

Price: 4,888

Recommendation: Buy

Industry: Pharmaceuticals

Sector: Healthcare

Report Date: 02-Apr-2025

Alkem Laboratories is advancing its market position through strategic initiatives, including a new biologic/biosimilar facility in Pune and entry into India's respiratory segment. The company is expanding its product range with the Eyecare division and Enzene Biosciences products. Alkem's focus on R&D; has led to 75+ new drugs and 10+ biosimilars in development. Despite a 6.2% decline in international sales, Alkem aims to strengthen its global presence and diversify its offerings for sustained growth.

Sales		Profit & Loss		Profitability Matrix	
Current Year	9507 Cr	Operating Profit(Year)	2326 Cr	Operating Profit Margin	24.5 %
Previous Year	9055 Cr	Operating Profit(Quarter)	658 Cr	EBITDA Margin	23.92 %
Current Quarter	2287 Cr	PAT (Year)	1802 Cr	Net Profit Margin	18.5 %
Previous Quarter	2355 Cr	PAT (Quarter)	676 Cr	EPS	195
Revenue (QYoY)	2009 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	26.1	Sales Growth	4.08 %	Sales Growth	-2.89 %
PEG Ratio	1.49	PAT Growth	57.38 %	Sales Growth QYoY	13.84 %
EV/EBITDA	20.6	EPS Growth	33.56 %	PAT Growth	5.3 %
P/B	4.96	Dividend Yield	0.82	PAT Growth QYoY	35.47 %
Capital Allocation		Holdings		Leverage	
RoE	18.1 %	Promoter	55.7 %	Debt/Equity	0.05
RoA	13.5 %	FII	10.1 %	Debt	619 Cr
RoCE	18.4 %	DII	18.0 %	Market Cap	58461 Cr
RoIC	25.0 %	Public	16.2 %	Enterprise value	57796 Cr
		No of Shares	12.0 Cr	Cash Equivalents	1284 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

Alkem Laboratories has embarked on several new initiatives and business strategies to strengthen its market position and drive growth. The company has launched a new biologic/biosimilar manufacturing facility in Pune and forayed into the respiratory segment in India with the Pulmocare division. Additionally, Alkem has expanded its product portfolio by launching the Eyecare ophthalmology division and introducing new products from Enzene Biosciences. The company is also focusing on fortifying its therapy leadership globally through investments in growing platforms such as biosimilars and injectables, and a foray into medical devices. Alkem's strategy includes leveraging its strong R&D; capabilities, as evidenced by the launch of 75+ new drugs in two years, and the development of 10+ biosimilars and peptides in the pipeline.

The company's future growth and scaling perspectives are promising, with a focus on targeted investments in high-growth segments to build the next set of growth pillars for its international business. Alkem aims to strengthen its presence in emerging markets by leveraging a strong portfolio of 170+ dossiers and redefining its supply chain to meet increasing demand. The company is also positioning itself as a partner of choice for global bio-innovators, with the Bio CDMO market expected to grow at 11% annually. Alkem's differentiated technology, such as Enzene's end-to-end continuous manufacturing, is expected to drive growth in developed markets. The US facility is anticipated to go live in late FY25, co-locating with innovators to cater to US and developed market requirements.

From a financial perspective, Alkem has demonstrated resilience and growth, with total revenue from operations reaching 33,743 million in Q3FY25, marking a year-on-year growth of 1.5%. The company's EBITDA margin improved to 22.5% from 21.3% in Q3FY24, and net profit after minority interest grew by 5.2% year-on-year. Alkem outperformed the Indian Pharmaceutical Market (IPM) in seven therapies, including VMN, Neuro/CNS, anti-diabetic, GI, gynaec, respiratory, and urology. The company has also received two approvals from the USFDA during the quarter, including one tentative approval, highlighting its strong regulatory compliance and market expansion efforts.

While Alkem's growth trajectory is positive, there are areas for improvement. The company's international sales experienced a year-on-year de-growth of 6.2%, indicating challenges in the global market. To address this, Alkem could enhance its focus on emerging markets and further diversify its product offerings to mitigate risks associated with price erosion in the US market. Additionally, increasing the contribution of chronic therapies to revenue share and expanding its field force could bolster its market presence. Overall, Alkem's strategic initiatives and robust R&D; capabilities position it well for future growth, but continued focus on international market expansion and product diversification will be crucial for sustained success.

ALKEM Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Mankind Pharma	99979.34	51.70	19.71%	-5.26%	8.48%	-30.88%	-10.01%
Dr Reddy's Labs	95945.72	17.89	21.39%	4.27%	15.81%	11.83%	1.69%
Lupin	91708.98	31.97	14.14%	1.67%	10.97%	0.30%	39.48%
Zydus Lifesci.	89670.54	19.78	20.67%	0.61%	16.96%	12.39%	33.34%
Aurobindo Pharma	67801.06	19.08	11.53%	2.34%	8.53%	3.50%	-9.69%

Aspect	Commentary
Revenue	The company shows a modest year-on-year revenue growth of 4.08%, indicating stable performance. However, quarter-on-quarter revenue declined by 2.89%, suggesting potential seasonal or operational challenges. The revenue growth year-on-year is 13.84%, reflecting a strong recovery or expansion in specific segments.
Profit & Loss	Operating profit margins are healthy at 24.5%, with a significant year-on-year PAT growth of 57.38%, indicating improved cost management or revenue streams. Quarterly PAT growth of 5.3% suggests consistent profitability, though the quarter-on-quarter decline in sales may impact future profits.
Profitability Matrix	The company maintains strong profitability with an operating profit margin of 24.5% and a net profit margin of 18.5%. The EBITDA margin at 23.92% supports robust operational efficiency. EPS growth of 33.56% year-on-year highlights effective earnings management and shareholder value enhancement.
Valuation Matrix	The trailing P/E ratio of 26.1 suggests market confidence in future earnings, while a PEG ratio of 1.49 indicates growth at a reasonable price. EV/EBITDA of 20.6 reflects a premium valuation, possibly due to growth prospects. The P/B ratio of 4.96 suggests a high market valuation relative to book value.
Growth (YoY)	Year-on-year growth metrics are positive, with sales growth at 4.08% and PAT growth at 57.38%, indicating strong financial health and operational success. EPS growth of 33.56% further underscores the company's ability to enhance earnings per share, benefiting shareholders.
Growth (QoQ)	Quarter-on-quarter growth shows a sales decline of 2.89%, which may indicate short-term challenges. However, PAT growth of 5.3% suggests effective cost control or other income streams. The sales growth year-on-year of 13.84% indicates a strong recovery or expansion in specific areas.
Capital Allocation	The company demonstrates efficient capital allocation with a RoE of 18.1% and RoCE of 18.4%, indicating effective use of equity and capital employed. RoIC at 25.0% suggests strong returns on invested capital, supporting sustainable growth and value creation for shareholders.
Holdings	Promoter holding at 55.7% indicates strong control and confidence in the company. FII and DII holdings at 10.1% and 18.0% respectively, reflect institutional interest. Public holding at 16.2% provides liquidity in the market. The total number of shares stands at 12.0 Cr, ensuring adequate market presence.
Leverage	The company maintains a low debt/equity ratio of 0.05, indicating minimal leverage and financial risk. With a debt of 619 Cr against a market cap of 58461 Cr, the company is well-positioned to manage its obligations. Cash equivalents of 1284 Cr provide liquidity for operational needs and investments.

Analyst viewpoint: Alkem Laboratories presents a compelling investment opportunity for short to mid-term growth. The company's robust financial performance is highlighted by a 13.84% year-on-year sales growth and a 35.47% rise in PAT, demonstrating solid revenue streams and cost management. With a trailing P/E ratio of 26.1 and a PEG ratio of 1.49, the market's confidence in future earnings is evident, indicating that Alkem is valued at a reasonable growth price. Additionally, their strategic investments in high-growth segments, notably their new biologic facilities and entry into the respiratory segment in India, position Alkem well against its competitors. The company is also leveraging its strong R&D capabilities with the development of 75+ new drugs and 10+ biosimilars, emphasizing innovation and potential in global drug markets.

Despite the positive outlook, Alkem's international sales have faced a 6.2% decline, suggesting slight challenges in global market traction. However, Alkem's efficient capital allocation, with a RoIC of 25.0%, ensures strong shareholder returns. The company's focus on cash flow, low debt-load, and strategic expansion into emerging markets further strengthen its foundation for long-term growth. As a leader in therapeutic areas domestically, Alkem's ongoing strategy to expand its international footprint, product diversification, and continuously enhance R&D investments endorse our bullish stance on its stock.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

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