Alkem Labs: Structural Margin Upside Under Way

ADD

Sector View: Positive

August 17, 2026 | CMP: INR 5,399 | Target Price: INR 5,755

Expected Share Price Return: 6.5% I Dividend Yield: 0.8% I Potential Upside: 7.3%

Change in Estimates	✓
Change in Target Price	✗
Change in Recommendation	✗

Company Info	
BB Code	ALKEM IN EQUITY
Face Value (INR)	2.0
52-week High/Low (INR)	5,933 / 4,741
Mkt Cap (Bn)	INR 641.9 / USD 6.8
Shares o/s (Mn)	119.6
3M Avg. Daily Volume	1,09,965

Change in CIE Estimates

	FY27E			FY28E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	166.0	165.0	0.6	187.3	185.1	1.2
EBITDA	36.5	34.6	5.4	43.1	39.8	8.2
EBITDAM %	22.0	21.0	100 bps	23.0	21.5	150 bps
Adj. PAT	25.7	25.2	2.1	30.5	27.5	10.9
Adj. EPS (INR)	214.8	210.4	2.1	255.3	230.2	10.9

Actual vs CIE Estimates

INR Bn	Q1FY27A	CIE Estimate	Dev.%
Revenue	37.4	38.5	(2.8)
EBITDA	7.7	7.5	2.1
EBITDAM %	20.5	19.5	98 bps
Adj PAT	5.2	5.4	(4.4)

Key Financials

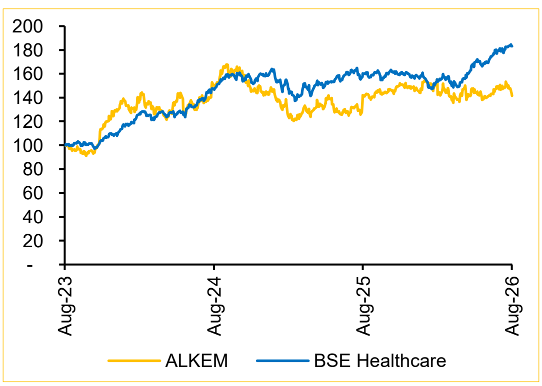
INR Bn	FY25	FY26	FY27E	FY28E	FY29E
Revenue	129.6	147.1	166.0	187.3	211.4
YoY (%)	2.3	13.5	12.8	12.8	12.9
EBITDA	25.1	30.1	36.5	43.1	48.6
EBITDAM %	19.4	20.4	22.0	23.0	23.0
Adj PAT	21.7	24.5	25.7	30.5	34.7
EPS (INR)	181.1	204.5	214.8	255.3	290.6
ROE %	18.5	17.0	16.5	16.9	16.7
ROCE %	15.6	16.0	17.5	18.3	18.3
PE (x)	29.8	26.4	25.1	21.1	18.6
EV/EBITDA (x)	25.8	21.0	16.7	15.0	13.3

Shareholding Pattern (%)

	Jun 2026	Mar 2026	Dec 2025
Promoters	49.70	51.20	51.20
FIIs	10.42	10.15	9.97
DIIs	22.64	21.39	21.54
Public	17.25	17.25	17.30

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	83.2	25.0	14.7
ALKEM	41.6	(5.5)	0.4



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Launch Momentum and Margin Recovery Support Growth

We continue to maintain our view on the company and ***expect revenue to grow in the low teens***, driven by new launches (including 2 launches in Q2), continued growth in chronic therapies and scale-up in CDMO. While ***CDMO contribution is unlikely to be meaningful in the near term***, we ***anticipate margin to*** improve with easing API inflation and better scale from launches, projecting it to reach ~22% in FY27E, with a further ~100 bps expansion in FY28E. ***Upside to performance could come from a stronger specialty pipeline***.
We estimate Revenue/EBITDA/PAT CAGR of 12.8%/17.4%/12.4% over FY26–29E and maintain our TP of **INR 5,755** and **'ADD'** rating.

Revenue Miss despite Strong QoQ Margin Expansion

- Revenue grew 10.9% YoY / 3.8% QoQ to INR 37,402 Mn (vs. CIE estimate of INR 38,483 Mn).
- EBITDA grew 3.7% YoY / 48.1% QoQ to INR 7,661 Mn; margin contracted 144 bps YoY but expanded 612 bps QoQ to 20.5% (vs. CIE estimate of 19.5%).
- Adjusted PAT declined 20.4% YoY but increased 64.1% QoQ to INR 5,200 Mn (vs. CIE estimate of INR 5,439 Mn).

Healthy Revenue Recovery; FY27 Outlook Remains Intact

Revenue saw a healthy recovery; however, the ***overall FY27E outlook remains unchanged***. We ***project ~13% revenue CAGR*** over FY26–29E, driven by the shift towards chronic therapies in domestic markets, CDMO scale-up in the US and continued growth across other geographies. The ***launch pipeline includes an oncology biosimilar*** in Europe (Q2FY27) and ***Denosumab in the US***, among other. ***Opto Tech integration is also expected to start next quarter.***

Margin Forecast to see an ~200 bps Expansion on Better Mix

EBITDA margin improved QoQ during thiss quarter, supported by better demand seasonality in the monsoon. We expect margin to ***sustain at ~22% in FY27E***, driven by better demand and mix, high-value launches in biosimilars and CDMO and continued scale-up of chronic therapies in the domestic market.

Particulars (INR Mn)	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)
Revenue	37,402	33,711	10.9	36,033	3.8
Cost of Goods Sold	12,013	11,712	2.6	12,479	(3.7)
Gross Margin (%)	67.9	65.3	262 bps	65.4	251 bps
Operating Expenses	17,728	14,609	42.2	18,381	(0.8)
EBITDA	7,661	7,391	3.7	5,174	48.1
EBITDA Margin (%)	20.5	21.9	(144) bps	14.4	612 bps
Depreciation	1,002	877	14.3	1,058	(5.3)
Interest	466	298	56.5	539	(13.5)
PBT	7,720	7,710	0.1	4,229	82.6
Tax	2,505	1,027	143.9	1,712	46.3
Adj PAT	5,200	6,535	(20.4)	3,168	64.1
Adj EPS (INR)	43.5	54.7	(20.4)	26.5	64.1

Geographical Mix (INR Mn)	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)
India	24,978	22,650	10.3	23,245	7.5
USA	7,439	6,982	6.5	7,681	(3.2)
Other countries	4,785	3,556	34.6	4,523	5.8
Other	200	523	(61.9)	584	(65.9)

Source: ALKEM, Choice Institutional Equities

Management Call – Highlights

India

- Alkem continued to outperform the IPM across seven key therapies, including anti-infectives, gastro and chronic segments.
- Domestic growth remained primarily branded-led, while the trade generic business was broadly flat as the company maintained tighter credit discipline.
- The company has strengthened working-capital discipline by reducing days sales outstanding (DSO) and optimising inventory levels amid higher API costs.
- Alkem has expanded its field force by around 1,200 Medical Representatives over the past few quarters to further strengthen domestic coverage.

The OAI status at the Daman facility remains under remediation, with management expecting resolution within 6–12 months and no material supply disruption.

US

- The company ***received five ANDA approvals*** in the quarter, including one tentative approval, strengthening its upcoming US launch pipeline.
- The ***OAI status at the Daman facility remains under remediation***,;with management expecting resolution within 6–12 months and no material supply disruption.
- US growth is currently supported by favourable currency movements, while the management believes market-wide price erosion has started bottoming out.
- A new product launch is expected in the US during the current quarter, providing an incremental growth driver.

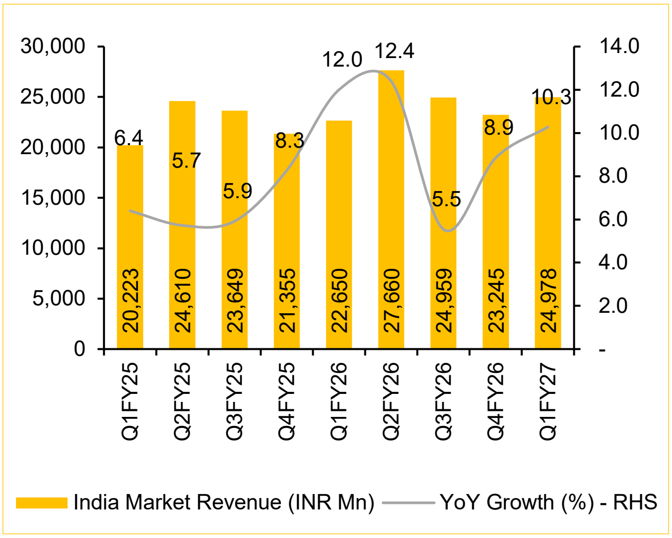
The management maintains its ~12% full-year growth guidance for India, with a recovery in the trade generic business expected to support growth.

Full-year gross margin is guided at 66.5–67%, factoring in potential pressure from higher API costs in the coming quarters.

Outlook

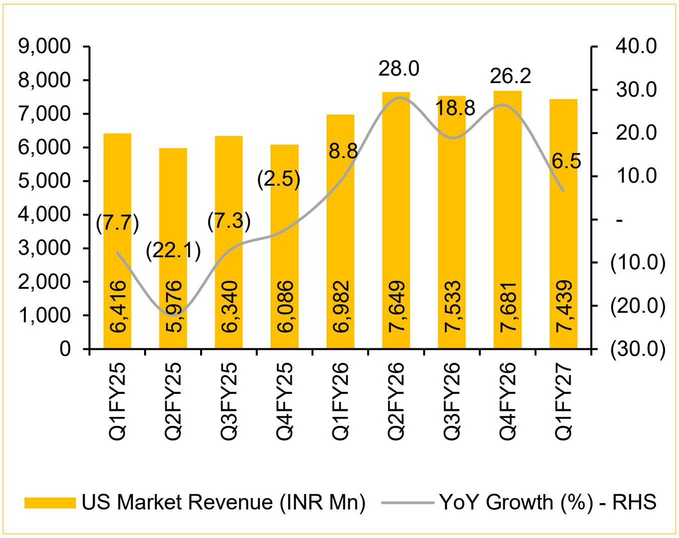
- The management ***maintains its ~12% full-year growth guidance*** for India, with a recovery in the trade generic business expected to support growth.
- US growth is expected at mid-to-high single digits, supported by favourable currency movements and improving pricing trends.
- Full-year gross margin is guided at 66.5–67%, factoring in potential pressure from higher API costs in the coming quarters.
- Enzene US CDMO is targeted to reach break-even over the next 4–5 quarters, supported by scaling towards a USD 30 Mn annualised revenue run rate.

India Market continues to Outperform the IPM



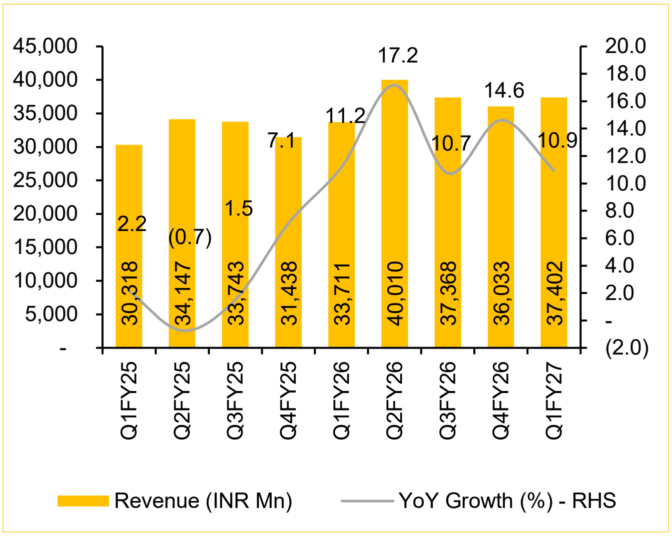
Source: ALKEM, Choice Institutional Equities

US Market Growth Stabilises at High-single Digit



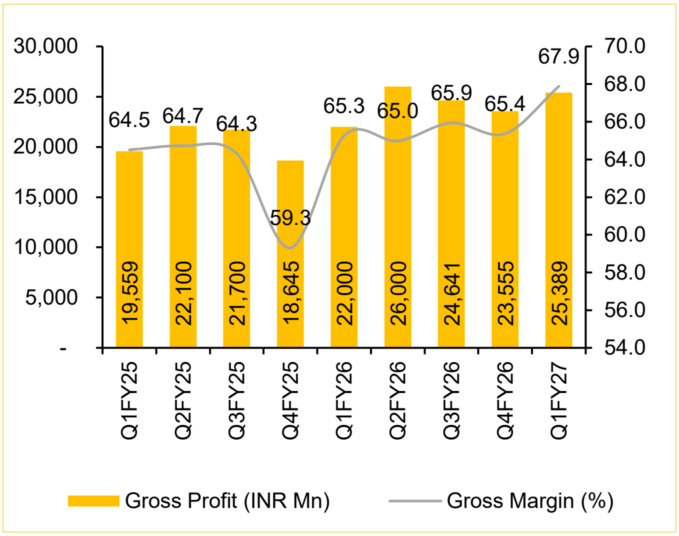
Source: ALKEM, Choice Institutional Equities

Revenue Slightly below Estimate



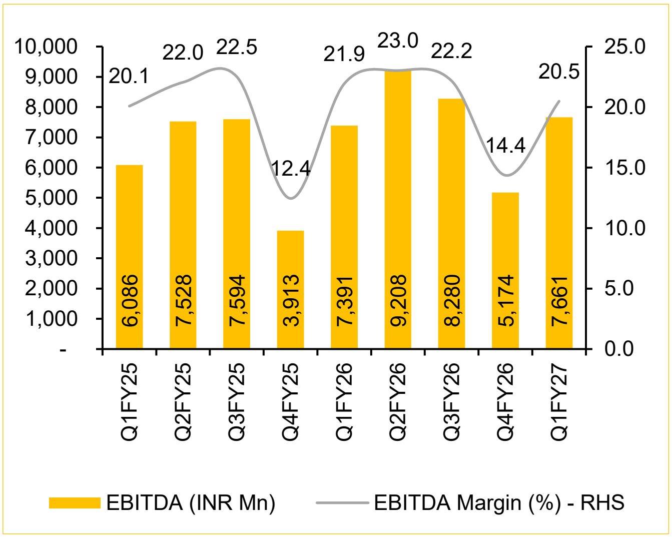
Source: ALKEM, Choice Institutional Equities

Gross Margin Improves with Lower API Inflation



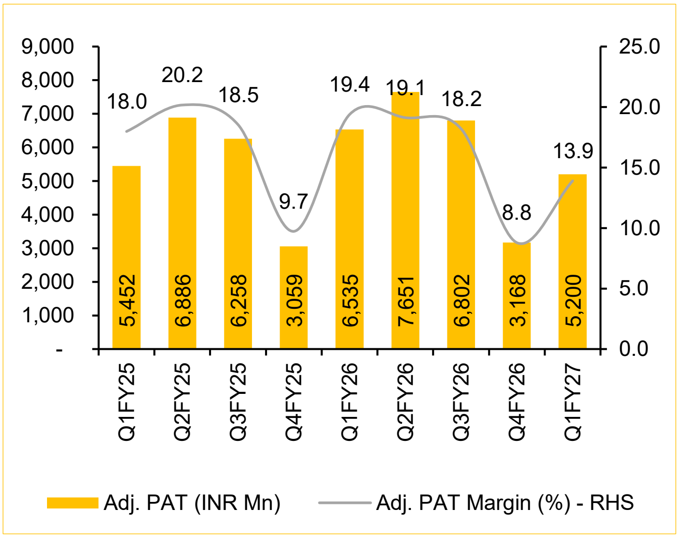
Source: ALKEM, Choice Institutional Equities

EBITDA Improved due to Better Seasonality



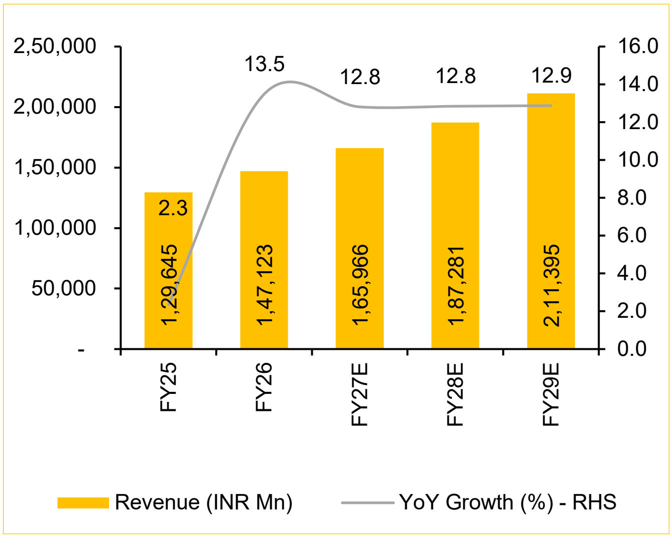
Source: ALKEM, Choice Institutional Equities

Adj. PAT Growth below Estimate



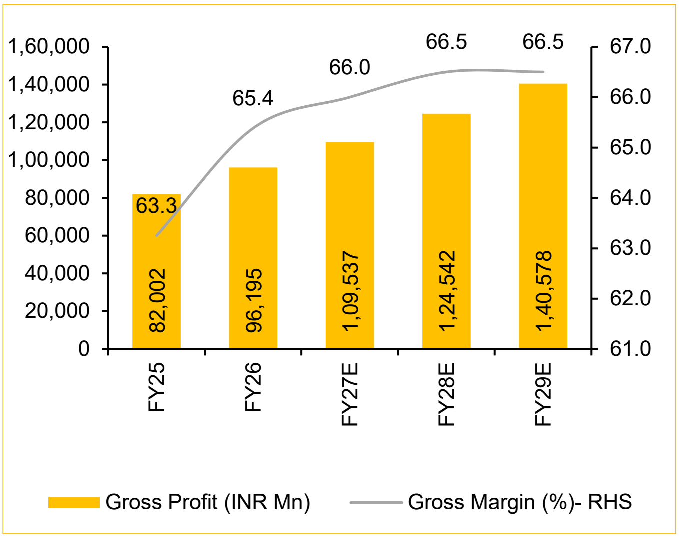
Source: ALKEM, Choice Institutional Equities

Revenue Forecast to Expand at 12.8% CAGR in FY26–29E



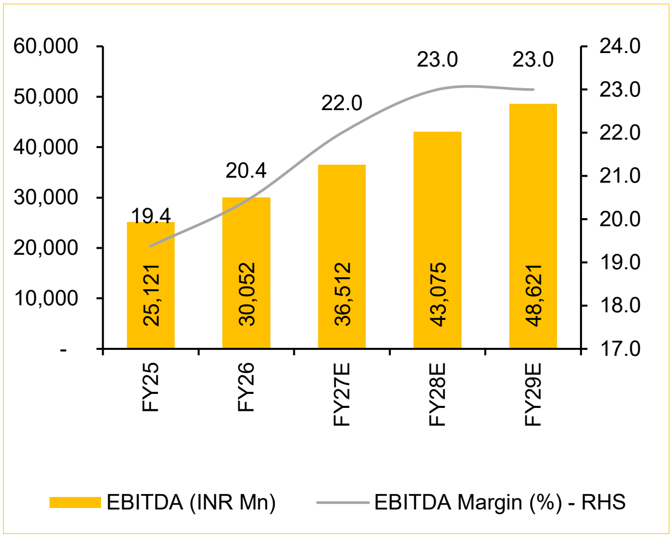
Source: ALKEM, Choice Institutional Equities

Gross Margin to Remain Flat from FY27E



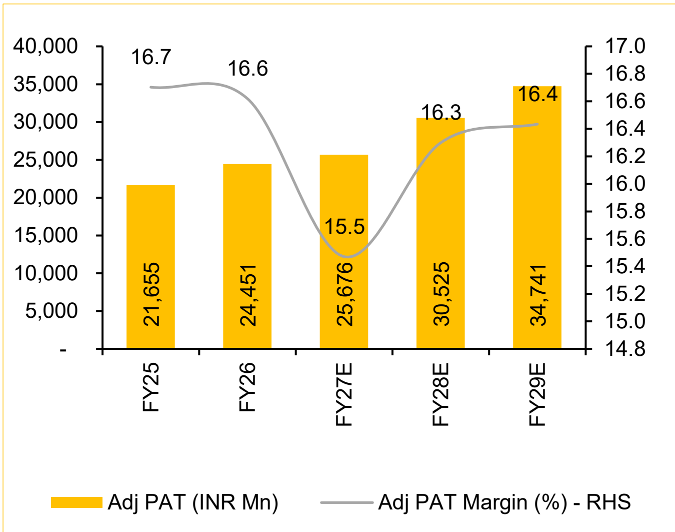
Source: ALKEM, Choice Institutional Equities

EBITDA Margin Expected to Improve from FY27E



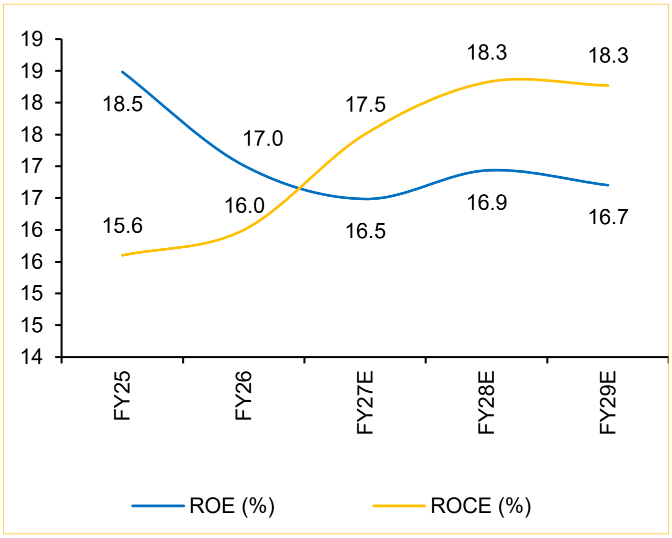
Source: ALKEM, Choice Institutional Equities

PAT Growth Affected due to Higher Taxes



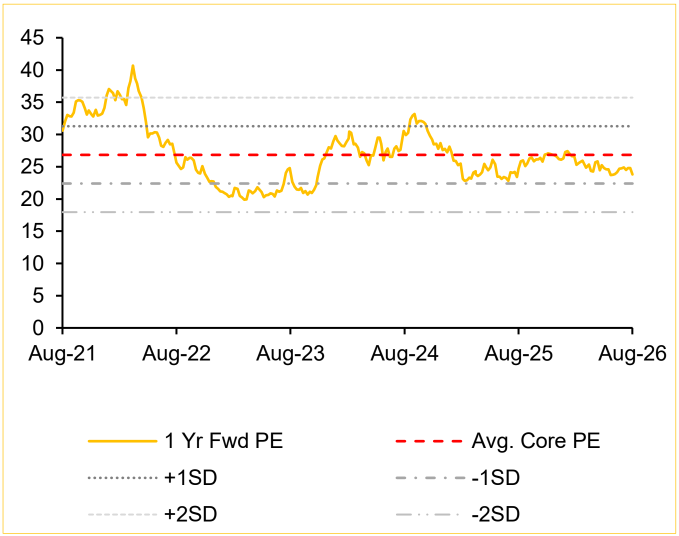
Source: ALKEM, Choice Institutional Equities

ROE and ROCE Trend



Source: ALKEM, Choice Institutional Equities

1-year Forward PE Band



Source: ALKEM, Choice Institutional Equities

Income Statement (INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Revenue	1,29,645	1,47,123	1,65,966	1,87,281	2,11,395
Gross Profit	82,002	96,195	1,09,537	1,24,542	1,40,578
EBITDA	25,121	30,052	36,512	43,075	48,621
Depreciation	3,572	3,821	4,128	4,616	5,103
EBIT	21,550	26,232	32,384	38,459	43,518
Other Income	4,937	5,834	6,639	7,491	8,456
Interest Expense	1,217	1,608	1,638	1,638	1,638
PBT	25,270	28,709	37,385	44,312	50,336
Adj PAT	21,655	24,451	25,676	30,525	34,741
Adj EPS (INR)	181.1	204.5	214.8	255.3	290.6

Ratio Analysis	FY25	FY26	FY27E	FY28E	FY29E
Growth Ratios (%)					
Revenue	2.3	13.5	12.8	12.8	12.9
Gross Profit	6.1	17.3	13.9	13.7	12.9
EBITDA	11.9	19.6	21.5	18.0	12.9
Adj PAT	13.7	12.9	5.0	18.9	13.8
Margins (%)					
Gross Profit Margin	63.3	65.4	66.0	66.5	66.5
EBITDA Margin	19.4	20.4	22.0	23.0	23.0
PBT Margin	19.5	19.5	22.5	23.7	23.8
Tax Rate	12.3	18.0	30.0	30.0	30.0
Adj PAT Margin	16.7	16.6	15.5	16.3	16.4
Profitability (%)					
ROE	18.5	17.0	16.5	16.9	16.7
ROIC	21.7	20.3	18.3	20.9	22.4
ROCE	15.6	16.0	17.5	18.3	18.3
Financial Leverage (x)					
OCF/EBITDA	0.8	0.7	0.8	0.7	0.7
OCF/Net Profit	0.9	0.8	1.1	1.0	1.0
Debt to Equity	0.1	0.1	0.1	0.1	0.1
Interest Coverage	17.7	16.3	19.8	23.5	26.6
Working Capital					
Inventory Days	224	239	224	224	224
Debtor Days	69	74	70	70	70
Payable Days	141	161	150	150	150
Cash Conversion Cycle	152	152	144	144	144
Valuation Metrics					
No of Shares (Mn)	119.6	119.6	119.6	119.6	119.6
Adj EPS (INR)	181.1	204.5	214.8	255.3	290.6
BVPS (INR)	1,040.0	1,200.2	1,376.2	1,584.6	1,821.2
Market Cap (INR Bn)	645.5	645.5	645.5	645.5	645.5
PE (x)	29.8	26.4	25.1	21.1	18.6
P/BV (x)	5.2	4.5	3.9	3.4	3.0
EV/EBITDA (x)	25.8	21.0	16.7	15.0	13.3
EV/Sales (x)	5.0	4.3	3.7	3.4	3.1

Source: ALKEM, Choice Institutional Equities

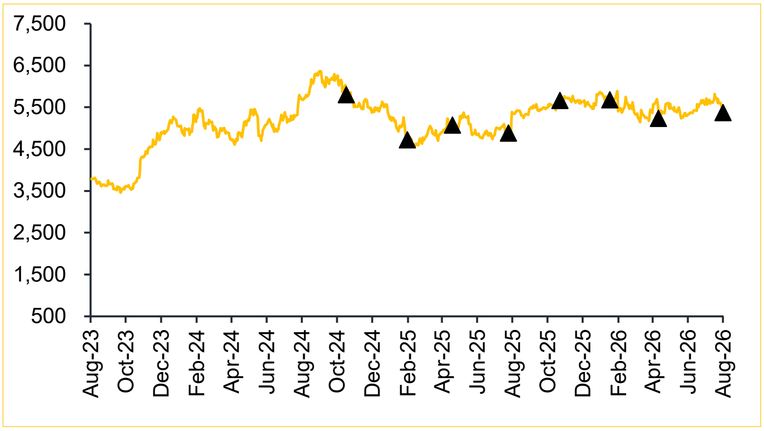
Balance Sheet (INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Net Worth	1,24,336	1,43,489	1,64,524	1,89,437	2,17,724
Borrowings	13,809	20,472	20,472	20,472	20,472
Trade Payables	18,394	22,442	23,190	25,783	29,103
Other Non-current Liabilities	7,142	8,721	8,721	8,721	8,721
Other Current Liabilities	13,231	13,606	13,606	13,606	13,606
Total Net Worth & Liabilities	**1,76,911**	**2,08,730**	**2,30,512**	**2,58,019**	**2,89,625**
Net Block	20,639	26,950	29,321	31,205	32,602
Capital WIP	4,766	1,379	1,379	1,379	1,379
Goodwill & Intangible Assets	5,377	9,243	9,243	9,243	9,243
Investments	18,455	18,688	18,688	18,688	18,688
Trade Receivables	24,663	29,791	31,829	35,917	40,542
Cash & Cash Equivalents	15,631	17,329	33,404	51,066	71,694
Other Non-current Assets	27,239	37,738	37,738	37,738	37,738
Other Current Assets	60,142	67,612	68,910	72,783	77,740
Total Assets	**1,76,911**	**2,08,730**	**2,30,512**	**2,58,019**	**2,89,625**

Cash Flows (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
Cash Flows from Operations	19,128	19,630	29,348	31,905	35,713
Cash Flows from Investing	(12,988)	(16,672)	(6,500)	(6,500)	(6,500)
Cash Flows from Financing	(8,110)	(5,034)	(6,773)	(7,743)	(8,586)

DuPont Analysis	FY25	FY26	FY27E	FY28E	FY29E
Tax Burden (%)	87.7	81.9	70.0	70.0	70.0
Interest Burden (%)	117.3	109.4	115.4	115.2	115.7
EBIT Margin (%)	16.6	17.8	19.5	20.5	20.6
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Equity Multiplier (x)	1.5	1.5	1.5	1.4	1.4
ROE (%)	**18.5**	**17.0**	**16.5**	**16.9**	**16.7**

Historical Price Chart: ALKEM



Date	Rating	Target Price
November 14, 2024	HOLD	6,252
February 10, 2025	SELL	4,186
May 30, 2025	SELL	4,108
August 13, 2025	SELL	4,750
November 17, 2025	REDUCE	5,850
February 16, 2026	ADD	5,995
May 29, 2026	ADD	5,755
August 17, 2026	ADD	5,755

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CHOICE RATING DISTRIBUTION & METHODOLOGY	
Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

***Large Cap: More Than INR 20,000 Cr Market Cap**
***Mid & Small Cap: Less Than INR 20,000 Cr Market Cap**

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