

HOLD

TP: Rs 5,419 | ▲ 5%

ALKEM LABS

| Pharmaceuticals

| 13 August 2025

Earnings above expectations, valuations attractive

- Sales/EBITDA/PAT surpassed our estimates by 4%/27%/46%. This was due to lower other expenses & lower ETR
- Expect ALKEM to move past 19% EBITDA margin in FY26 on strong Q1 and sustained growth momentum across geographies
- Continue to ascribe 17x EV/EBITDA on June'27 roll forward to arrive at TP of 5,419. Upgrade to HOLD

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Earnings above estimates on all fronts: ALKEM reported healthy earnings with sales/EBITDA/PAT reported at 11%/21%/22% respectively. Sales was higher due to a 12% growth in the domestic region, 9% growth in the US and ROW regions each. Healthy product mix and softening of API prices led to a 75 bps increase in the gross margin. During the quarter, employee cost rose by 15% due to annual increment, but was offset by a 6% decline in the R&D (completion of Denosumab clinical trial saved Rs 300-400 mn), resulting in an 185 bps increase in EBITDA margin at 21.9%. Subsequently, PAT grew by 22% YoY.

Domestic sales to outperform IPM by 100-150 bps: During the quarter, domestic sales grew by 12%, driven by outperformance in 7 therapies like Gastro by 1.6x, Vitamins by 2.3x, Pain & Anti Diabetic by 1.4x / CNS by 1.2x and Respiratory by 1.4x. Volume growth was 2.9% vs IPM of 1.5%. Med tech segment, too, contributed with Rs 25mn sales, which is expected to scale up to Rs 200mn by FY26. Due to seasonality, volume growth and price growth, we expect this segment to grow at 9% CAGR from FY25-28E.

US growth momentum to sustain: During the quarter, US grew by 9%, largely driven by a healthy base business amidst 3-4% price erosion in the base products and new launches. The launch momentum would likely continue with the launch of Sacubitril Valsartan in July'25. The Company is diversifying from generics to complex products like CDMO/Biosimilars. CDMO sales is expected to pick up in H2FY26 post the commercialization of CDMO plant in H2FY26. The company has also filed Bevacizumab with the USFDA that will probably get approval by mid FY27; the launch thereafter, depending on the settlement with the innovator. Hence, we expect sales to grow by 7% CAGR from FY25-28E.

Outlook: We have retained our FY26 & FY27 estimates, have introduced FY28 estimates and arrive at a sales/EBITDA/PAT CAGR of 9%/13%/2% (due to 35% ETR from FY27). We continue to value the stock on ascribed 17x EV/EBITDA on June'27 roll forward basis to arrive at TP of Rs 5,419, implying 5% upside from CMP, thus upgrading our stock to HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	ALKEM IN/Rs 5,149
Market cap	US\$ 7.0bn
Free float	41%
3M ADV	US\$ 10.0mn
52wk high/low	Rs 6,440/Rs 4,492
Promoter/FPI/DII	57%/6%/16%

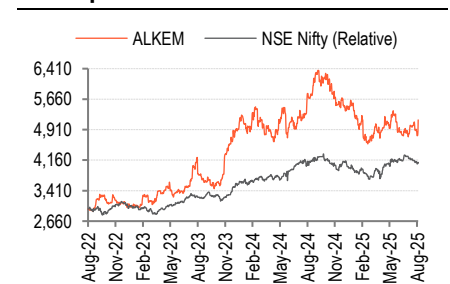
Source: NSE | Price as of 12 Aug 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	132,015	140,451	154,407
EBITDA (Rs mn)	25,122	27,848	31,339
Adj. net profit (Rs mn)	21,972	23,676	20,175
Adj. EPS (Rs)	183.8	198.0	168.8
Consensus EPS (Rs)	181.0	195.0	190.0
Adj. ROAE (%)	23.1	21.4	16.0
Adj. P/E (x)	28.0	26.0	30.5
EV/EBITDA (x)	24.1	21.8	19.2
Adj. EPS growth (%)	14.6	7.8	(14.8)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Financial Highlights

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25	FY26E	FY27E	FY28E	Q4FY25	Var. (%)
Net Sales	33,711	30,318	11.2	31,438	7.2	129,645	140,451	154,407	169,211	32,298	4.4
Total Expenses	26,321	24,231		27,525		104,524	112,603	123,068	133,326	26,485	
(%) of net sales	78	80		88						82	
Raw material consumed	11,712	10,759	8.9	12,793	(8.5)	47,643	49,654	54,209	58,161	11,304	
(%) of net sales	34.7	35.5		41						35.0	
Staff cost	6,933	6,023	15.1	6,164	12.5	24,539	26,207	28,811	31,573	6,460	
(%) of net sales	20.6	19.9		19.6						20.0	
R&D cost	1,184	1,257	(5.8)	1,585	(25.3)	6,482	6,896	7,582	8,309	1,615	
(%) of net sales	3.5	4.1		5.0						5.0	
Manufacturing & Other Expenses	6,493	6,193	4.8	6,983	(7.0)	25,860	29,845	32,466	35,284	7,106	
(%) of net sales	19.3	20.4		22.2						22.0	
EBITDA	7,391	6,087	21.4	3,913	88.9	25,122	27,848	31,339	35,884	5,814	27.1
Depreciation	877	805	8.9	1,125		3,572	3,780	4,253	4,673	1,150	
EBIT	6,514	5,282	23.3	2,788		21,550	24,068	27,086	31,212	4,664	39.7
Interest	298	291	2.3	284	4.8	1,217	1,203	1,085	1,092	290	
Other Income	1,365	1,203	13.4	1,460	(6.5)	4,937	5,211	5,326	5,918	1,400	
PBT	7,581	6,194	22.4	3,963	91.3	25,270	28,076	31,328	36,037	5,774	31.3
Less: Taxation	1,027	691		733		3,110	4,211	10,965	12,613	1,068	
Less: Minority Interest	(89)	51		165		188	188	188	188	165	
Recurring PAT	6,643	5,452	21.8	3,065	116.7	21,972	23,676	20,175	23,236	4,540	46.3
Exceptional items	0	0		0						0	
Reported PAT	6,643	5,452	21.8	3,065	116.7	21,972	23,676	20,175	23,236	4,540	46.3
Key Ratios (%)											
Gross Margin	65.3	64.5	75	59.3	595	100.0	100.0	100.0	100.0	65.0	
EBITDA Margin	21.9	20.1	185	12.4	948	19.4	19.8	20.3	21.2	18.0	
Tax / PBT	13.5	11.2		18.5		12.3	15.0	35.0	35.0	18.5	
NPM	19.7	18.0	172	9.7	996	16.9	16.9	13.1	13.7	14.1	
EPS (Rs)	55.6	45.6		25.6		183.8	198.0	168.8	194.4	38.0	

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25	FY26E	FY27E	FY28E	Q4FY25	Var. (%)
Formulations											
India	22,650	20,223	12.0	21,355	6.1	89,837	97,024	106,241	116,334	21,841	3.7
US	6,982	6,416	8.8	6,086	14.7	24,818	26,174	28,452	30,357	6,544	6.7
RoW	3,556	3,261	9.0	3,661	(2.9)	13,392	14,731	16,941	19,482	3,913	(9.1)
Net Sales	33,188	29,900	11.0	31,102	6.7	128,047	137,929	151,634	166,173	32,298	2.8
Other Op. Income	523	418	25.2	336	56.0	1,598	2,522	2,772	3,038	-	-
Revenue	33,711	30,318	11.2	31,438	7.2	129,645	140,451	154,407	169,211	32,298	4.4

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

Domestic sales to grow 100-150 bps above the IPM level.

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

ROW market to grow in mid-teens in FY26.

Gross margin guidance 64%.

R&D, as % of sales, at 4.5-5%.

FY26 EBITDA margin at 19.5%

ETR guidance of 13-15% in FY26 and 35% - 37% in FY27E.

Capex of Rs 7.5bn in FY26.

Domestic sales

Branded generics: According to IQVIA data, The company registered a growth of 9.7% YoY outperforming the IPM by 120bps, which grew by 8.5%.

Volume growth: Reported 2.9% volume growth, outperforming IPM volume growth of 1.5%.

Therapy outperformance: ALKEM outperformed IPM across 7 key therapies namely GI, which grew 1.6x, Vitamins and Minerals at 2.3x, Pain grew at 1.4x of the respective market, Anti-Diabetics at 1.4x, Neuro/CNS at 1.2x and Respiratory at 1.4x of the IPM.

Med Tech: Revenue reported for Q1FY25 was Rs 25 mn and positive response from customers coming in. Management expects to scale up this business to Rs 200 mn by FY26 and expects to become EBITDA breakeven by FY28. Currently, it is at an EBITDA loss of Rs 400-500 mn loss and is expected to report similar loss in FY27 due to Rs 250 – 300 mn quarterly opex.

Adroit: The acquisition was closed in Mid-April of 2025 and sales from this segment was lesser at Rs 150 mn.

US

Biosimilar: Filed BLA for Bevacizumab and expects approval by mid-FY27; patent expiry in May'26. Denosumab had R&D cost of Rs 350- 400 mn for Clinical studies

Generics: Witnessed 3-4%YoY price erosion in the base portfolio.

CDMO: Sales from the CDMO segment have started at a small scale, mainly from the lab work. The facility would get operational from Q3 – Q4 FY26.

Tariff strategy: Some part of the costs that will get laid will be passed on to the consumer and wherever it is implemented, will try and get more efficient in terms of getting backward integrated or would look at the other options.

Non-US market: Focus on the non-US business has increased management intends to grow the non-US business, which is currently very strong. Management is working on the overall growth, which is helping them. Management is filing in a lot more products, in the non-US markets than they were doing previously, which strengthens focus on the non-US market.

Enzene revenue: Revenue from this segment for Q1FY26, including CDMO, was 900 mn.

Valuation Methodology

ALKEM reported earnings above our estimates on all fronts, primarily due to a healthy 12% sales growth in the domestic region (68% contribution) and 9% growth in the US and ROW regions. During the quarter, API prices softened, which resulted in a gross margin increase of 75 bps to 65.3% and due to R&D cost rationalisation, EBITDA margin increased by 185 bps to 21.9%.

Going forward, we believe growth momentum across geographies would be sustainable, driven by: 1) volume growth in the domestic region 2) CDMO sales participation in the US region 3) new product launches in the ROW region. Though there are Opex costs like Rs 500 mn towards CDMO and Rs 250-300 mn towards Medtech and higher R&D cost in H2FY26 – we believe the probability of ALKEM surpassing 19% EBITDA margin is quite high, due to a healthy product mix.

We have retained our FY26 & FY27 estimates, have introduced FY28 estimates and arrive at a sales/EBITDA/PAT CAGR of 9%/13%/2% (due to 35% ETR from FY27). We continue to value the stock on ascribed 17x EV/EBITDA on June'27 roll forward basis to arrive at TP of Rs 5,419, implying 5% upside from CMP, thus upgrading our stock to HOLD.

Key Risk

Key upside risks:

- 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

Key downside risk:

- Slower recovery in the acute segment in domestic market
- Slower growth in the US and ROW markets
- Negative surprise on margins due to higher expenses
- Slower growth in the Chronic segment

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	128,992	132,015	140,451	154,407	169,211
EBITDA	22,455	25,122	27,848	31,339	35,884
Depreciation	2,993	3,572	3,780	4,253	4,673
EBIT	19,462	21,550	24,068	27,086	31,212
Net interest inc./(exp.)	(1,124)	(1,217)	(1,203)	(1,085)	(1,092)
Other inc./(exp.)	3,108	4,937	5,211	5,326	5,918
Exceptional items	0	0	0	0	0
EBT	21,446	25,270	28,076	31,328	36,037
Income taxes	2,117	3,110	4,211	10,965	12,613
Extraordinary items	(1,215)	0	0	0	0
Min. int./Inc. from assoc.	157	188	188	188	188
Reported net profit	17,958	21,972	23,676	20,175	23,236
Adjustments	(1,215)	0	0	0	0
Adjusted net profit	19,173	21,972	23,676	20,175	23,236

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	17,481	18,394	20,406	23,264	25,495
Other current liabilities	12,672	15,335	15,172	13,647	14,956
Provisions	4,267	4,973	5,291	5,817	6,375
Debt funds	14,184	13,809	14,499	15,224	15,985
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	91,757	106,715	123,489	137,783	154,246
Shareholders' fund	91,996	106,954	123,728	138,022	154,485
Total liab. and equities	140,601	159,465	179,097	195,974	217,295
Cash and cash eq.	15,794	16,607	19,912	24,140	33,502
Accounts receivables	22,528	24,663	24,185	26,173	28,682
Inventories	26,612	29,224	30,231	33,235	36,421
Other current assets	40,516	37,552	50,344	56,863	62,315
Investments	4,838	18,131	18,131	18,131	18,131
Net fixed assets	28,728	28,523	32,243	33,990	35,318
CWIP	1,586	4,765	4,050	3,443	2,926
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	140,601	159,465	179,097	195,974	217,295

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	(316)	29,259	17,504	15,861	21,950
Capital expenditures	(3,250)	(6,500)	(7,500)	(6,000)	(6,000)
Change in investments	1,380	(13,293)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,870)	(19,793)	(7,500)	(6,000)	(6,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	217	(375)	690	725	761
Interest expenses	(1,124)	(1,217)	(1,203)	(1,085)	(1,092)
Dividends paid	(5,589)	(6,405)	(6,902)	(5,881)	(6,773)
Other financing cash flows	(1,694)	(655)	715	608	516
Cash flow from financing	(8,189)	(8,652)	(6,699)	(5,633)	(6,588)
Chg in cash & cash eq.	(10,375)	814	3,305	4,228	9,362
Closing cash & cash eq.	15,794	16,607	19,912	24,140	33,502

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	150.2	183.8	198.0	168.8	194.4
Adjusted EPS	160.4	183.8	198.0	168.8	194.4
Dividend per share	40.1	45.9	49.5	42.2	48.6
Book value per share	735.9	857.1	997.4	1,117.0	1,254.7

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	4.7	4.6	4.3	3.9	3.5
EV/EBITDA	27.1	24.1	21.8	19.2	16.7
Adjusted P/E	32.1	28.0	26.0	30.5	26.5
P/BV	7.0	6.0	5.2	4.6	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	89.4	86.9	84.3	64.4	64.5
Interest burden (PBT/EBIT)	110.2	117.3	116.7	115.7	115.5
EBIT margin (EBIT/Revenue)	15.1	16.3	17.1	17.5	18.4
Asset turnover (Rev./Avg TA)	32.0	29.1	27.1	26.5	26.1
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.1
Adjusted ROAE	23.2	23.1	21.4	16.0	16.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	11.2	2.3	6.4	9.9	9.6
EBITDA	39.5	11.9	10.9	12.5	14.5
Adjusted EPS	76.3	14.6	7.8	(14.8)	15.2

Profitability & Return ratios (%)

EBITDA margin	17.4	19.0	19.8	20.3	21.2
EBIT margin	15.1	16.3	17.1	17.5	18.4
Adjusted profit margin	14.9	16.6	16.9	13.1	13.7
Adjusted ROAE	23.2	23.1	21.4	16.0	16.4
ROCE	22.4	23.3	22.6	22.2	22.9

Working capital days (days)

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

Ratios (x)

Gross asset turnover	2.9	2.6	2.4	2.4	2.4
Current ratio	3.1	2.8	3.1	3.3	3.4
Net interest coverage ratio	17.3	17.7	20.0	25.0	28.6
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.2)

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

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BUY – Expected return >+15%

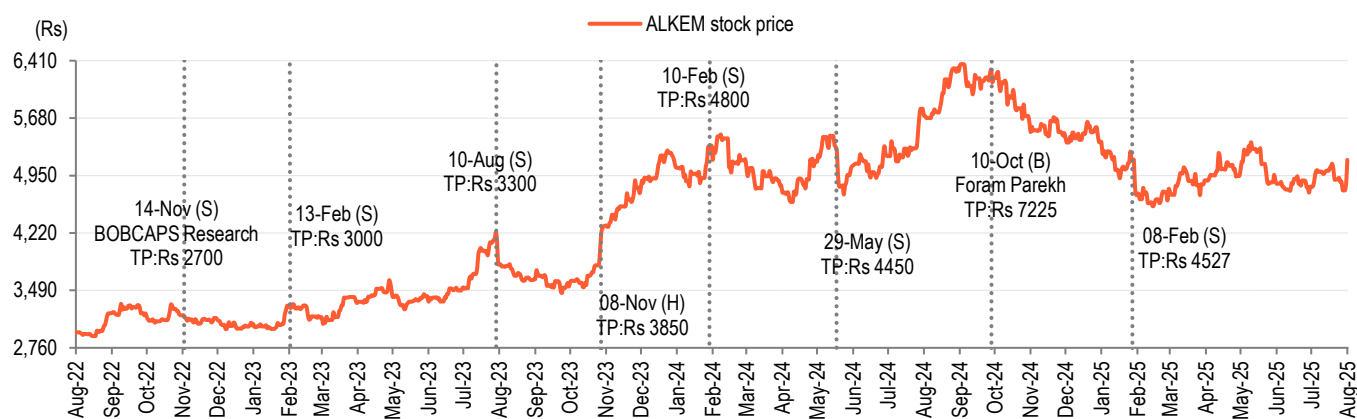
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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