

ALKEM Laboratories

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	633 / 7.4
52-Week Range (INR)	6440 / 4407
1, 6, 12 Rel. Per (%)	3/-/9
12M Avg Val (INR M)	1231

Financials & Valuations (INR b)

Y/E MARCH	FY25	FY26E	FY27E
Sales	129.6	138.9	151.2
EBITDA	25.1	28.1	33.0
Adj. PAT	21.7	23.7	22.8
EBIT Margin (%)	16.6	17.6	19.4
Adj. EPS (INR)*	181.1	197.9	190.3
EPS Gr. (%)	13.4	9.2	-3.8
BV/Sh. (INR)	1,002.5	1,141.1	1,266.2
Ratios			
Net D:E	0.0	-0.1	-0.2
RoE (%)	19.4	18.5	15.8
RoCE (%)	18.6	17.8	15.3
Payout (%)	29.4	29.9	34.3
Valuations			
P/E (x)	29.4	26.9	28.0
EV/EBITDA (x)	25.2	22.0	18.5
Div. Yield (%)	0.8	0.9	1.0
FCF Yield (%)	2.8	3.1	2.0
EV/Sales (x)	4.9	4.4	4.0

*Cons.

Shareholding Pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	55.1	55.7	56.7
DII	19.4	18.0	15.6
FII	9.4	10.2	9.1
Others	16.1	16.2	18.5

FII includes depository receipts

CMP: INR5,295

TP: INR4,950 (-7%)

Neutral

Falls short on profitability despite steady sales growth

Progressing well on investments in CDMO/medtech segments

- Alkem Laboratories (ALKEM) delivered in-line revenue in 4QFY25, though EBITDA/PAT came in lower than expected (15%/16% miss). Muted performance in certain acute therapies in the domestic formulation (DF) and US segments dragged down the overall performance.
- High operational costs related to new ventures also affected 4Q profitability.
- ALKEM is implementing efforts to enhance its offerings and improve efficiency in DF segment, with an aim of outperforming the industry.
- The company is incurring R&D costs for the expansion of its product pipeline for international markets as well.
- We maintain our earnings estimates for FY26. However, we cut earnings estimates by 15% for FY27, factoring in a sharp increase in the tax rate due to the exhaustion of tax benefits at its Sikkim plant. We value ALKEM at 26x 12M forward earnings to arrive at a price target of INR4,950.
- With a large MR base (13,000) and established presence in DF segment, ALKEM is set to outperform the industry in chronic therapies. It is investing in biologics-based CDMO and medtech segments to add new levers of growth. Further, it has a considerable cash surplus of INR46b for strategic acquisitions. However, considering a gestation period for new initiatives and steady earnings over FY25-27, we maintain Neutral stance on the stock.

Adverse segmental mix/higher opex lead to EBITDA decline YoY

- 4QFY25 revenues grew 7.5% YoY to INR31.4b (our est: INR31.3b).
- DF business grew 8.1% YoY to INR21.3b (68% of sales).
- International business grew 7.2% YoY to INR9.7b. In international business, US sales declined 2% YoY to INR6.1b (19% of Sales). Other International sales grew 28% YoY to INR3.6b (12% of sales).
- Gross margin contracted by 300bp YoY to 59.3% due to higher raw material prices and a change in product mix.
- EBITDA margin contracted at lower rate of 130bp YoY to 12.4% (our est: 14.6%) as lower GM and higher employee expenses (+240bp YoY as % of sales) were offset by lower other expenses (-410bp YoY as % of sales).
- Accordingly, EBITDA declined 3% YoY to INR3.9b (vs. est. of INR4.5b).
- PAT was stable YoY at INR3b (our est: INR3.6b).
- For FY25, revenue/EBITDA/PAT grew 2.3%/12%/13.5% to INR129b/INR25b/INR21.6b.

Highlights from the management commentary

- Alkem aims to outperform IPM by 100bp in FY26. IPM growth is expected to be 7-8% for FY26.
- US business is expected to grow in mid-single digits YoY in FY26.
- Alkem guides for EBITDA margin to remain stable YoY at 19-19.5% in FY26.
- ETR would be 13-15% in FY26, which would rise to 35% in FY27 as its Sikkim plant would be out of tax benefits.
- Operating loss from CDMO (US) and medtech business would be INR1b-INR1.1b in FY26.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Perf. (Consolidated)

Y/E March	FY24				FY25				FY24	FY25	FY25 4QE	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	29,677	34,402	33,239	29,358	30,318	34,147	33,743	31,438	1,26,676	1,29,645	31,390	0.2
YoY Change (%)	15.2	11.7	9.3	1.1	2.2	-0.7	1.5	7.1	9.2	2.3	6.9	
Total Expenditure	25,785	26,934	26,163	25,338	24,232	26,618	26,149	27,525	65,703	1,04,524	26,808	
EBITDA	3,892	7,467	7,076	4,020	6,086	7,528	7,594	3,913	22,455	25,121	4,581	-14.6
YoY Change (%)	42.4	64.5	18.1	13.8	56.4	0.8	7.3	-2.7	33.7	11.9	14.0	
Margins (%)	13.1	21.7	21.3	13.7	20.1	22.0	22.5	12.4	17.7	19.4	14.6	
Depreciation	724	739	696	834	805	789	853	1,125	2,993	3,572	821	
EBIT	3,168	6,728	6,380	3,186	5,282	6,739	6,741	2,788	19,462	21,550	3,760	
YoY Change (%)	60.8	78.7	22.6	15.9	66.7	0.2	5.7	-12.5	11.3	57.4	18.0	
Margins (%)	10.7	19.6	19.2	10.9	17.4	19.7	20.0	8.9	15.4	16.6	12.0	
Interest	298	303	255	269	291	281	360	284	1,124	1,217	330	
EBIT	3,594	7,164	6,821	3,751	5,795	7,247	7,234	3,629	21,331	23,904	4,251	
Margins (%)	12.1	20.8	20.5	12.8	19.1	21.2	21.4	11.5	16.8	18.4	13.5	
Other Income	658	632	936	882	1,203	1,345	930	1,460	3,108	4,937	731	
PBT before EO Exp	3,529	7,057	7,062	3,799	6,194	7,803	7,311	3,963	21,446	25,270	4,161	-4.7
EO Exp/(Inc)	0	577	513	125	0	0	0	0	1,215	0	0	
PBT after EO Exp	3,529	6,480	6,549	3,673	6,194	7,803	7,311	3,963	20,231	25,270	4,161	
Tax	650	332	506	629	691	783	903	733	2,117	3,110	679	
Rate (%)	18.4	5.1	7.7	17.1	11.2	10.0	12.3	18.5	9.9	12.3	16.3	
PAT (pre Minority Interest)	2,878	6,149	6,043	3,045	5,502	7,020	6,408	3,230	18,115	22,160	3,482	
Minority Interest	11	-56	93	109	51	133	150	172	157	505	-156	
Reported PAT	2,867	6,205	5,950	2,936	5,452	6,886	6,258	3,059	17,958	21,655	3,638	-15.9
Adj Net Profit	2,867	6,752	6,423	3,039	5,452	6,886	6,258	3,059	19,082	21,655	3,638	-15.9
YoY Change (%)	52.3	104.1	41.3	3.4	90.1	2.0	-2.6	0.6	50.5	13.5	19.7	
EPS	24	56	54	25	46	58	52	26	160	181	30	-15.9

Key performance Indicators (Consolidated)

Y/E March	FY24				FY25				FY24	FY25	FY25 4QE	
	INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
India formulations	19,007	23,278	22,328	19,724	20,223	24,610	23,649	21,355	84,337	89,837	21,759	
YoY Change (%)	6.7	5.0	12.1	(1.9)	6.4	5.7	5.9	8.3	5.4	6.5	10.3	
US generics	6,955	7,675	6,838	6,241	6,416	5,744	6,340	6,086	27,709	24,586	6,606	
YoY Change (%)	25.0	27.1	(10.2)	5.5	(7.7)	(25.2)	(7.3)	(2.5)	10.2	(11.3)	5.9	
International (Ex-US)	3,191	2,866	3,402	2,855	3,261	3,210	3,265	3,661	12,315	13,397	3,564	
YoY Change (%)	56.5	27.3	46.9	7.6	2.2	12.0	(4.0)	28.2	33.0	8.8	24.8	
Cost Break-up												
RM Cost (% of Sales)	40.4	38.6	39.2	37.7	35.5	35.3	35.7	40.7	39.0	36.7	36.8	
Staff Cost (% of Sales)	19.1	16.1	17.2	17.2	19.9	17.9	18.5	19.6	17.4	18.9	19.5	
R&D Expenses(% of Sales)	4.1	3.4	3.3	6.0	4.1	4.3	3.9	5.0	4.1	4.3	5.7	
Other Cost (% of Sales)	23.3	20.2	18.9	25.4	20.4	20.5	19.4	22.2	21.8	20.6	23.4	
Gross Margins (%)	59.6	61.4	60.8	62.3	64.5	64.7	64.3	59.3	61.0	63.3	63.2	
EBITDA Margins (%)	13.1	21.7	21.3	13.7	20.1	22.0	22.5	12.4	17.7	19.4	14.6	
EBIT Margins (%)	10.7	19.6	19.2	10.9	17.4	19.7	20.0	8.9	15.4	16.6	12.0	

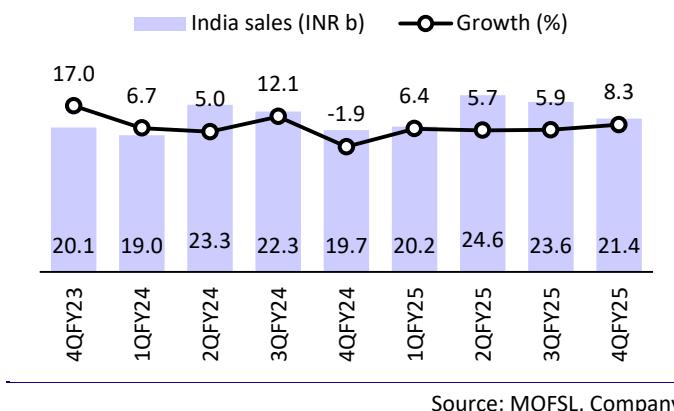

Management call highlights

- Alkem has a settlement with innovator for Mirabegron, and the launch would be subject to that settlement.
- FY25 capex was INR7.8b (INR4b for Enzene), and it would be spending a similar amount in FY26 (INR2b for Enzene).
- Trade generics business grew in mid-single digits YoY for Alkem. In addition to growth, ALKEM is also focusing on improving profitability and getting closer to corporate EBITDA margin in this segment.
- Alkem filed 6/9 ANDAs in 4QFY25/FY25.
- 4Q volume growth in DF was 2.1%, outperforming IPM by 90bp.
- Cumulative capex for biosimilars is INR5.5b so far.

- 5/6 new launches are expected in FY26. G-entresto can be a potential launch for Alkem in the US market.
- Enzene business recorded sales of INR2.9b (including sales to Alkem).
- Order book at Enzene is diversified across 3-4 customers.

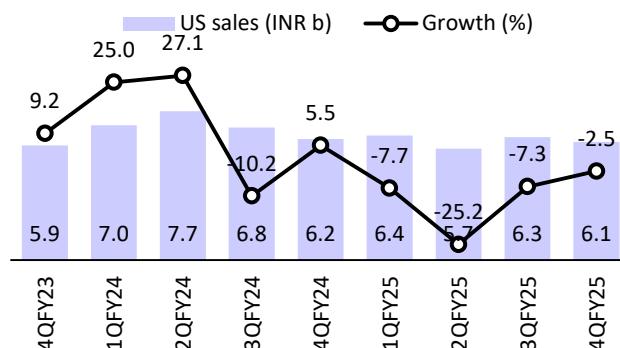
Key exhibits

Exhibit 1: DF revenue grew 8.3% YoY in 4QFY25



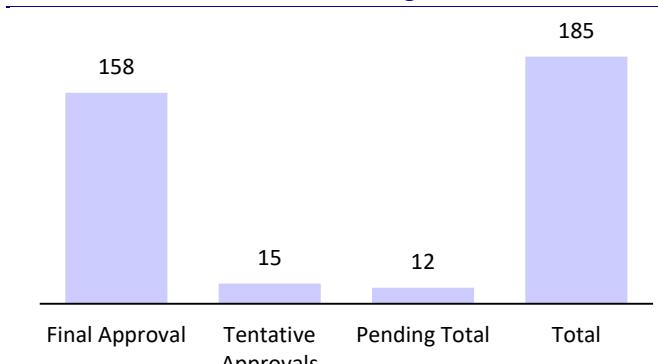
Source: MOFSL, Company

Exhibit 2: US sales contracted 2.5% YoY in 4QFY25



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOFSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	185
ANDAs filed in FY25	11
NDAs	2

Source: MOFSL, Company

Focused approach toward key geographies

DF: Work-in-progress to enhance offerings and better growth outlook

- In FY25, ALKEM's DF business grew 6.5% YoY to INR89b. ALKEM continued to perform better than the industry in chronic therapies. However, with overall industry slowdown and muted performance of Alkem in acute therapies, the overall YoY growth was moderate for the year.
- Therapy wise, ALKEM exhibited healthy YoY growth of 11% each in gastro-intestinal and CNS and 10% YoY in antidiabetes segment.
- ALKEM exhibited weak 2.5% YoY growth in anti-infectives segment, due to challenges in injectable dosages.
- ALKEM is preparing itself to be among the leading companies in the first wave of the launch of the GLP-1 product (Semaglutide). The launch is expected in early FY27.
- Accordingly, we expect ALKEM to register a 9.5% sales CAGR in DF to INR107b over FY25-27.

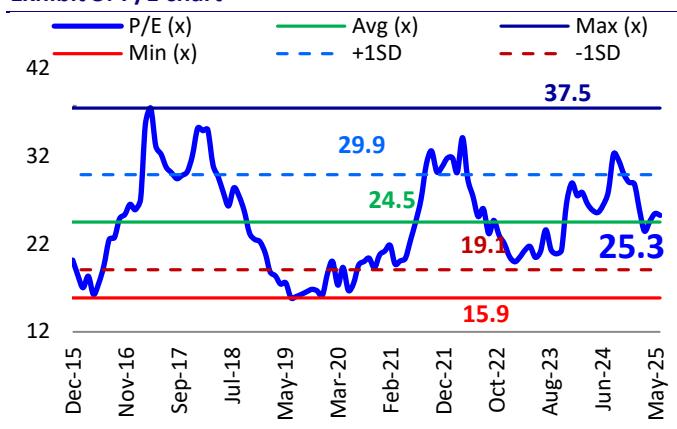
International market (excl. US) outshines; US lags behind

- In FY25, international market sales declined 5% YoY to INR38b.
- Specifically, US sales declined 11% YoY to INR24.5b. Excl. US, international business grew 11% YoY in FY25 to INR13.3b.
- ALKEM filed 9 ANDAs and received 14 approvals in FY25. The new approvals are expected to revive growth in the US market over the medium term. ALKEM also has certain niche products in the pipeline, which can boost prospects in the US going forward.
- ALKEM exhibited relatively better performance in Ex-US markets. Specifically, ALKEM witnessed robust double-digit YoY growth in Australia and other key European markets.
- Overall, we expect ALKEM to deliver a 7% sales CAGR in the international markets to INR43.5b over FY25-27.

Reiterate Neutral

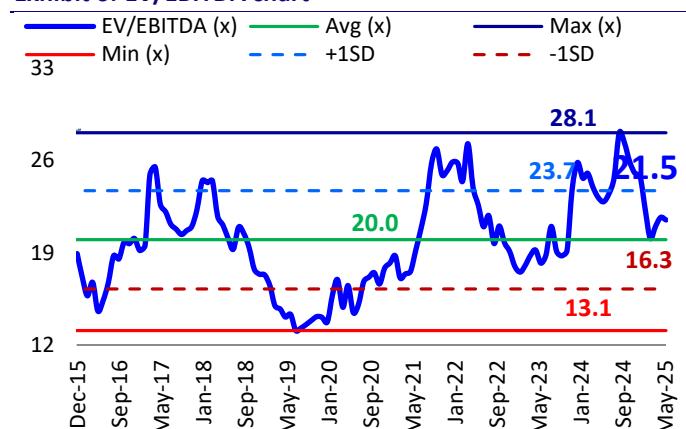
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- With a large MR base (13,000) and established presence in DF segment, ALKEM is set to outperform the industry in chronic therapies. It is investing in biologics-based CDMO and medtech segments to add new levers of growth. Further, it has a considerable cash surplus of INR46b for any strategic acquisitions. However, considering a gestation period for new initiatives and steady earnings over FY25-27, we maintain Neutral stance on the stock.

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

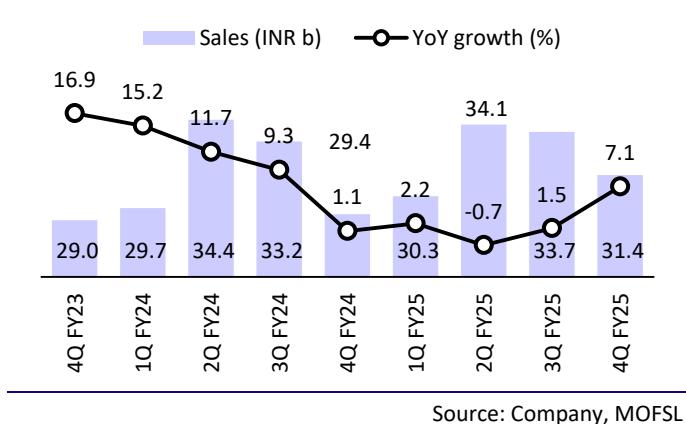
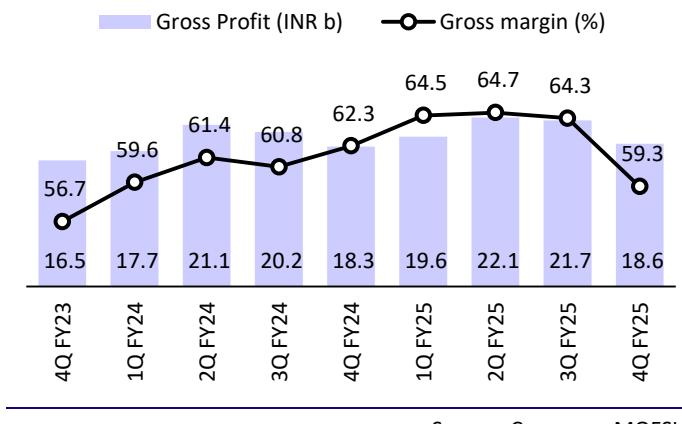
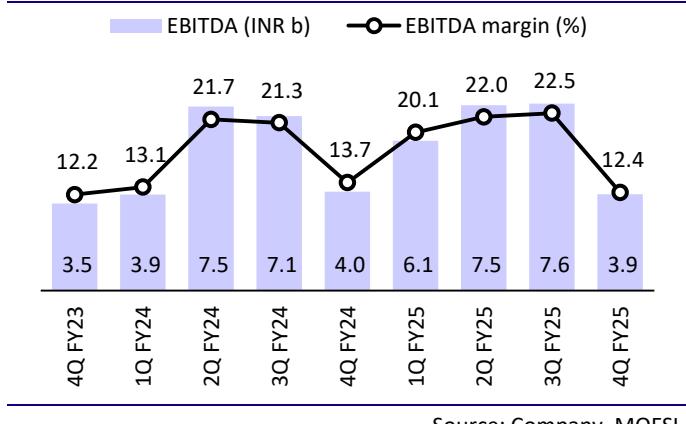
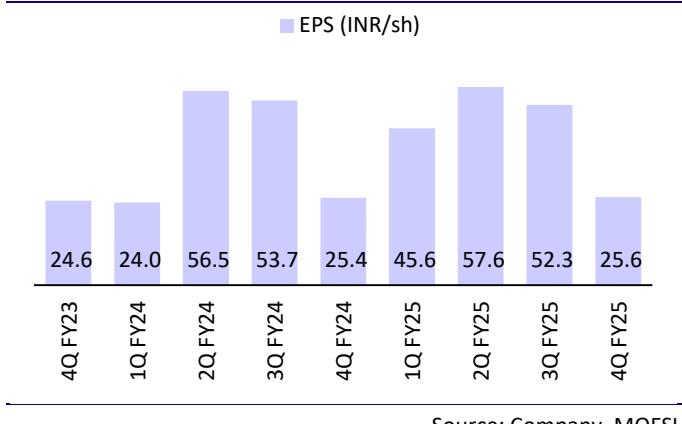
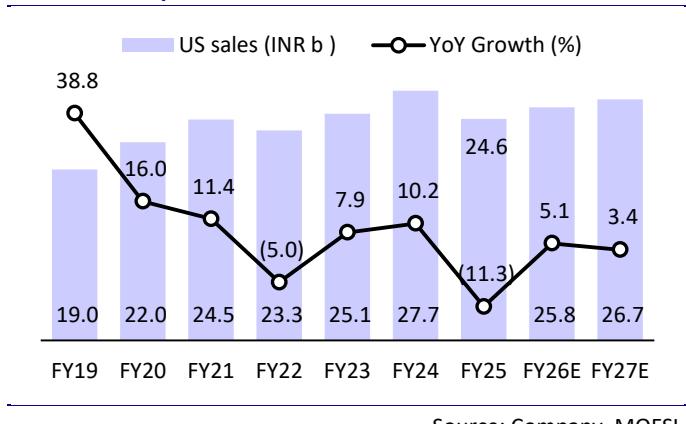
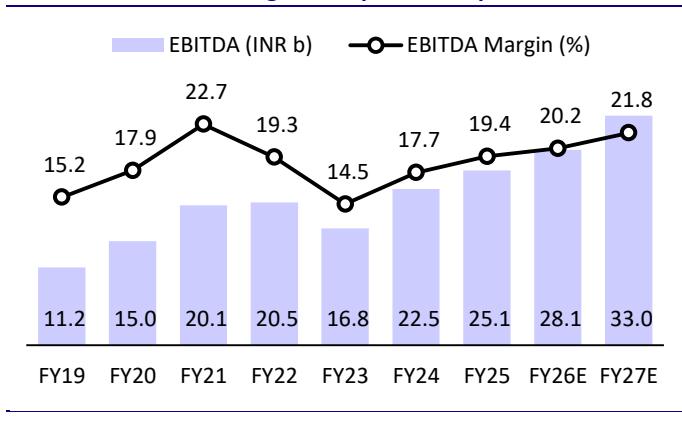
Exhibit 7: Total sales grew 7% YoY in 4QFY25

Exhibit 8: Gross margin down 300bp YoY in 4QFY25

Exhibit 9: EBITDA margin down 130bp YoY

Exhibit 10: EPS stable YoY at ~INR25.6 in 4QFY25

Exhibit 11: Expect 4% sales CAGR in the US over FY25-27

Exhibit 12: EBITDA margin to expand 240bp over FY25-27


Exhibit 13: Expect revenue CAGR of 8% over FY25-27

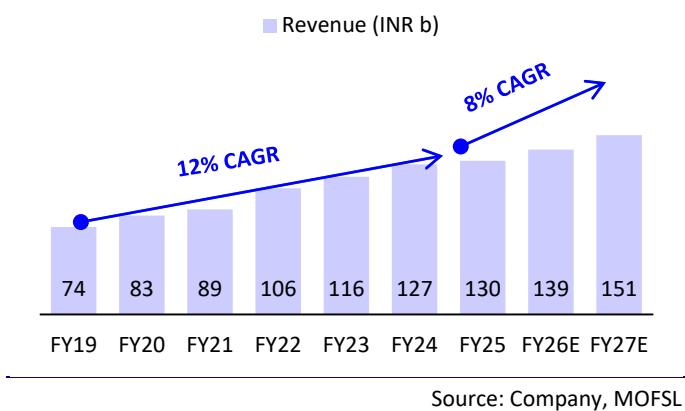


Exhibit 14: Expect India sales CAGR of 9.5% over FY25-27

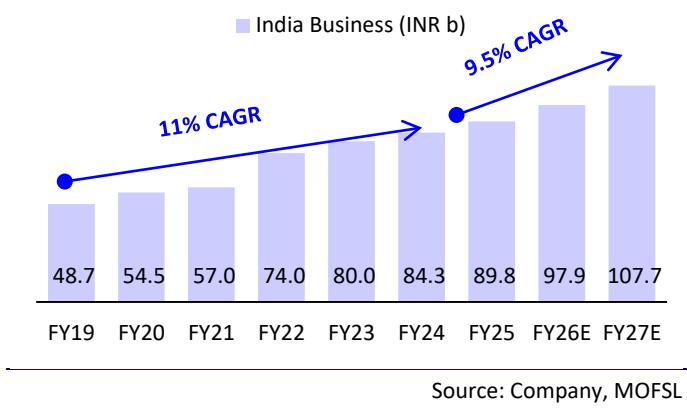


Exhibit 15: Return ratios to decrease going forward

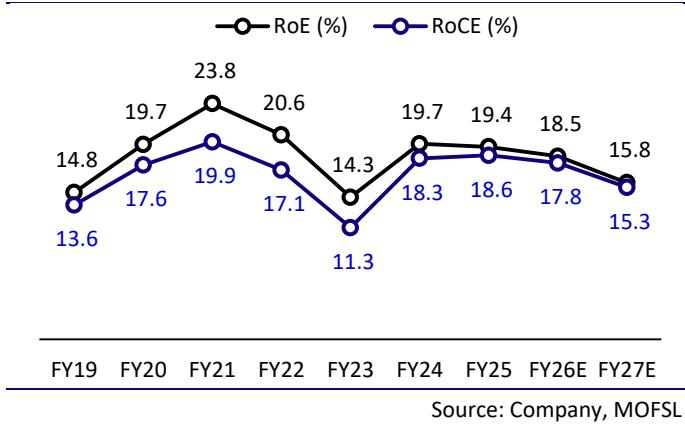
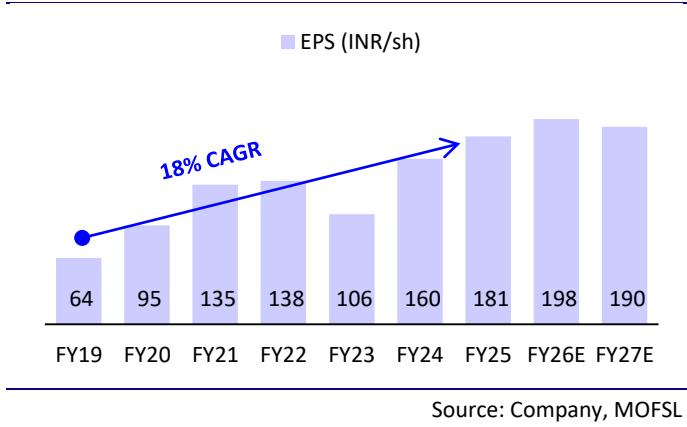


Exhibit 16: Expect earnings to be steady over FY25-27



Financials and Valuations

Consolidated - Income Statement									INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total Income from Operations	73,572	83,444	88,505	1,06,342	1,15,993	1,26,676	1,29,645	1,38,902	1,51,250
Change (%)	14.4	13.4	6.1	20.2	9.1	9.2	2.3	7.1	8.9
Total Expenditure	62,401	68,484	68,426	85,813	99,198	1,04,221	1,04,524	1,10,844	1,18,277
% of Sales	84.8	82.1	77.3	80.7	85.5	82.3	80.6	79.8	78.2
EBITDA	11,171	14,960	20,079	20,529	16,795	22,455	25,121	28,058	32,972
Margin (%)	15.2	17.9	22.7	19.3	14.5	17.7	19.4	20.2	21.8
Depreciation	1,932	2,348	2,746	3,040	3,104	2,993	3,572	3,577	3,559
EBIT	9,239	12,612	17,333	17,490	13,690	19,462	21,550	24,482	29,413
Int. and Finance Charges	546	651	589	524	1,074	1,124	1,217	1,091	1,064
Other Income	877	1,042	1,867	1,627	2,161	3,108	4,937	5,113	6,056
PBT bef. EO Exp.	9,570	13,004	18,611	18,592	14,778	21,446	25,270	28,504	34,405
EO Items	-23	-406	-190	-150	-1,730	-1,215	0	0	0
PBT after EO Exp.	9,547	12,598	18,421	18,443	13,048	20,231	25,270	28,504	34,405
Current Tax	1,810	1,105	2,243	1,640	2,980	2,117	3,110	4,276	11,010
Deferred Tax	0	0	0	0	0	0	0	0	0
Tax Rate (%)	19.0	8.8	12.2	8.9	22.8	10.5	12.3	15.0	32.0
Less: Minority Interest	131	222	328	300	226	157	505	571	645
Reported PAT	7,606	11,271	15,850	16,503	9,842	17,958	21,655	23,657	22,750
Adjusted PAT	7,629	11,407	16,100	16,516	12,678	19,091	21,655	23,657	22,750
Change (%)	8.4	49.5	41.1	2.6	-23.2	50.6	13.4	9.2	-3.8
Margin (%)	10.4	13.7	18.2	15.5	10.9	15.1	16.7	17.0	15.0

Consolidated - Balance Sheet									INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	239	239	239	239	239	239	239	239	239
Total Reserves	54,154	61,368	73,528	86,140	90,214	1,02,882	1,19,610	1,36,183	1,51,140
Net Worth	54,393	61,607	73,767	86,379	90,453	1,03,121	1,19,849	1,36,422	1,51,379
Minority Interest	1,326	1,483	1,813	2,094	3,897	4,023	4,488	4,488	4,488
Deferred Tax Liabilities	3	0	0	0	0	0	0	0	0
Total Loans	9,026	16,628	17,336	26,466	13,775	14,032	13,302	13,302	13,302
Capital Employed	64,748	79,717	92,916	1,14,939	1,08,125	1,21,176	1,37,638	1,54,211	1,69,169
Gross Block	26,000	30,354	32,376	35,948	36,835	43,260	46,607	52,742	56,771
Less: Accum. Deprn.	4,944	7,291	10,037	13,077	16,181	19,174	22,745	26,322	29,881
Net Fixed Assets	21,056	23,063	22,339	22,871	20,654	24,086	23,862	26,420	26,890
Goodwill on Consolidation	4,248	6,017	5,591	6,146	4,796	4,642	4,662	4,662	4,662
Capital WIP	4,930	3,630	3,933	3,395	3,103	1,586	5,481	2,847	2,320
Total Investments	3,236	2,614	3,328	3,710	6,218	4,838	18,455	18,455	18,455
Curr. Assets, Loans&Adv.	41,535	54,784	68,923	91,477	89,770	1,05,449	1,07,070	1,31,229	1,49,749
Inventory	14,999	18,188	23,124	30,055	26,075	26,612	29,224	31,583	34,025
Account Receivables	12,484	16,494	16,072	18,846	21,322	22,528	24,663	27,400	30,664
Cash and Bank Balance	6,616	10,922	19,905	25,786	25,786	15,694	15,631	32,013	41,250
Loans and Advances	7,437	9,180	9,822	16,790	16,587	40,616	37,552	40,233	43,810
Curr. Liability & Prov.	17,334	19,716	22,277	25,753	29,442	34,572	39,273	46,784	50,289
Account Payables	9,623	9,541	10,694	11,734	11,650	17,481	18,394	19,739	20,739
Other Current Liabilities	4,436	6,108	6,709	7,955	10,370	12,824	15,906	17,041	18,556
Provisions	3,275	4,067	4,874	6,064	7,421	4,267	4,973	10,003	10,994
Net Current Assets	24,202	35,068	46,647	65,725	60,329	70,877	67,797	84,445	99,460
Deferred Tax assets	7,076	9,326	11,079	13,093	13,025	15,148	17,383	17,383	17,383
Appl. of Funds	64,748	79,717	92,916	1,14,939	1,08,125	1,21,177	1,37,638	1,54,212	1,69,170

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)									
EPS	63.8	95.4	134.7	138.1	106.0	159.7	181.1	197.9	190.3
Cash EPS	80.0	115.1	157.6	163.6	132.0	184.7	211.0	227.8	220.1
BV/Share	455	515	617	723	757	863	1,002	1,141	1,266
DPS	15.0	25.0	30.0	59.0	50.0	40.0	45.0	50.0	55.0
Payout (%)	28.5	31.4	26.8	50.7	72.0	31.6	29.4	29.9	34.3
Valuation (x)									
P/E	83.4	55.8	39.5	38.5	50.2	33.3	29.4	26.9	28.0
Cash P/E	66.6	46.3	33.8	32.5	40.3	28.8	25.2	23.4	24.2
P/BV	11.7	10.3	8.6	7.4	7.0	6.2	5.3	4.7	4.2
EV/Sales	8.7	7.7	7.2	6.0	5.4	5.0	4.9	4.4	4.0
EV/EBITDA	57.2	42.9	31.6	31.0	37.2	28.3	25.2	22.0	18.5
Dividend Yield (%)	0.3	0.5	0.6	1.1	0.9	0.8	0.8	0.9	1.0
FCF per share	21.1	19.9	90.4	65.5	121.5	147.3	148.6	167.4	106.1
Return Ratios (%)									
RoE	14.8	19.7	23.8	20.6	14.3	19.7	19.4	18.5	15.8
RoCE	13.6	17.6	19.9	17.1	11.3	18.3	18.6	17.8	15.3
RoIC	15.8	20.5	23.7	21.6	13.6	20.3	19.2	20.9	19.2
Working Capital Ratios									
Asset Turnover (x)	1.1	1.0	1.0	0.9	1.1	1.0	0.9	0.9	0.9
Inventory (Days)	74	80	95	103	82	77	82	83	82
Debtor (Days)	62	72	66	65	67	65	69	72	74
Creditor (Days)	48	42	44	40	37	50	52	52	50
Working Cap. Turnover (Days)	87	106	110	137	109	159	147	138	140
Leverage Ratio (x)									
Current Ratio	2.4	2.8	3.1	3.6	3.0	3.1	2.7	2.8	3.0
Interest Cover Ratio	16.9	19.4	29.4	33.4	12.8	17.3	17.7	22.4	27.6
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	INRm FY27E
OP/(Loss) before Tax	9,547	12,598	18,421	18,443	13,048	20,231	25,270	28,504	34,405
Depreciation	1,932	2,528	2,746	3,040	3,104	2,993	3,572	3,577	3,559
Interest & Finance Charges	134	19	-312	-703	1,074	1,124	-3,720	-4,022	-4,992
Direct Taxes Paid	-2,511	-2,834	-4,007	-3,969	-2,734	-4,069	-3,110	-4,276	-11,010
(Inc)/Dec in WC	-1,403	-6,472	-3,412	-5,450	3,268	-516	3,017	-266	-5,778
CF from Operations	7,698	5,839	13,436	11,361	17,759	19,763	25,028	23,517	16,185
CF from Operating incl EO	7,797	5,851	12,649	11,110	16,825	19,482	25,028	23,517	16,185
(Inc)/Dec in FA	-5,269	-3,477	-1,845	-3,280	-2,297	-1,868	-7,262	-3,502	-3,502
Free Cash Flow	2,527	2,374	10,805	7,830	14,528	17,614	17,767	20,015	12,683
(Pur)/Sale of Investments	1,235	458	3	-12,051	1,955	-10,612	-13,617	0	0
Others	871	-4,395	-8,144	980	1,471	2,395	4,937	5,113	6,056
CF from Investments	-3,164	-7,414	-9,985	-14,351	1,128	-10,085	-15,942	1,611	2,554
Inc/(Dec) in Debt	-1,057	6,031	1,397	8,628	-11,408	-5,132	-730	0	0
Interest Paid	-546	-651	-536	-401	-905	-913	-1,217	-1,091	-1,064
Dividend Paid	-2,186	-4,396	-3,348	-4,219	-5,295	-5,405	-6,376	-7,084	-7,793
CF from Fin. Activity	-3,789	791	-2,718	3,796	-16,388	-19,489	-9,149	-8,746	-9,502
Inc/Dec of Cash	843	-771	-54	555	1,565	-10,093	-62	16,382	9,237
Opening Balance	1,667	2,490	1,759	1,705	2,297	3,862	-6,231	-6,293	10,089
Closing Cash and Cash Eq.	2,490	1,759	1,705	2,297	3,862	-6,231	-6,293	10,089	19,326
Bank Balances	4,126	9,163	18,199	23,489	21,924	21,924	21,924	21,924	21,924
Total Cash and Cash Eq.	6,616	10,922	19,905	25,786	25,786	15,694	15,631	32,013	41,250

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