BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 4,590 | ∀ 14%

ALKEM LABS | Pharmaceuticals | 14 August 2026

US sales challenging; tax rate rising; valuations expensive

- **Sales/EBITDA/PAT were 0.8%/5.9%/-0.3% above our estimates. EBITDA margin surpassed our estimate by 98 bps to 19.5%**
- **Consolidated business tax rate guidance mentioned at 30-32%.The earlier tax rate guidance of 27-29% was for the standalone business**
- **We reduce our EPS factoring higher tax rate. On roll forward to Jun'28 EPS, we ascribe a PE of 21x to arrive at a PT of Rs 4590 (earlier PT4638)**

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In-line earnings - Sales grew by 11% YoY to Rs 37.4bn, driven by 10% YoY growth in domestic sales and 16% YoY growth in international sales. Raw material cost grew by a modest 3% YoY to Rs 12bn, thus leading to 15% YoY growth in gross profit to Rs 25.3bn. Gross margin increased by 262 bps YoY to 67.9% in 1QFY27 due to a healthy product mix on account of lower trade generics sales and currency benefit. Employee cost grew by 17% YoY due to 1)annual salary hikes, 2) addition of 1,200 MRs in the last few quarters, and 3) opex from Enzene CDMO. Other expenses (ex-R&D) grew by 25% YoY due to Rs 600mn arising from Enzene CDMO and due diligence costs from the Occlutech acquisition cost, and a ~10% increase in subsidized cost — leading to 4% YoY growth in EBITDA to Rs 7.7bn. Thus, EBITDA margin decreased by 140 bps YoY to 20.5%. Subsequently, PBT grew by 2% YoY to Rs 7.7bn in 1QFY27. Tax rate increased to 32.4% in 1QFY27 vs 13.5% in 1QFY26, leading to a 144% YoY increase in tax to Rs 2.5bn in 1QFY27. Thus, PAT declined by 21.7% YoY to Rs 5.2bn.

US sales impacted by lower volume growth – US sales grew by 7% YoY to Rs 7.4bn, primarily due to no volume growth and flattish NRV price erosion. The company is not witnessing volume growth in the new products launched and has received an OAI for the Daman plant (contributes 45% of US sales), which would impact new launches. However, this is likely to be offset by the Tolvaptan launch in Sep-Oct (a 4-player market with a TAM of USD 1bn) and a USD 30mn sales from Enzene CDMO, where ALKEM develops batches and conducts clinical trials for antibodies. Factoring in the above parameters, we expect US sales to grow at a CAGR of 6% for FY27-29E to Rs 36.1bn in FY29E.

Valuation – We lower our EPS factoring in the higher guided tax rate. On roll forward to Jun'28 EPS, at CMP, the stock trades at a PE of 25x on EPS of Rs 219 per share, and we continue to ascribe 21x (in line with domestic-focused acute companies) to arrive at a PT of Rs 4,590 on the stock (earlier PT of Rs 4638), implying 15% downside from CMP. We maintain Sell on the stock.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ALKEM IN/Rs 5,368
Market cap	US$ 6.8bn
Free float	41%
3M ADV	US$ 9.3mn
52wk high/low	Rs 5,934/Rs 5,075
Promoter/FPI/DII	57%/6%/16%

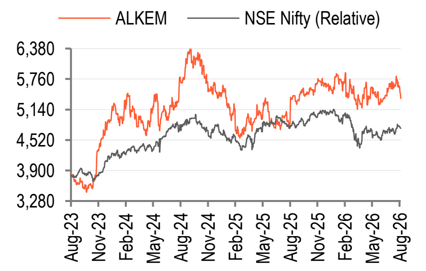
Source: NSE | Price as of 14 Aug 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	147,123	165,039	184,097
EBITDA (Rs mn)	30,052	32,583	38,299
Adj. net profit (Rs mn)	24,766	21,664	25,239
Adj. EPS (Rs)	207.2	181.2	211.1
Consensus EPS (Rs)	192.5	195.8	227.7
Adj. ROAE (%)	22.3	17.0	17.6
Adj. P/E (x)	25.9	29.6	25.4
EV/EBITDA (x)	21.7	19.9	17.1
Adj. EPS growth (%)	14.4	(12.5)	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Domestic sales growth impacted by lower trade generics business – Sales grew by 10% YoY to Rs 24.9bn, which was impacted by flattish growth in the trade generics, offsetting 12% growth in the branded generics. This growth was driven by a 6% price hike, 3% volume growth, and 2% new product launches growth. As per IQVIA, ALKEM grew by 13.2%, outperforming IPM growth by 100 bps. The growth was driven by outperformance in seven key therapies. Going forward, the trade generics business is expected to grow in single digits, as it grew in high single digits during Jan'26-Jun'26 and thereafter became flat. The branded generics business would recover with the onset of seasonality. The Enzene India business currently has 6-7 biosimilars in its portfolio and is backward integrated, thus reporting healthy margins. We integrate Occlutech sales of Rs 4bn into FY27E estimates and arrive at a domestic sales CAGR of 12% from FY27-29E to Rs 142bn in FY29E.

Non-US sales to continue its growth momentum – In 1QFY27, non-US sales grew by 34% YoY to Rs 4.7bn, driven by a low base in many countries, which continue to grow at a healthy double-digit rate. Amongst the geographies, Germany grew by 35-40%, while Chile and Australia too continue to perform well. The company could not receive approval on the goal date for Denosumab from the FDA; however, the company intends to commercialize this product in Europe through a partner due to intense competition and believes this to be a non-meaningful product. Going forward, we expect the region to grow at a CAGR of 16% from FY27-29E to Rs 27.1bn in FY29

EBITDA Margin to dilute in FY27 – In 1QFY27, the company reported an EBITDA margin of 20.5%; however, the company guided for a 19.5% EBITDA margin in FY27, thus expecting EBITDA growth of 7-8% in FY27. We integrate a 10% EBITDA margin from the Occlutech business due to the closure of the acquisition in Jul'26; however, it would be offset by operational deleverage from the Enzene CDMO business. The management mentioned a Rs 60mn quarterly operational expense from Enzene CDMO and expects to break even in 4-5 quarters when annual sales clock USD 30mn. Thus, we expect ALKEM's EBITDA margin to be 19.7% in FY27, 20.8% in FY28, and 21% in FY29

Fig 1 – Segmental contribution

Segmental Contribution	Q1FY27	Q1Y26	Q4FY26	BoBcaps Estimates
Formulations (%)				
India	67	67	65	68
US	20	21	21	20
RoW	13	11	13	11
Net Sales	99	98	98	100
Other Op. Income	1	2	2	0
Revenue	100	100	100	100

Source: Company, BOBCAPS Research

Quarterly Highlights

Fig 2 – Financial Highlights

(Rs mn)	Q1FY27	Q1Y26	YoY (%)	Q4FY26	QoQ (%)	BoBcaps Estimates	Var (%)
Net Sales	37,402	33711	10.9	36,033	4	37,105	0.8
Other Related Income							
Total Income							
Total Expenses	29,741	26,321	13.0	30,859	(4)	29,869	(0.4)
(%) of net sales	80	78		86		81	
Raw material consumed	12,013	11712	2.6	12,479	(4)	12,987	(7.5)
(%) of net sales	32.1	34.7		34.6		35.0	
Staff cost	8,089	6933	16.7	7,121	14	7,421	9.0
(%) of net sales	21.6	20.6		19.8		20.0	
R&D cost	1,502	1184	26.9	2,293	(34)	1,299	15.7
(%) of net sales	4.0	3.5		6.4		3.5	
Manufacturing & Other Expenses	8,137	6493	25.3	8,967	(9)	8,163	(0.3)
(%) of net sales	21.8	19.3		24.9		22.0	
EBITDA	7,661	7,391	3.7	5,174	48.1	7,235	5.9
Depreciation	1,002	877	14.3	1,058	(5.3)	1,113	(10.0)
EBIT	6,659	6,514	2.2	4,116	61.8	6,122	8.8
Interest	466	298	56.5	539	(13.5)	519	(10.3)
Other Income	1,528	1365	11.9	2,001	(23.7)	1,855	(17.7)
PBT	7,720	7,581	1.8	5,578	38.4	7,458	3.5
Less: Taxation	2,505	1027	143.9	1,712	46.3	2,088	20.0
Less: Minority Interest	15	40.6	(62.3)	152	(89.9)	152	(89.9)
Recurring PAT	5,200	6,513	(20.2)	3,714	40.0	5,218	(0.3)
Exceptional items	0	129		(1,350)		0	
Reported PAT	5,200	6,643	(21.7)	2,365	119.9	5,218	(0.3)
Key Ratios (%)							
Gross Margin	67.9	65.3	262bps	65.4	251bps	65.0	288bps
EBITDA Margin	20.5	21.9	(144bps)	14.4	612bps	19.5	98bps
Tax / PBT	32.4	13.5	1890bps	30.7	176bps	28.0	445bps
NPM	13.9	19.3	(542bps)	10.3	359bps	14.1	(16bps)
EPS (Rs)	43.5	54.5	(20.2)	19.8	119.9	43.6	(0.3)
Adjusted EPS	43.5	54.5	(20.2)	31.1	40	43.6	(0.3)

Source: Company, BOBCAPS Research

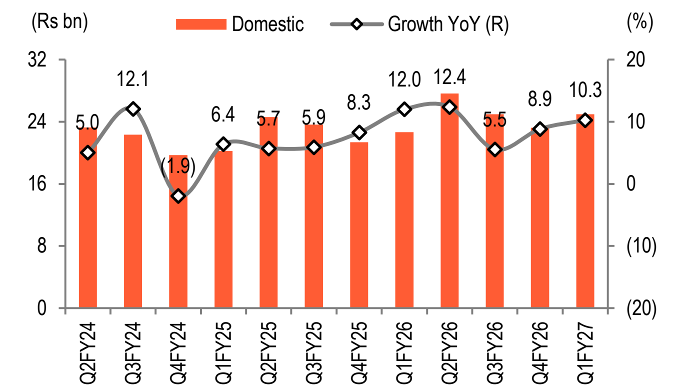
Fig 3 – Segmental mix

(Rs mn)	Q1FY27	Q1Y26	YoY (%)	Q4FY26	QoQ (%)	BoBcaps Estimates	Var (%)
Formulations							
India	24,978	22650	10.3	23,245	7.5	25,368	(1.5)
US	7,439	6982	6.5	7,681	(3.2)	7,541	(1.3)
RoW	4,758	3556	33.8	4,543	4.7	4,196	13.4
Net Sales	37,175	33,188	12.0	35,469	4.8	37,105	0.2
Other Op. Income	227	523	(56.7)	564	(59.9)	-	0
Revenue	37,402	33,711	14.6	36,033	18.9	37,105	0.8

Source: Company, BOBCAPS Research

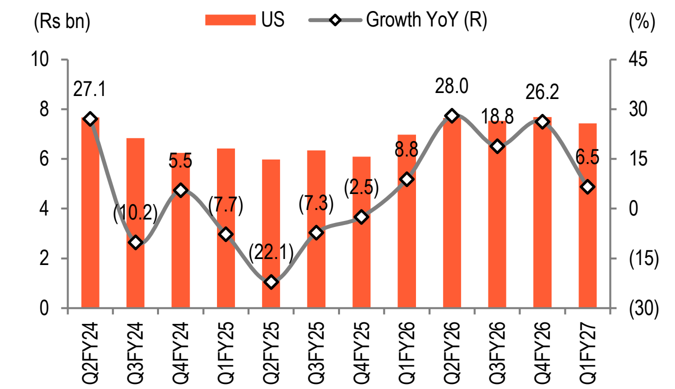
Financial Charts

Fig 4 – Domestic sales growth driven by helathy branded generic business



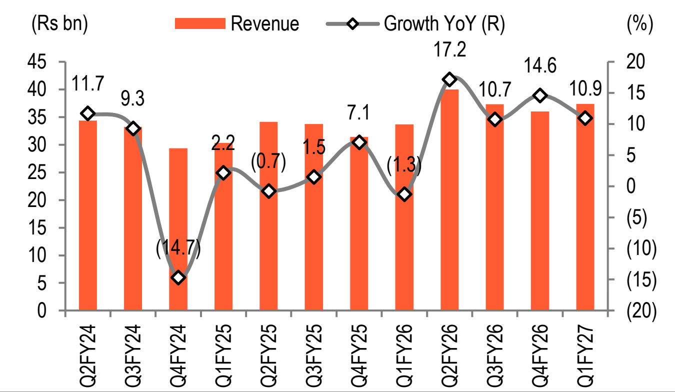
Source: Company, BOBCAPS Research

Fig 5 – US sales growth lowered due to lack of volume growth



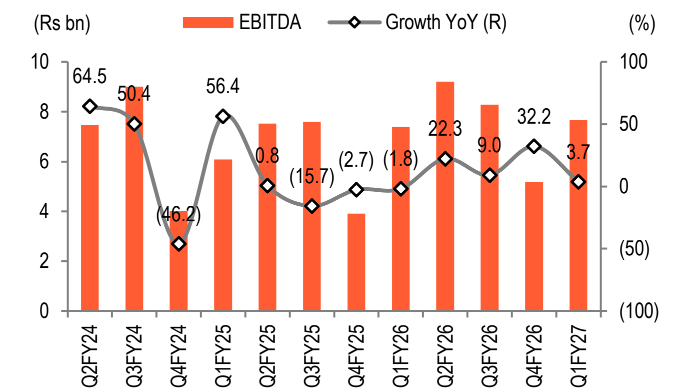
Source: Company, BOBCAPS Research

Fig 6 – Sales growth driven by growth across geographies



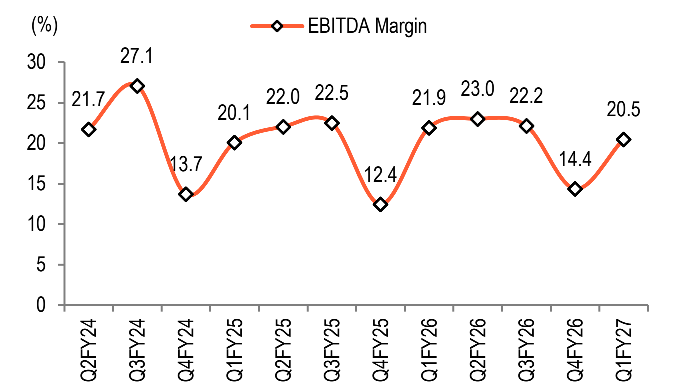
Source: Company, BOBCAPS Research

Fig 7 – EBITDA growth lowered due to higher expenses



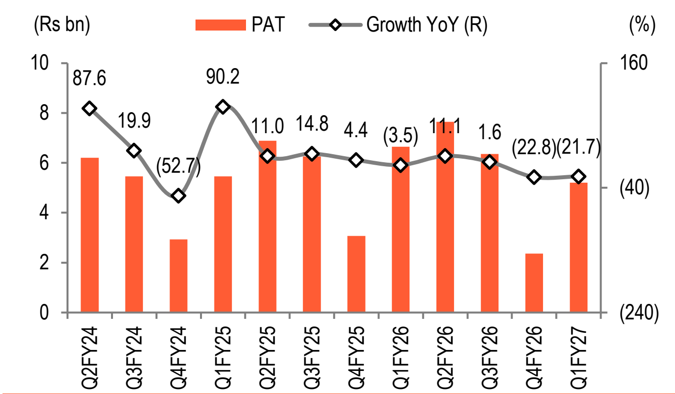
Source: Company, BOBCAPS Research

Fig 8 – EBITDA Margin declined due to operational deleverage



Source: Company, BOBCAPS Research

Fig 9 – PAT lowered due to higher taxes



Source: Company, BOBCAPS Research

Valuation methodology

AILKEM's numbers were in line with our estimates as we factored in a higher tax rate. However, going forward, the company guided for 1) a 30-32% tax rate on consolidated business (27-29% tax rate for standalone business), 2) resolution on the OAI for the Daman plant expected in the next 6-12 months, impacting new launches from this plant in FY28E, and 3) a gradual ramp-up of the Enzene CDMO business. Factoring in the above parameters, we reduce our EPS by 4% in FY27E, 4% in FY28E, and 10% in FY29E to arrive at an EPS of Rs 181.2 in FY27E, Rs 211 in FY28E, and Rs 241 in FY29E.

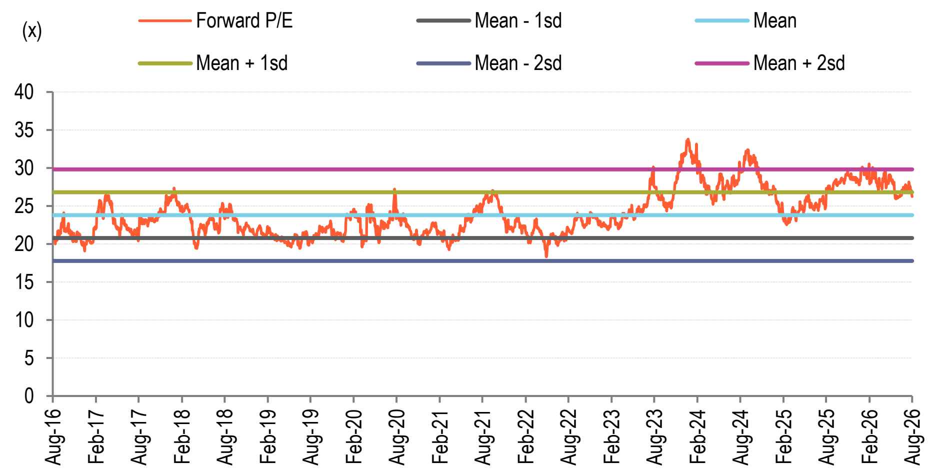
On roll forward to Jun'28 EPS, at CMP, the stock trades at a PE of 25x on EPS of Rs 219 per share, and we continue to ascribe 21x (in line with domestic-focused acute companies) to arrive at a PT of Rs 4,590 on the stock (earlier PT of Rs 4638), implying 15% downside from CMP. We maintain Sell on the stock

Fig 10 – Change in estimates

	New			Old			Change (%)		
(Rs mn)	FY27E	FY28E	FY29	FY27E	FY28E	FY29	FY27E	FY28E	FY29
Sales	165039	184097	205328	163,093	182,571	203,825	1.2	0.8	0.7
EBITDA	32583	38299	43119	32,619	38,340	45,861	(0.1)	(0.1)	(6.0)
EBITDA Margin(%)	19.7%	20.8%	21.0%	20.0%	21.0%	22.5%	(26bps)	(20bps)	(150bps)
EPS (Rs)	181.2	211.1	241.0	189	220	268	(4.1)	(4.0)	(10.1)

Source: Company, BOBCAPS Research

Fig 11 – 1 year forward PE band



Source: Bloomberg

Key Upside risks

- Increase in EBITDA Margin with operational leverage
- US sales surpass guidance with the launch of Tolvatan

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	**132,015**	**147,123**	**165,039**	**184,097**	**205,328**
EBITDA	25,122	30,052	32,583	38,299	43,119
Depreciation	3,572	3,821	4,253	4,673	5,093
EBIT	21,550	26,232	28,330	33,626	38,026
Net interest inc./(exp.)	(1,217)	(1,608)	(1,935)	(2,128)	(2,341)
Other inc./(exp.)	4,937	5,834	6,218	6,373	7,434
Exceptional items	0	0	0	0	0
EBT	25,270	30,457	32,613	37,872	43,119
Income taxes	3,110	5,178	10,436	12,119	13,798
Extraordinary items	0	(1,748)	0	0	0
Min. int./Inc. from assoc.	505	513	513	513	513
Reported net profit	**21,655**	**23,018**	**21,664**	**25,239**	**28,808**
Adjustments	0	(1,748)	0	0	0
Adjusted net profit	**21,655**	**24,766**	**21,664**	**25,239**	**28,808**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	18,394	22,442	23,944	26,234	31,502
Other current liabilities	15,335	19,200	14,046	15,389	18,480
Provisions	4,973	6,319	5,987	6,559	7,885
Debt funds	13,809	20,472	22,519	24,771	27,248
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	106,715	125,057	139,169	156,370	177,294
Shareholders' fund	106,954	125,296	139,408	156,609	177,533
Total liab. and equities	**159,465**	**193,728**	**205,904**	**229,562**	**262,647**
Cash and cash eq.	16,403	20,521	21,703	31,428	34,964
Accounts receivables	24,663	29,791	26,937	29,513	35,440
Inventories	29,224	33,332	34,206	37,477	45,003
Other current assets	37,552	50,216	58,524	64,120	76,998
Investments	18,131	18,340	18,131	18,131	18,131
Net fixed assets	28,728	40,149	42,960	45,967	49,184
CWIP	4,765	1,379	3,443	2,926	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	**159,465**	**193,728**	**205,904**	**229,562**	**262,647**

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	**28,942**	**17,244**	**17,184**	**23,841**	**19,594**
Capital expenditures	(6,500)	(7,500)	(6,000)	(6,000)	(6,000)
Change in investments	(13,293)	(209)	209	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(19,793)**	**(7,709)**	**(5,791)**	**(6,000)**	**(6,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(375)	6,663	2,047	2,252	2,477
Interest expenses	(1,217)	(1,608)	(1,935)	(2,128)	(2,341)
Dividends paid	(6,312)	(7,141)	(6,212)	(7,077)	(8,397)
Other financing cash flows	(635)	(3,371)	(4,112)	(1,163)	(2,260)
Cash flow from financing	**(8,540)**	**(5,457)**	**(10,211)**	**(8,117)**	**(10,521)**
Chg in cash & cash eq.	**609**	**4,078**	**1,182**	**9,725**	**3,073**
Closing cash & cash eq.	**16,403**	**20,480**	**21,703**	**31,428**	**34,501**

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	181.1	192.5	181.2	211.1	241.0
Adjusted EPS	181.1	207.2	181.2	211.1	241.0
Dividend per share	45.3	51.2	44.6	50.8	71.5
Book value per share	857.1	1,003.8	1,128.6	1,272.5	1,447.5

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	4.9	4.4	3.9	3.6	3.2
EV/EBITDA	25.8	21.7	19.9	17.1	15.3
Adjusted P/E	29.6	25.9	29.6	25.4	22.3
P/BV	6.3	5.3	4.8	4.2	3.7

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	85.7	81.3	66.4	66.6	66.8
Interest burden (PBT/EBIT)	117.3	116.1	115.1	112.6	113.4
EBIT margin (EBIT/Revenue)	16.3	17.8	17.2	18.3	18.5
Asset turnover (Rev./Avg TA)	29.1	27.6	26.8	26.8	26.6
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	22.7	22.3	17.0	17.6	17.7

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	2.3	11.4	12.2	11.5	11.5
EBITDA	11.9	19.6	8.4	17.5	12.6
Adjusted EPS	12.9	14.4	(12.5)	16.5	14.1
Profitability & Return ratios (%)					
EBITDA margin	19.0	20.4	19.7	20.8	21.0
EBIT margin	16.3	17.8	17.2	18.3	18.5
Adjusted profit margin	16.4	16.8	13.1	13.7	14.0
Adjusted ROAE	22.7	22.3	17.0	17.6	17.7
ROCE	23.3	24.1	22.5	23.3	23.5
Working capital days (days)					
Receivables	69	74	63	63	63
Inventory	82	83	80	80	80
Payables	52	56	56	56	56
Ratios (x)					
Gross asset turnover	2.6	2.5	2.6	2.6	2.7
Current ratio	2.8	2.8	3.2	3.4	3.3
Net interest coverage ratio	17.7	16.3	14.6	15.8	16.2
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

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

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BUY – Expected return >+15%

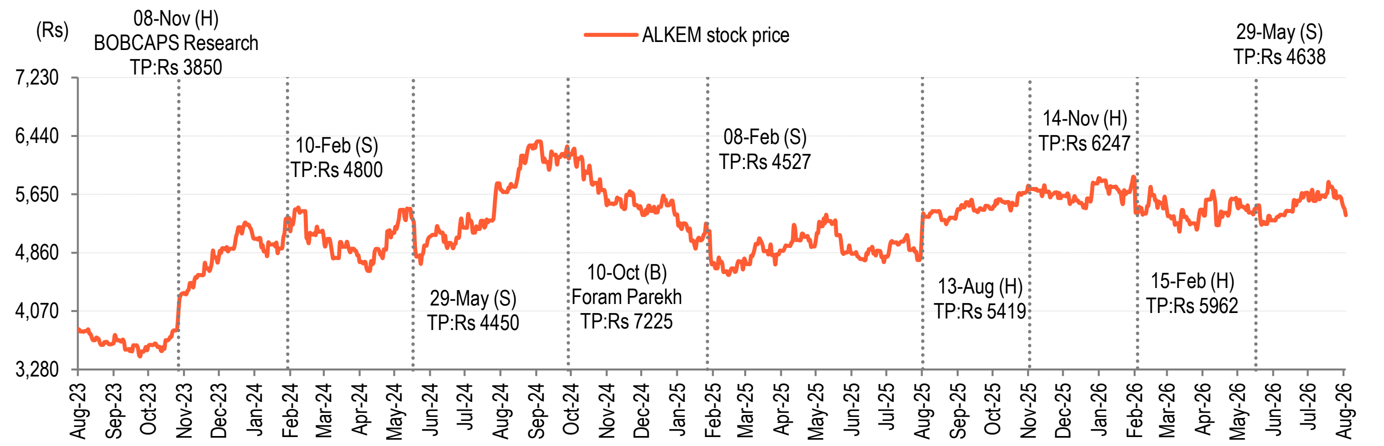
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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