

RESEARCH

BOB ECONOMICS RESEARCH | GDP

GDP expands by 6.5% in FY25

ALKEM LABS | TARGET: Rs 4,527 | -11% | SELL

FY26 to be as flat as FY25

SUMMARY

INDIA ECONOMICS: GDP

According to MOSPI, India's real GDP has risen by 6.5% in FY25 and the nominal GDP has expanded by 9.8% for the same period. On supply side, heavy lifting by agriculture sector at 4.6% pushed the GVA growth to 6.4% in FY25. On the other hand, manufacturing and construction sector has grown at slower pace in FY25 at 4.5% and 9.4% respectively. But, higher growth was noted for public admin at 8.9% from 8.8% in FY24. For quarterly, GDP growth surged to 7.4% in Q4FY25 supported by strong agriculture growth. In FY26, Indian economy is projected to grow by 6.4-6.6% on the back of pick up in consumption spending along with uptick in investment activity.

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ALKEM LABS

- 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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GDP

30 May 2025

GDP expands by 6.5% in FY25

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Jahnvi Prabhakar
Economist

Lower commodity prices, ongoing monetary easing and lower inflation on account of favorable monsoon bodes well for growth. There are global headwinds which will have an adverse impact on global trade amidst the ongoing uncertainty due to evolving tariff issues and geopolitical conflict.

FY25 GDP

India's GDP rose by 6.5% in FY25 at a slower pace against an increase of 9.2% in FY24 partly due to base effect. Nominal GDP for FY25 was up by 9.8% compared with the 12% increase in FY24. On expenditure side, PFCE registered double digit growth of 12% compared with 9.7% growth in FY24. Though, GFCE growth was lower at 6.4% versus 12.6% growth last year. Investment rose at fairly steady pace at 7.9% from 9.2% in FY24. On the bright side, exports growth accelerated to a record 8.3% growth in FY25 from 3.3% growth in FY24 and even imports growth surged to 9.5% after contracting by (-) 1.7% in the previous year.

GVA growth moderates to 6.4% compared with 8.6% increase in FY25. In line with expectation, agriculture growth registered a strong growth of 4.6% against 2.7% growth in FY24 and supported by record foodgrain production. Within industrial sector, growth for mining and manufacturing decelerated down to 2.7% (3.2% in FY24) and 4.5% (12.3%) in FY25. Moreover, electricity and construction growth also expanded at a much slower pace at 5.9% (8.6% in FY24) and 9.4% (10.4% in FY24) in FY25. For services sector, softer growth was registered for both trade, hotels and financial services at 6.1% (7.5% in FY24) and 7.2% (10.3% in FY24) in FY25. However, growth in public admin strengthened with 8.9% in FY25 against 8.8% in the previous year.



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
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Foram Parekh

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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%

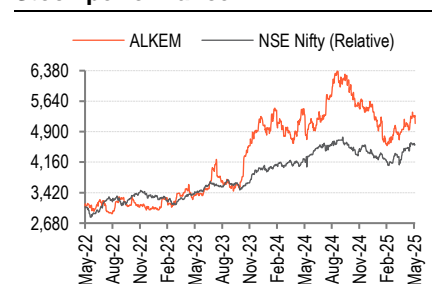
Source: NSE | Price as of 30 May 2025

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



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Note: Recommendation structure changed with effect from 21 June 2021

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