6	17.2		18.5					
R&D cost	1,585	1,757	(9.8)	1,312	20.8	5229.0	6482.3	6896.5	7581.7
(%) of net sales	5.0	6.0		3.9					
Manufacturing & Other Expenses	6,983	7,449	(6.3)	6,546	6.7	27606.0	25859.6	29845.2	32465.9
(%) of net sales	22.2	25.4		19.4					
EBITDA	3,913	4,020	(2.7)	7,594	(48.5)	22,455	25,122	27,848	31,339
Depreciation	1,125	834	34.8	853		2993.0	3571.6	3780.2	4252.7
EBIT	2,788	3,186	(12.5)	6,741		19,462	21,550	24,068	27,086
Interest	284	269	5.8	360	(21.1)	1124.1	1217.0	1203.1	1084.9
Other Income	1,460	882	65.5	930	57.0	3108.4	4937.4	5210.8	5381.8
PBT	3,963	3,799	4.3	7,311	(45.8)	21,446	25,270	28,076	31,383
Less: Taxation	733	629		903		2116.7	3110.3	3649.8	10984.2
Less: Minority Interest	165	109		150		156.9	188.3	188.3	188.3
Recurring PAT	3,065	3,061	0.1	6,258	(51.0)	19,173	21,972	24,237	20,211
Exceptional items	0	(125)		0					
Reported PAT	3,065	2,936	4.4	6,258	(51.0)	19,173	21,972	24,237	20,211
Key Ratios (%)									
Gross Margin	59.3	62.3	(297)	64.3	(500)	100.0	100.0	100.0	100.0
EBITDA Margin	12.4	13.7	(125)	22.5	(1006)	17.7	19.4	19.8	20.3
Tax / PBT	18.5	16.5		12.3		9.9	12.3	13.0	35.0
NPM	9.7	10.4	(68)	18.5	(880)	15.1	16.9	17.3	13.1
EPS (Rs)	25.6	25.6		52.3		160.4	183.8	202.7	169.1

Source: Company, BOBCAPS Research

Fig 2 – Segmental Revenue

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Formulations									
India	21,355	19,724	8.3	23,649	(9.7)	84337	89837	97024	106241
US	6,086	6,241	(2.5)	6,340	(4.0)	27709	24818	26174	28452
RoW	3,661	2,855	28.2	3,265	12.1	12315	13392	14731	16941
Net Sales	31,102	28,820	7.9	33,254	(6.5)	124,361	128,047	137,929	151,634
Other Op. Income	336	538	(37.7)	489	(31.4)	2,315	1,598	2,522	2,772
Revenue	31,438	29,358	7.1	33,743	(6.8)	126,676	129,645	140,451	154,407

Source: Company, BOBCAPS Research

Earnings Call

Guidance

Expect domestic sales growth to be in line or 100 bps higher vs IPM growth of 7-8%.
Trade generics growth to be in line with IPM growth.

US sales to grow at mid-single digit in FY26.

ROW market to grow in mid-teens in FY26.

Gross margin to stay at 63 – 63.5%.

SG&A expenses as a % to sales to be at a similar level to FY25.

FY26 EBITDA margin at 19.5%.

R&D as % of sales at 5% of sales to file 8-9 products.

ETR guidance of 13-15% in FY26 and 35% - 37% in FY27E and gradually move to 25% tax rate.

FY26 capex to be ~7-7.5bn, out of which Enzene would be Rs 2bn.

Domestic

Volume growth – ALKEM reported volume growth of 2.1% vs IPM's volume growth of 1.2%, so outperforming IPM volume growth by 90bps.

Anti Infective therapy - oral solids and liquids portfolio has outperformed the market, growing almost 1.7x the IPM. However, the company saw certain challenges on the injectable anti-infective portfolio.

Trade Generics - Witnessed mid-single-digit kind of growth, within the range of around 6% to 7%. So, that is how it was and the market has become quite competitive.

Biosimilars

Project update – the project is running on track and will likely get completed latest by Q2FY26. It has witnessed Rs 5.5bn capex, out of which Rs 4.5bn was spent in FY25. Expects some revenue in FY26.

Financials - FY25 sales were Rs 2.90 bn, including sales from Alkem. So, few of the products Enzene manufactured for Alkem and then, Alkem sold those products. Hence, including that and the third party sale which Enzene does to other pharma companies, total sales was around Rs 2.9bn.

US -

Price Erosion – Price erosion continues. But with the supply situation getting better, with certain opportunities also coming the way, ALKEM is hopeful of a mid-single-digit kind of growth this year from the US.

New Launches – Expect to launch 5-6 new products in FY26, but not a major launch.

R&D attribution - There would be products that the company would be developing for the rest of the world markets as well and ALKEM would be doing a lot of filings for these markets. So, I think it's a mix of ROW and then, even the US portfolio side, which are re looking at the portfolios and doing more on the complex injectable side and even on the domestic market, ALKEM is running certain clinical trials which are not done in FY25. So, a sum total all the markets.

Medtech - Buying a technology and brand licensing from Exactech for hip and knee replacement business. They paid less than half of the amount last year, and a balance of around Rs 700 mn will be paid in FY26. **Exactech, Bombay Ortho business to start from January 26.**

Bombay Ortho - Bombay Ortho will gradually build up because this is a manufacturing facility which ALKEM has acquired; they have capabilities to manufacture hip and knee replacements. So, this year, they are targeting sales of ~Rs 200 to Rs 250 mn.

CDMO - CDMO business will start in Q2FY26 and it will take some time to completely utilise the capacity of the US facility, billing for CDMO engine.

Operational Loss in FY26 - Both MedTech and the CDMO businesses combined Rs125 crore of EBITDA loss.

Valuation Methodology

ALKEM's results were below our estimates amidst a low base, largely due to the underperformance of the US market. ALKEM's RM and employee cost were higher, which resulted in 125 bps decline in the EBITDA margin at 12.4%.

Going forward, management has guided for flat EBITDA margin of 19.5% in FY26 amidst 19.4% margin in FY25. The decline is expected on operational loss of Rs 1.2-1.25 bn from CDMO and Medtech business and higher R&D cost. Management expects CDMO sales to clock from 2QFY26 and Med tech sales from FY27, but peak sales from Medtech are expected to be ~Rs 2bn; to be achieved over a 5Y period. In FY27, EBITDA margin is expected to report 100 bps above the FY26 margin; though in FY27, ALKEM's Sikkim's SEZ tax benefit will expire. It has a MAT credit of Rs 1.45bn, hence ALKEM's effective ETR would be 35%. However, as MAT credit expires, its tax rate will be normalised at 25% and cash tax expected to be ~20%.

Factoring in higher ETR from FY27, we have reduced our EPS by 28% in FY27E to Rs 169 per share. Due to the transient nature of a steep impact from higher ETR, we prefer to shift our valuation methodology to EV/EBITDA. The stock currently trades at 20x EV/EBITDA, and due to a margin lower than its acute peer Mankind and lack of prudent cash utilisation, we ascribe a lower multiple of 17x FY27 EV/EBITDA to arrive at our similar TP of Rs 4,527 and retain SELL.

Fig 3 – Change in estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	140,451	154,407	147,973	162,637	(5.1)	(5.1)
EBITDA	27,848	31,339	30,408	35,992	(8.4)	(12.9)
EBITDA margin (%)	19.8	20.3	20.5	22.1	(72) bps	(183) bps
EPS (Rs)	203	169	195	236	4.0	(28.2)

Source: Company, BOBCAPS Research

Key Risks

Key upside risks to our estimates:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	115,993	128,992	132,015	140,451	154,407
EBITDA	16,095	22,455	25,122	27,848	31,339
Depreciation	3,104	2,993	3,572	3,780	4,253
EBIT	12,991	19,462	21,550	24,068	27,086
Net interest inc./(exp.)	(1,074)	(1,124)	(1,217)	(1,203)	(1,085)
Other inc./(exp.)	2,161	3,108	4,937	5,211	5,382
Exceptional items	0	0	0	0	0
EBT	14,078	21,446	25,270	28,076	31,383
Income taxes	2,980	2,117	3,110	3,650	10,984
Extraordinary items	(1,030)	(1,215)	0	0	0
Min. int./Inc. from assoc.	226	157	188	188	188
Reported net profit	9,842	17,958	21,972	24,237	20,211
Adjustments	(1,030)	(1,215)	0	0	0
Adjusted net profit	10,872	19,173	21,972	24,237	20,211

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	11,650	17,481	18,394	20,406	23,264
Other current liabilities	10,178	12,672	15,335	15,172	13,647
Provisions	7,421	4,267	4,973	5,291	5,817
Debt funds	13,967	14,184	13,809	14,499	15,224
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	81,086	91,757	106,715	123,887	138,206
Shareholders' fund	81,325	91,996	106,954	124,126	138,445
Total liab. and equities	124,542	140,601	159,465	179,494	196,398
Cash and cash eq.	26,169	15,794	16,607	20,310	24,563
Accounts receivables	21,322	22,528	24,663	24,185	26,173
Inventories	26,075	26,612	29,224	30,231	33,235
Other current assets	14,696	40,516	37,552	50,344	56,863
Investments	6,218	4,838	18,131	18,131	18,131
Net fixed assets	26,829	28,728	28,523	32,243	33,990
CWIP	3,232	1,586	4,765	4,050	3,443
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	159,465	179,494	196,398

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	21,331	(316)	29,259	18,066	15,897
Capital expenditures	1,354	(3,250)	(6,500)	(7,500)	(6,000)
Change in investments	(2,508)	1,380	(13,293)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,154)	(1,870)	(19,793)	(7,500)	(6,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12,715)	217	(375)	690	725
Interest expenses	(1,074)	(1,124)	(1,217)	(1,203)	(1,085)
Dividends paid	(3,169)	(5,589)	(6,405)	(7,065)	(5,891)
Other financing cash flows	(2,836)	(1,694)	(655)	715	608
Cash flow from financing	(19,794)	(8,189)	(8,652)	(6,863)	(5,644)
Chg in cash & cash eq.	383	(10,375)	814	3,703	4,253
Closing cash & cash eq.	26,169	15,794	16,607	20,310	24,563

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	82.3	150.2	183.8	202.7	169.1
Adjusted EPS	90.9	160.4	183.8	202.7	169.1
Dividend per share	22.7	40.1	45.9	50.7	42.3
Book value per share	647.7	735.9	857.1	1,000.7	1,120.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.2	4.7	4.5	4.3	3.9
EV/EBITDA	37.7	26.8	23.9	21.6	19.0
Adjusted P/E	56.1	31.8	27.7	25.1	30.2
P/BV	7.9	6.9	5.9	5.1	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	77.2	89.4	86.9	86.3	64.4
Interest burden (PBT/EBIT)	108.4	110.2	117.3	116.7	115.9
EBIT margin (EBIT/Revenue)	11.2	15.1	16.3	17.1	17.5
Asset turnover (Rev./Avg TA)	29.4	32.0	29.1	27.1	26.4
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.2	1.2	1.2
Adjusted ROAE	14.4	23.2	23.1	21.8	15.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	9.1	11.2	2.3	6.4	9.9
EBITDA	(21.6)	39.5	11.9	10.9	12.5
Adjusted EPS	(34.5)	76.3	14.6	10.3	(16.6)

Profitability & Return ratios (%)

EBITDA margin	13.9	17.4	19.0	19.8	20.3
EBIT margin	11.2	15.1	16.3	17.1	17.5
Adjusted profit margin	9.4	14.9	16.6	17.3	13.1
Adjusted ROAE	14.4	23.2	23.1	21.8	15.9
ROCE	15.4	22.4	23.3	22.6	22.2

Working capital days (days)

Receivables	67	65	69	64	63
Inventory	82	77	82	80	80
Payables	37	50	52	54	56

Ratios (x)

Gross asset turnover	2.9	2.9	2.6	2.4	2.4
Current ratio	3.0	3.1	2.8	3.1	3.3
Net interest coverage ratio	12.1	17.3	17.7	20.0	25.0
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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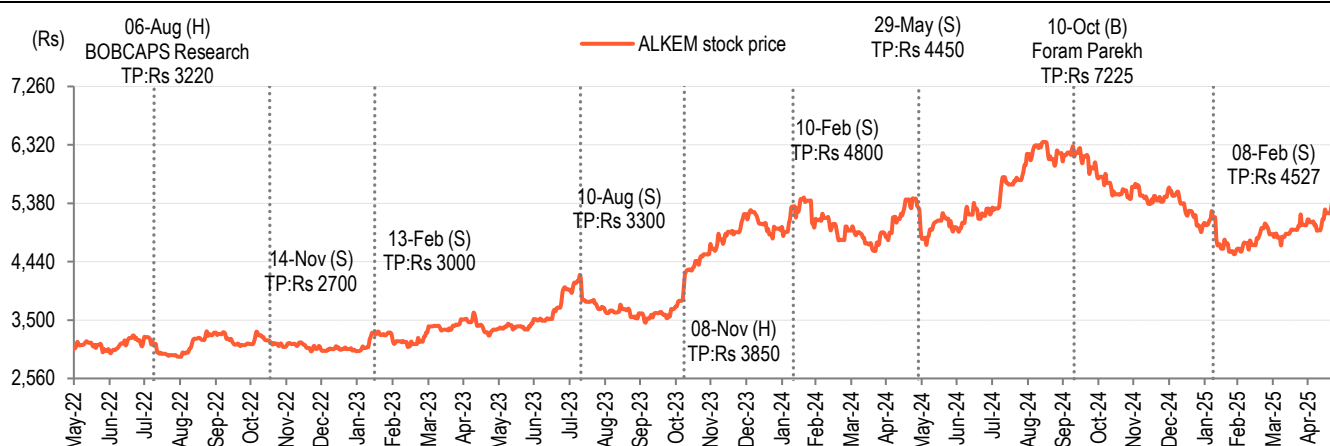
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Note: Recommendation structure changed with effect from 21 June 2021

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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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