

SELL

TP: Rs 4,638 | ▼ 15%

ALKEM LABS

| Pharmaceuticals

| 29 May 2026

EBITDA Margin likely flat in FY27; valuations expensive

- Sales/EBITDA/APAT reported 4.8%/7.4%/-4.4% above our estimates. EBITDA Margin reported 36 bps above our estimates at 14.4%
- Tolvaptan launch is expected in Sep- Oct’26. Due to the complex nature of the products, not much competition expected
- Change our valuation method to PE (earlier EV/EBITDA). We ascribe 21x PE on Mar’28 EPS to arrive at TP of 4,638; downgrading to SELL

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In-line set of numbers on an adjusted basis: Alkem Laboratories (ALKEM) reported sales growth of 14.6% YoY to Rs 36bn in Q4FY26, driven by 8.9% YoY growth in the domestic region, 26.2% YoY growth in the US region as well as 24.1% YoY growth in the RoW region. RM cost declined by 2.5% YoY to Rs 12.5bn, resulting in 26% YoY growth in Gross Profit to Rs 23.5bn and 606 bps increase in Gross Margin at 65.4%. During the quarter, R&D cost went up by 44.7% YoY to Rs 2.3bn, primarily on the back of higher products filings, followed by 28.4% YoY rise in Other expenditure ex of R&D (a few one-time costs such as due diligence cost for M&A deals, forex and internal renovations). Despite that, EBITDA grew by 32.2% YoY to Rs 5.17bn with a 191 bps increase in EBITDA Margin to 14.4%. Interest cost increased by 89.6% YoY to Rs 539 mn; tax rate rose 133% (30% tax rate in Q4FY26 vs 18.5% in Q4FY25) and Rs 1.35bn exceptional cost towards impairment and labour code, led to a decline of 22.8% in PAT to Rs 2.36bn. Adjusting against exceptional cost, PAT grew by 21% to Rs 3.71bn.

Domestic sales grew on new launches: ALKEM reported sales 1% below our estimates to Rs 23.245bn, driven by the outperformance across therapies where Gastro outgrew 1.8x, Vitamins by 1.6x, Pain Management by 1.7x, Anti Diabetes by 1.4x, Respiratory by 1.6x and Derma by 2x. Growth in its Chronic segment was 16% vs IPM chronic growth of 13.6%, supported by the launch of gSemaglutide whose unit market share is at 11%. Acute segment also outperformed with 10% growth vs IPM growth of 7.7%. Overall, the growth to likely to surpass IPM growth with the aid of 14,500 MRs, with an attrition rate of 18-19%). Thus, we expect the region to grow at a CAGR of 11% from FY27-29 to Rs 134.731bn in FY29E.

Downgrade to SELL: As the company has announced the adoption of new tax regime, which would result in a tax rate of 27-29%, we believe the newer-announced tax rate is in line with peers and therefore, change our relative valuation methodology to PE from the earlier EV/EBITDA. At CMP, the stock trades at a PE of 24.7x on Mar’28 EPS. We ascribe 21x (in line with acute businesses, with similar margin profiles of companies like Dr.Reddy’s & Aurobindo), to arrive at TP of Rs 4,638 (earlier Rs 5,962); implying 15% downside.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ▼ |

| | |
|------------------|-------------------|
| Ticker/Price | ALKEM IN/Rs 5,452 |
| Market cap | US\$ 6.8bn |
| Free float | 41% |
| 3M ADV | US\$ 6.2mn |
| 52wk high/low | Rs 5,934/Rs 4,716 |
| Promoter/FPI/DII | 57%/6%/16% |

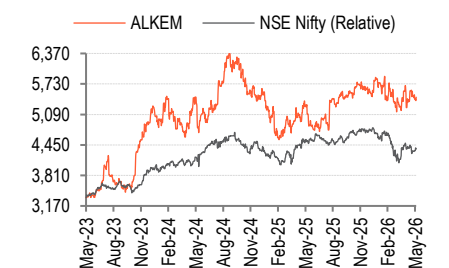
Source: NSE | Price as of 27 May 2026

Key financials

| Y/E 31 Mar | FY26A | FY27E | FY28E |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn) | 147,123 | 163,093 | 182,571 |
| EBITDA (Rs mn) | 30,052 | 32,619 | 38,340 |
| Adj. net profit (Rs mn) | 24,766 | 22,668 | 26,405 |
| Adj. EPS (Rs) | 207.2 | 189.6 | 220.9 |
| Consensus EPS (Rs) | 192.5 | 191.7 | 217.0 |
| Adj. ROAE (%) | 22.3 | 17.8 | 18.4 |
| Adj. P/E (x) | 26.3 | 28.8 | 24.7 |
| EV/EBITDA (x) | 22.0 | 20.2 | 17.3 |
| Adj. EPS growth (%) | 14.4 | (8.5) | 16.5 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



US sales growth aided by new launches: Sales was 14.7% above our estimates to Rs 7.6 bn. The growth came on the back of market share increase in the base portfolio as well as new launches. The company is clocking sales of less than Rs 1bn from CDMO and believes it would take time to clock Rs 1-2bn of sales. During the quarter, they filed 5 ANDAs, out of which they received approval for 4. The company expects new launches like Tolvaptan (likely in Sept-Oct'26) and the full-year impact of the new launches to drive growth, hence guided for higher single-digit sales in cc terms. We believe US sales to grow at a CAGR of 11% from FY27-29E to Rs 41.9bn in FY29E with currency depreciation.

EBITDA Margin guided flat in FY27: The company expects weak Q1FY27 as the Middle-East war has been weighing on input prices like APIs and packaging materials on the higher side. We expect EBITDA Margin to report 20%/21%/22.5% in FY27E, FY28E and FY29E.

FY27 Outlook:

- Domestic sales expected to be 100-150 bps above IPM
- US sales growth expected in high single digit in cc terms
- Non-US sales to grow in high teens
- R&D sales contribution to sustain at 5%
- Other Expenses to grow ~7-8%
- ETR guided at 27-29% due to the adoption of new tax regime
- Enzene CDMO sales to take time to clock Rs 1-2bn sales
- File Semaglutide in the US in 1-1.5 years and in RoW regions, after a few quarters

Other Highlights

- Trade generics profitability closer to the company level
- Enzene domestic sales has reported EBITDA break-even and profitability is in early double digits
- Medtech contribution is 1% of sales. Occlutech acquisition to close in 45-60 days.
- Oral Semaglutide is in clinical trials

Quarterly Highlights

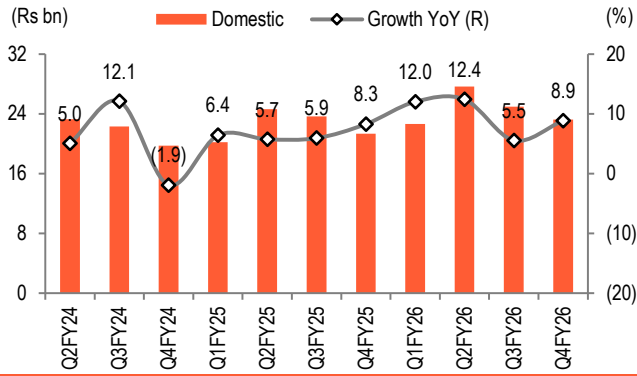
Fig 1 – Quarterly Highlights

| (Rs mn) | Q4FY26 | Q4FY25 | YoY (%) | Q3FY26 | QoQ (%) | BOBCAPS Estimates | Var (%) |
|--------------------------------|---------|--------|---------|--------|----------|-------------------|---------|
| Net Sales | 36,033 | 31,438 | 14.6 | 37,368 | (4) | 34,395 | 4.8 |
| Total Expenses | 30,859 | 27,525 | 12.1 | 29,088 | 6 | 29,580 | 4.3 |
| (%) of net sales | 86 | 88 | | 78 | | 86 | |
| Raw material consumed | 12,479 | 12,793 | (2.5) | 12,727 | (2) | 12,554 | (0.6) |
| (%) of net sales | 34.6 | 40.7 | | 34.1 | | 36.5 | |
| Staff cost | 7,121 | 6,164 | 15.5 | 7,215 | (1) | 7,395 | (3.7) |
| (%) of net sales | 19.8 | 19.6 | | 19.3 | | 21.5 | |
| R&D cost | 2,293 | 1,585 | 44.7 | 1,390 | 65 | 1,720 | 33.3 |
| (%) of net sales | 6.4 | 5.0 | | 3.7 | | 5.0 | |
| Manufacturing & Other Expenses | 8,967 | 6,983 | 28.4 | 7,756 | 16 | 7,911 | 13.3 |
| (%) of net sales | 24.9 | 22.2 | | 20.8 | | 23.0 | |
| EBITDA | 5,174 | 3,913 | 32.2 | 8,280 | (37.5) | 4,815 | 7.4 |
| Depreciation | 1,058 | 1,125 | (6.0) | 950 | 11.3 | 1,017 | 4.0 |
| EBIT | 4,116 | 2,788 | 47.6 | 7,330 | (43.8) | 3,798 | 8.4 |
| Interest | 539 | 284 | 89.6 | 421 | 28.0 | 500 | 7.8 |
| Other Income | 2,001 | 1,460 | 37.1 | 1,431 | 39.8 | 1,500 | 33.4 |
| PBT | 5,578 | 3,963 | 40.7 | 8,340 | (33.1) | 4,798 | 16.3 |
| Less: Taxation | 1,712 | 733 | 133.4 | 1,277 | 34.1 | 744 | 130.2 |
| Less: Minority Interest | 152 | 165.3 | (7.9) | 175 | (13.1) | 170 | (10.5) |
| Recurring PAT | 3,714 | 3,065 | 21.2 | 6,888 | (46.1) | 3,884 | (4.4) |
| Exceptional items | (1,350) | 0 | | (528) | | 0 | |
| Reported PAT | 2,365 | 3,065 | (22.8) | 6,360 | (62.8) | 3,884 | (39.1) |
| Key Ratios (%) | | | | | | | |
| Gross Margin | 65.4 | 59.3 | 606bps | 65.9 | (57bps) | 63.5 | 187bps |
| EBITDA Margin | 14.4 | 12.4 | 191bps | 22.2 | (780bps) | 14.0 | 36bps |
| Tax / PBT | 30.7 | 18.5 | 1218bps | 15.3 | 1538bps | 15.5 | 1519bps |
| NPM | 10.3 | 9.7 | 56bps | 18.4 | (813bps) | 11.3 | (99bps) |
| EPS (Rs) | 19.8 | 25.6 | (22.8) | 53.2 | (62.8) | 32.5 | (39.1) |
| Adjusted EPS | 31.1 | 25.6 | 21.2 | 57.6 | (46.1) | 32.5 | (4.4) |

Source: Company, BOBCAPS Research

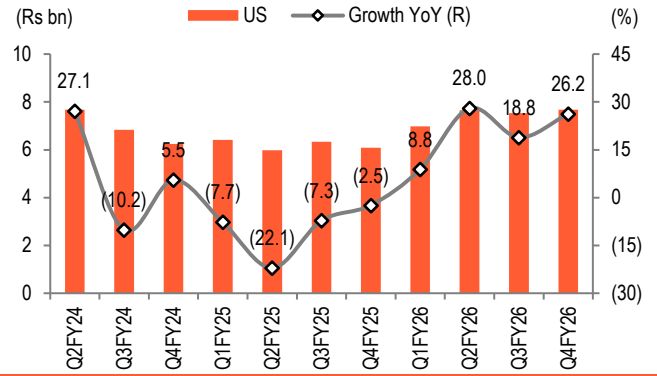
Financial Charts

Fig 2 – Domestic sales growth driven by IPM outperformance across 6 therapies



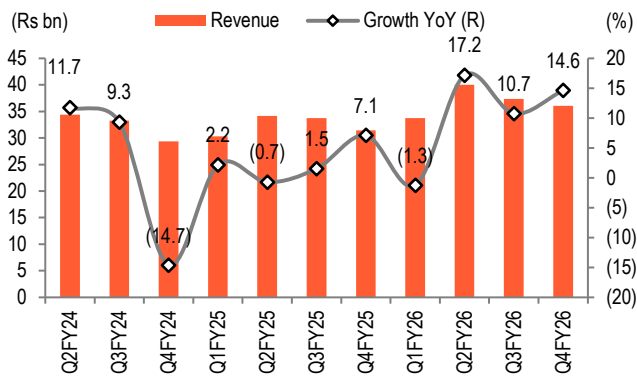
Source: Company, BOBCAPS Research

Fig 3 – US sales growth on the back of new launches



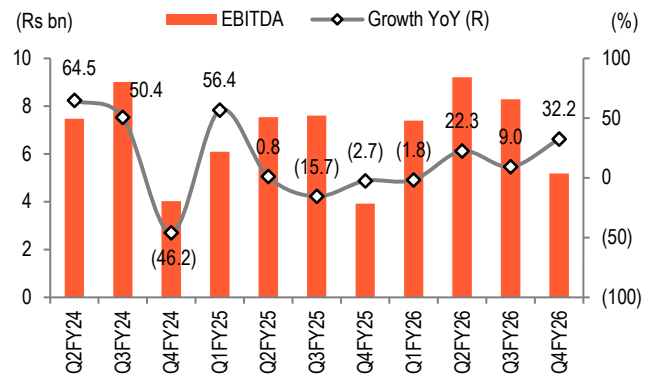
Source: Company, BOBCAPS Research

Fig 4 – Sales growth led by growth across geographies



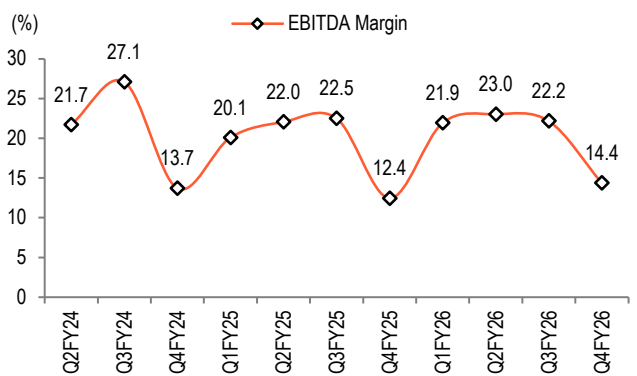
Source: Company, BOBCAPS Research

Fig 5 – EBITDA lowered due to higher Other expenses ex of R&D



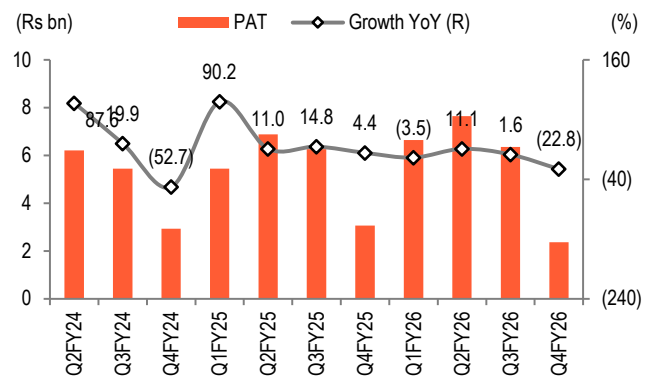
Source: Company, BOBCAPS Research

Fig 6 – EBITDA Margin lower due to higher product filings



Source: Company, BOBCAPS Research

Fig 7 – PAT lower due to exceptional item



Source: Company, BOBCAPS Research

Valuation Methodology

On an adjusted basis, ALKEM reported earnings in line with our estimates. Management has guided for a weaker Q1FY27 due to the impact of the Middle-East crisis. The company also mentioned about adopting to the new tax regime, which would lower its tax rate to 27-29% from FY27E vs the earlier 35%. We factor in higher RoW regions sales and the new tax rate of 29%, hence, our EPS increases by 24% in FY27E to Rs 189.6 and 28% in FY28E to Rs 220.9. Thus, our Sales/EBITDA/PAT CAGR stands at 12%/19%/19% from FY27-29E.

As the company has announced adoption of new tax regime, which would result in a tax rate of 27-29%, we believe the newer-announced tax rate is in line with peers and therefore, change our relative valuation methodology to PE from the earlier EV/EBITDA.

At CMP, the stock trades at a PE of 24.7x on Mar'28 EPS. We ascribe 21x (in line with acute businesses, with similar margin profiles of companies like Dr.Reddy's & Aurobindo), to arrive at TP of Rs 4,638 (earlier Rs 5,962); implying 15% downside. Thus, downgrading the stock to SELL (earlier HOLD).

Fig 8 – Change in estimates

| (Rs mn) | New | | Old | | Change (%) | |
|-------------------|--------|--------|---------|---------|------------|-------|
| | FY27E | FY28E | FY27E | FY28E | FY27E | FY28E |
| Sales | 163093 | 182571 | 156,065 | 170,987 | 4.5 | 6.8 |
| EBITDA | 32619 | 38340 | 31,257 | 35,953 | 4.4 | 6.6 |
| EBITDA Margin (%) | 20.0 | 21.0 | 20.0 | 21.0 | 0.0 | 0.0 |
| EPS (Rs) | 189.6 | 220.9 | 165.4 | 192.3 | 24.2 | 28.6 |
| PE | 28.8 | 24.7 | 33.0 | 28.4 | | |

Source: Company, BOBCAPS Research

In a Bull case scenario (tax rate at a lower guided range of 27%) as well, we see the current valuations as expensive for an acute-heavy company (79% of domestic sales from acute).

Fig 9 – Change in Estimates with 27% tax rate

| (Rs mn) | New | |
|-------------------|--------|--------|
| | FY27E | FY28E |
| Sales | 163093 | 182571 |
| EBITDA | 32619 | 38340 |
| EBITDA Margin (%) | 20.0 | 21.0 |
| EPS (Rs) | 195.1 | 227.2 |
| PE | 27.9 | 24.0 |

Source: Company, BOBCAPS Research

Key Risks

Key upside risks to our estimates:

- Lowering of RM prices due to closure of war
- Increase in EBITDA margin due to operational leverage

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY25A | FY26A | FY27E | FY28E | FY29E |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 132,015 | 147,123 | 163,093 | 182,571 | 203,825 |
| EBITDA | 25,122 | 30,052 | 32,619 | 38,340 | 45,861 |
| Depreciation | 3,572 | 3,821 | 4,253 | 4,673 | 5,093 |
| EBIT | 21,550 | 26,232 | 28,366 | 33,667 | 40,768 |
| 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 | 32,649 | 37,913 | 45,861 |
| Income taxes | 3,110 | 5,178 | 9,468 | 10,995 | 13,300 |
| 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 | 22,668 | 26,405 | 32,048 |
| Adjustments | 0 | (1,748) | 0 | 0 | 0 |
| Adjusted net profit | 21,655 | 24,766 | 22,668 | 26,405 | 32,048 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY25A | FY26A | FY27E | FY28E | FY29E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 18,394 | 22,442 | 23,944 | 26,234 | 31,272 |
| Other current liabilities | 15,335 | 19,200 | 14,046 | 15,389 | 18,344 |
| Provisions | 4,973 | 6,319 | 5,987 | 6,559 | 7,827 |
| 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 | 179,590 |
| Shareholders' fund | 106,954 | 125,296 | 139,408 | 156,609 | 179,829 |
| Total liab. and equities | 159,465 | 193,728 | 205,904 | 229,562 | 264,519 |
| Cash and cash eq. | 16,403 | 20,521 | 21,703 | 31,428 | 37,988 |
| Accounts receivables | 24,663 | 29,791 | 26,937 | 29,513 | 35,181 |
| Inventories | 29,224 | 33,332 | 34,206 | 37,477 | 44,674 |
| Other current assets | 37,552 | 50,216 | 58,524 | 64,120 | 76,434 |
| 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 | 264,519 |

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 | 23,563 |
| 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) | (9,342) |
| Other financing cash flows | (635) | (3,371) | (4,112) | (1,163) | (3,204) |
| Cash flow from financing | (8,540) | (5,457) | (10,211) | (8,117) | (12,410) |
| Chg in cash & cash eq. | 609 | 4,078 | 1,182 | 9,725 | 5,153 |
| Closing cash & cash eq. | 16,403 | 20,480 | 21,703 | 31,428 | 36,581 |

Per Share

| Y/E 31 Mar (Rs) | FY25A | FY26A | FY27E | FY28E | FY29E |
|----------------------|-------|---------|---------|---------|---------|
| Reported EPS | 181.1 | 192.5 | 189.6 | 220.9 | 268.1 |
| Adjusted EPS | 181.1 | 207.2 | 189.6 | 220.9 | 268.1 |
| Dividend per share | 45.3 | 51.2 | 44.6 | 50.8 | 79.4 |
| Book value per share | 857.1 | 1,003.8 | 1,128.6 | 1,272.5 | 1,466.7 |

Valuations Ratios

| Y/E 31 Mar (x) | FY25A | FY26A | FY27E | FY28E | FY29E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 5.0 | 4.5 | 4.0 | 3.6 | 3.3 |
| EV/EBITDA | 26.2 | 22.0 | 20.2 | 17.3 | 14.6 |
| Adjusted P/E | 30.1 | 26.3 | 28.8 | 24.7 | 20.3 |
| P/BV | 6.4 | 5.4 | 4.8 | 4.3 | 3.7 |

DuPont Analysis

| Y/E 31 Mar (%) | FY25A | FY26A | FY27E | FY28E | FY29E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 85.7 | 81.3 | 69.4 | 69.6 | 69.9 |
| Interest burden (PBT/EBIT) | 117.3 | 116.1 | 115.1 | 112.6 | 112.5 |
| EBIT margin (EBIT/Revenue) | 16.3 | 17.8 | 17.4 | 18.4 | 20.0 |
| Asset turnover (Rev./Avg TA) | 29.1 | 27.6 | 26.5 | 26.6 | 26.2 |
| Leverage (Avg TA/Avg Equity) | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Adjusted ROAE | 22.7 | 22.3 | 17.8 | 18.4 | 19.6 |

Ratio Analysis

| Y/E 31 Mar | FY25A | FY26A | FY27E | FY28E | FY29E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 2.3 | 11.4 | 10.9 | 11.9 | 11.6 |
| EBITDA | 11.9 | 19.6 | 8.5 | 17.5 | 19.6 |
| Adjusted EPS | 12.9 | 14.4 | (8.5) | 16.5 | 21.4 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 19.0 | 20.4 | 20.0 | 21.0 | 22.5 |
| EBIT margin | 16.3 | 17.8 | 17.4 | 18.4 | 20.0 |
| Adjusted profit margin | 16.4 | 16.8 | 13.9 | 14.5 | 15.7 |
| Adjusted ROAE | 22.7 | 22.3 | 17.8 | 18.4 | 19.6 |
| ROCE | 23.3 | 24.1 | 22.5 | 23.3 | 24.8 |
| 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 | 3.4 |
| Net interest coverage ratio | 17.7 | 16.3 | 14.7 | 15.8 | 17.4 |
| 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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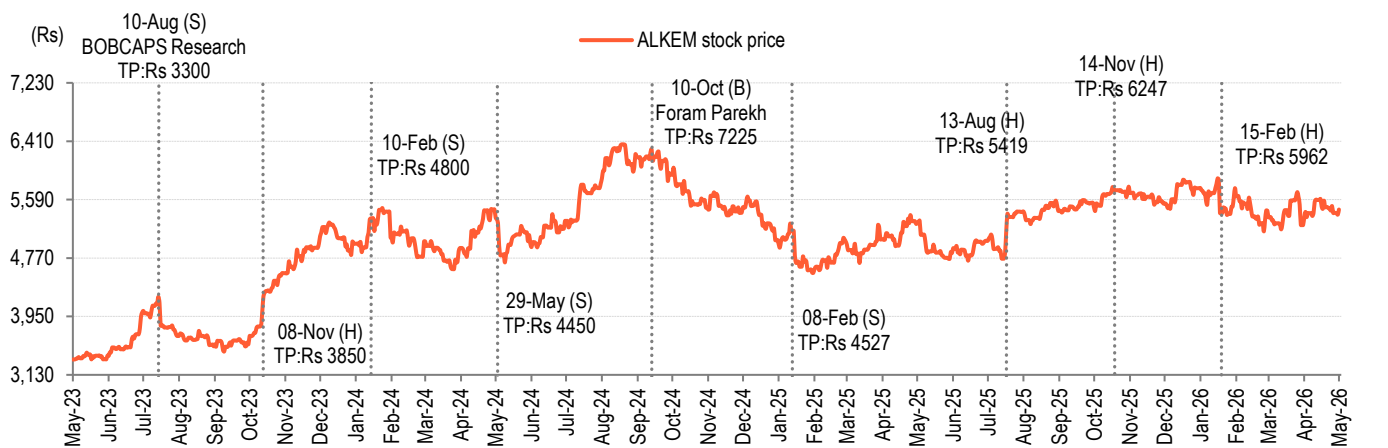
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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