

Alkem: Margins Hit; Growth Slows

SELL

May 30, 2025 | CMP: INR 5,325 | Target Price: INR 4,100

Sector View: Neutral

Expected Share Price Return: (22.9)% | Dividend Yield: 0.8% | Expected Total Return: (22.1)%

Change in Estimates	✓
Target Price Change	✓
Recommendation	✗

Company Info	
BB Code	ALKEM IN EQUITY
Face Value (INR)	2.0
52 W High / Low (INR)	6,440/ 4,410
Mkt Cap (Bn)	INR 636 / \$ 7.4
Shares o/s ( Mn)	119.5
3M Avg. Daily Volume	1,01,628

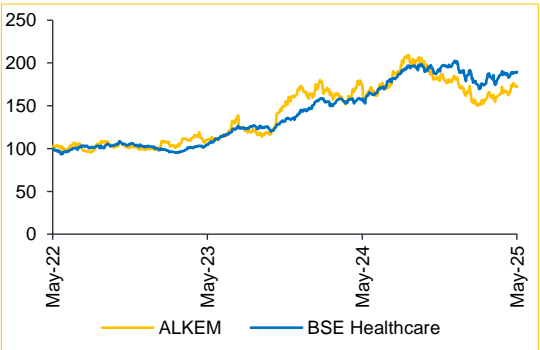
Change in Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	139.4	139.6	(0.1)	151.7	150.7	0.7
EBITDA	27.2	26.5	2.5	29.6	29.4	0.7
EBITDAM %	19.5	19.0	50 bps	19.5	19.5	-
PAT	22.1	22.2	(0.5)	24.2	25.0	(3.3)
EPS	185.1	186.0	(0.5)	202.3	209.3	(3.3)

Actual vs Consensus			
INR Bn	Q4FY25A Consensus Est.		Dev.%
Revenue	31.4	31.7	(0.7)
EBITDA	3.9	4.4	(11.2)
EBITDAM %	12.4	13.9	(147)bps
PAT	3.1	3.6	(14.9)

Key Financials					
INR Bn	FY23	FY24	FY25	FY26E	FY27E
Revenue	116.0	126.7	129.6	139.4	151.7
YoY (%)	9.1	9.2	2.3	7.5	8.8
EBITDA	16.1	22.5	25.1	27.2	29.6
EBITDAM %	13.9	17.7	19.4	19.5	19.5
Adj PAT	9.8	18.0	21.7	22.1	24.2
EPS	82.4	150.2	181.1	185.1	202.3
ROE %	11.1	17.6	18.5	15.9	14.9
ROCE %	12.1	16.0	15.6	14.9	14.1
PE(x)	59.8	33.4	29.4	28.8	26.3
EV/EBITDA	40.2	28.7	25.2	23.4	21.5
BVPS	789.2	896.2	1,040.0	1,225.2	1,427.5
FCF	14.5	16.9	12.4	12.2	12.8

Shareholding Pattern (%)			
	Mar-25	Dec-24	Sep-24
Promoters	55.13	55.66	55.66
Flls	9.40	10.14	9.02
Dlls	19.42	18.01	19.21
Public	16.05	16.19	16.12

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Healthcare	89.6	97.2	19.7
ALKEM	72.1	56.2	-0.6



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Alkem Sees Slowdown; Margins Hit by Rising R&D

While Q4 is generally a weak quarter for the company, Alkem has seen a significant hit to its EBITDA margins due to higher operating expenses and profitability due to increased depreciation following the acquisition of Adroit Biomed. Although the company expects some operational leverage to materialize from the acquisition, rising R&D expenses for pipeline development will continue to weigh on EBITDA margins, which we expect to remain largely unchanged. With no major drug launches scheduled in the US for FY26E/FY27E, coupled with a general slowdown in the domestic market, we forecast Alkem to report a high single-digit overall revenue growth. Accordingly, we revise our FY27E estimates downward by 3.3% and continue to value the company on FY27E EPS at a PE multiple of 20x (unchanged), resulting in a target price of INR 4,100 (previously INR 4,186). We maintain our **SELL** rating on the stock.

Weak Operating Performance, Largely Miss Across Metrics

- Revenue grew 7.1% YoY / declined 6.8% QoQ to INR 31.4 Bn (vs. consensus estimate: INR 31.7 Bn).
- EBITDA de-grew 2.7% YoY / fell 48.5% QoQ to INR 3.9 Bn (vs. consensus: INR 4.4 Bn); margins contracted 125 bps YoY / 1006 bps QoQ to 12.4% (vs. consensus: 13.9%).
- PAT was flat YoY / declined 51.1% QoQ to INR 3.1 Bn (vs. consensus estimate: INR 3.6 Bn).

**India Growth Slows Amid NLEM Pressure, Weak Acute Momentum:** The India business, which contributes ~70% of total revenue, has seen a slowdown over the past two quarters. Around 30% of the company's portfolio falls under the National List of Essential Medicines (NLEM), subject to strict price caps. Volume growth in these products has been muted at ~1% versus the ~2% expected. Additionally, the company has witnessed slower momentum in its acute therapies segment, which makes up ~80% of domestic revenue. While the company aims to continue outperforming the Indian Pharmaceutical Market (IPM) by 100 bps, the broader IPM is expected to grow only 8–9% in the coming year. We believe this will lead to a relatively modest overall revenue growth for the company.

EBITDA Margin to Hold at 19.5% Through FY27E Amid Rising R&D Spend:

Although the company's gross and EBITDA margin improved in FY25, they are expected to remain largely stable over the next two years. Gross margin could see a modest 50 bps uptick due to an improved product mix, and some operating leverage is anticipated. However, this will likely be offset by increased R&D expenses, guided at 5% of revenue (vs. 4.3% in FY25), as the company ramps up its pipeline with multiple filings — including 8–10 for the US and several for non-US markets. With no major launches expected in the near term, we expect EBITDA margins to remain flat at 19.5% through FY27E, consistent with management guidance.

Particulars (INR Mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Revenue	31,438	29,358	7.1	33,743	(6.8)
Cost of Goods Sold	12,793	11,074	15.5	12,043	6.2
Gross Margin (%)	59.3	62.3	(297)bps	64.3	(500)bps
Operating Expenses	14,732	14,264	14.9	14,106	7.7
EBITDA	3,913	4,020	(2.7)	7,594	(48.5)
EBITDA Margin (%)	12.4	13.7	(125)bps	23	(1,006)bps
Depreciation	1,125	834	34.8	853	31.9
Interest	284	269	5.8	360	(21.1)
PBT	3,963	3,673	7.9	7,311	(45.8)
Tax	740	629	17.6	903	(18.1)
PAT	3,059	3,039	0.6	6,258	(51.1)
EPS	25.6	25.4	0.6	52.3	(51.1)
Geographical Revenue					
India	21,355	19,724	8.3	23,649	(9.7)
USA	6,086	6,241	(2.5)	6,340	(4.0)
Other Countries	3,661	2,855	28.2	3,265	12.1
Others	335	538	(37.8)	489	(31.6)

Source: Company, CEBPL

## Management Call - Highlights

### India Business

- **FY26 Guidance – Mid-Single Digit Growth:** Management projects mid-single digit growth despite continued pricing erosion.
- **FY25 CapEx at ~INR 700 Cr:** FY26 CapEx guidance in the same line.
- **Strong Q4 India Sales:** India sales grew 8.1% YoY in Q4, supported by growth across oral solids and liquids, particularly in anti-infective and chronic segments.
- **Volume Outperformance:** Alkem registered 2.1% volume growth versus IPM's 1.2%, indicating sustained strength in key therapies.
- **Therapy Leadership Maintained:** Gained ranks in anti-diabetic and respiratory therapies, maintained #1 in Ortho and top 3 in Gynae, Surgery, and Dentistry.
- **Outlook Bullish on Domestic:** Management expects to grow at least 100 bps ahead of IPM in FY26, projecting 7–8% market growth.
- **Trade Generics Moderation:** Trade generics grew 6–7% in FY25, facing competition; margin improvement focus continues.
- **Targeted Interventions in Acute:** Strategic focus on specialties and geographies has revived acute growth, expected to sustain in FY26.
- **Chronic Portfolio Gaining Ground:** Strong momentum in chronic therapies, supported by investment in clinical trials for pipeline enhancement.
- **Derma Expansion:** Acquisition of Adroit Biomed will strengthen presence in derma with synergy in geography and brands.
- **New Domestic Plant Planned:** Capex allocated to setting up a new facility to support future India business growth.

### North America Business

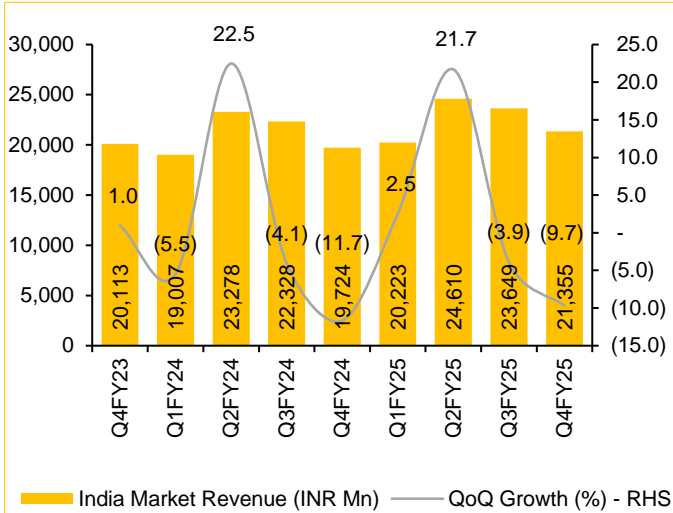
- **Q4 Stability Achieved:** After initial de-growth, the US business stabilized with improved inventory and supply chains.
- **5–6 Product Launches in FY26:** Moderate launch pipeline; key opportunity tied to litigation outcome for a high-value product.
- **Supply Normalization Helps:** Inventory built during the first 9 months of FY25 to address past supply disruptions.
- **Gross Margin Dip in Q4:** Lower production due to excess inventory and absence of one-off settlement income impacted margins.
- **Focus on Portfolio Shift:** Emphasis shifting to complex oral solids and injectables with CMOs being utilized for injectable manufacturing.
- **New Injectable Portfolio Starts:** R&D investment to support future complex launches, expecting returns in 3–4 years.

### Rest of the World (RoW) Business

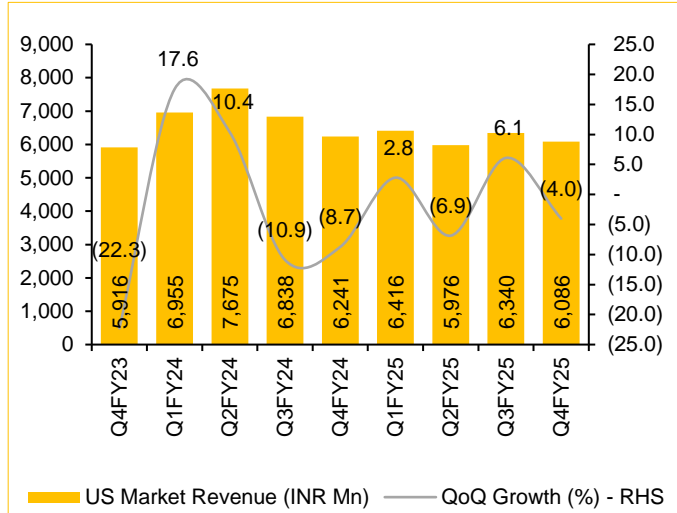
- **Mid-Teens Growth Outlook:** RoW expected to grow in mid-teens for FY26, driven by filings and increased R&D investments.
- **New Filings Pipeline:** 8–9 filings planned across RoW markets to tap underpenetrated geographies.
- **Engine India Revenue:** Contributed INR290 Cr in FY25, including both Alkem and third-party sales.
- **RoW R&D Allocation Rising:** Strategic increase in R&D for RoW, unlike previous US-centric focus.

### Outlook

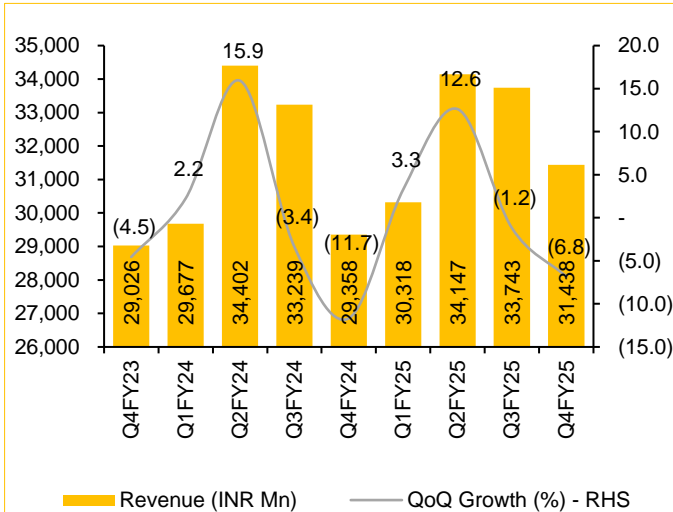
- **CDMO (Engine US) Scaling Up:** Expected INR100 Cr revenue in FY26 from CDMO; full capacity revenue of INR450–500 Cr in 3 years.
- **INR 100–125 Cr Operating Loss:** Expected from CDMO and Medtech (Exactech + Bombay Ortho) businesses in FY26.
- **Medtech Growth Plans:** Hip and knee replacement segment (via Exactech & Bombay Ortho) to grow to INR200 Cr in 5 years.
- **Biosimilar Facility Nearing Completion:** INR550 Cr invested; expected operational in Q2 FY26, with revenue visibility in FY26.
- **Stable EBITDA Margins at 19.5%:** Despite R&D investments, margin guidance held steady due to operational leverage and cost controls.

**India Market Sees Continued Sequential Decline**

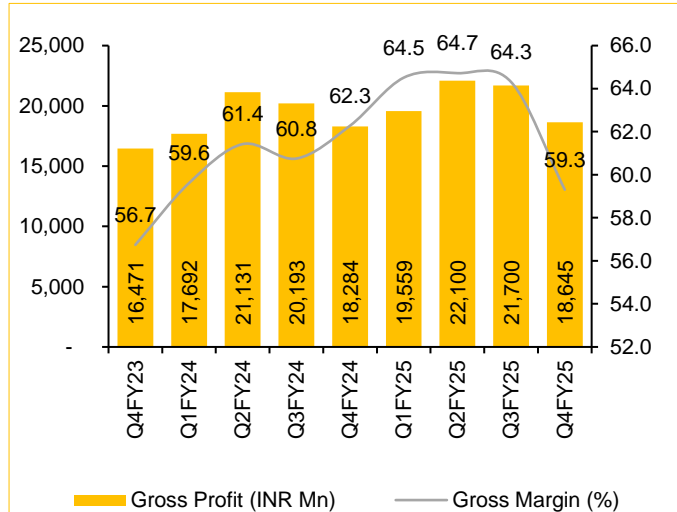
Source: Company, CEBPL

**US Market Slips 4% QoQ**

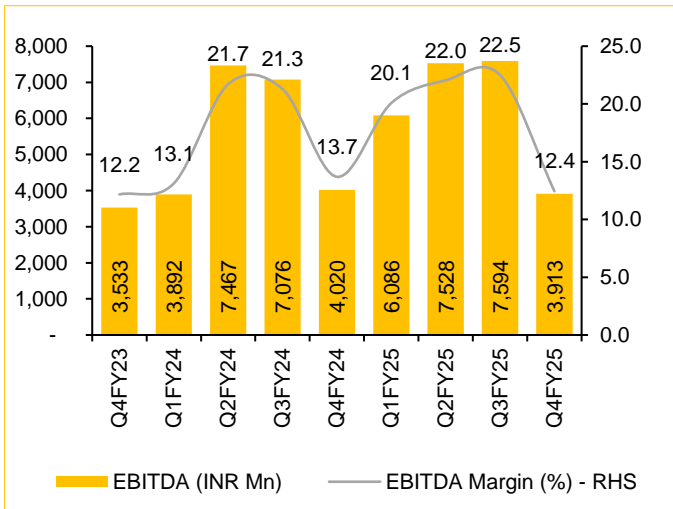
Source: Company, CEBPL

**Revenue Falls Slightly Short of Estimates**

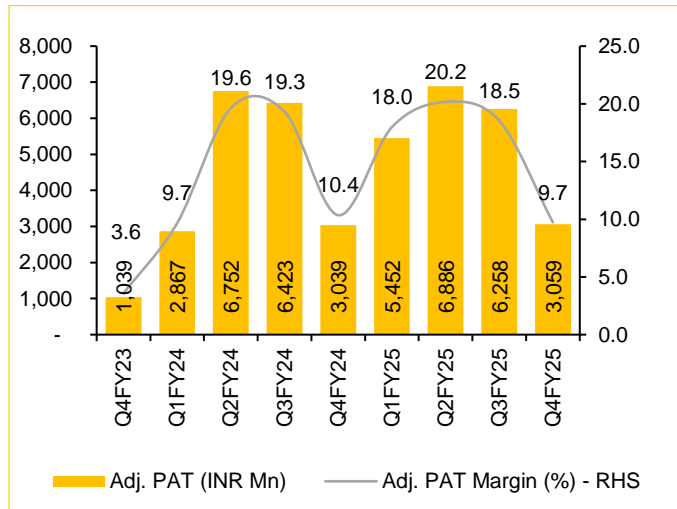
Source: Company, CEBPL

**Gross Margin Impacted by Product Mix**

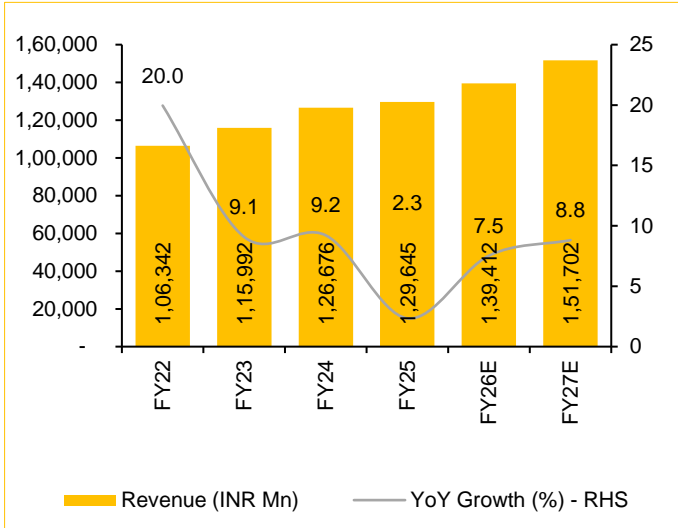
Source: Company, CEBPL

**EBITDA Impacted by Rising OpEx**

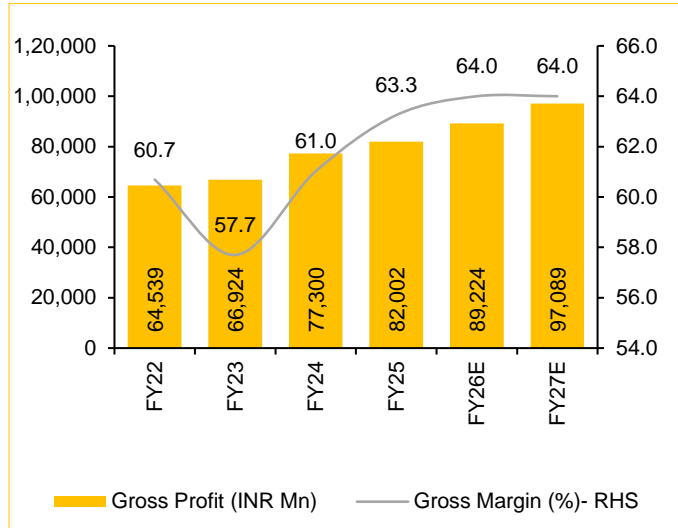
Source: Company, CEBPL

**PAT Mirrors EBITDA Downtrend**

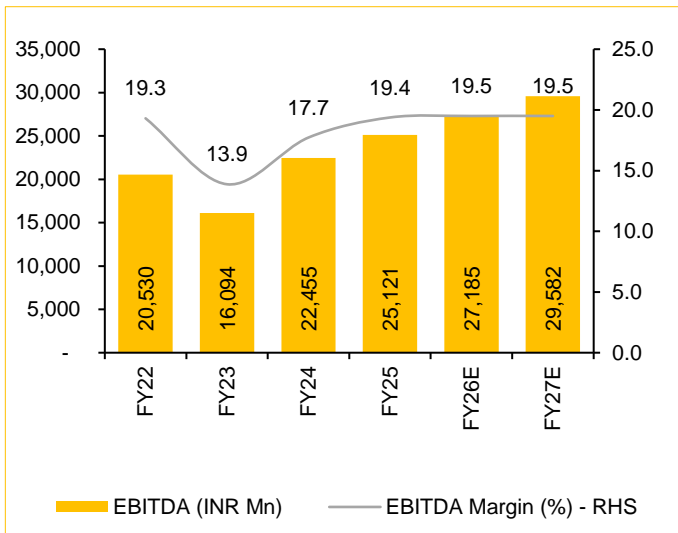
Source: Company, CEBPL

Revenue to Grow at 6.2% CAGR FY24-27E

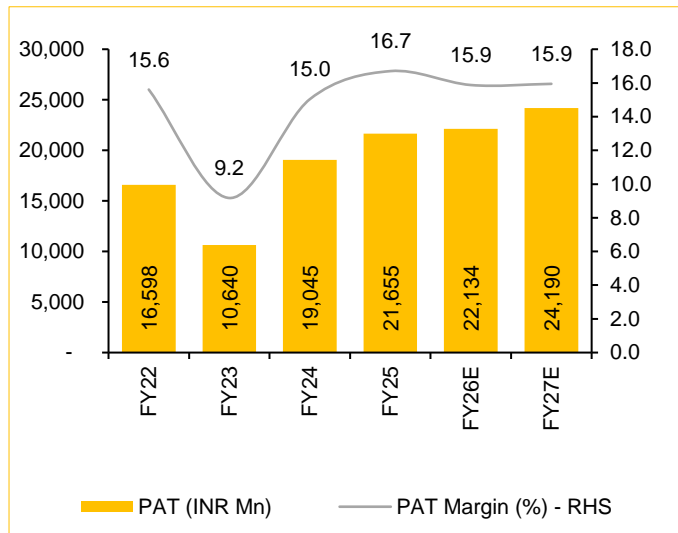
Source: Company, CEBPL

50 bps Uptick in Gross Margins Ahead

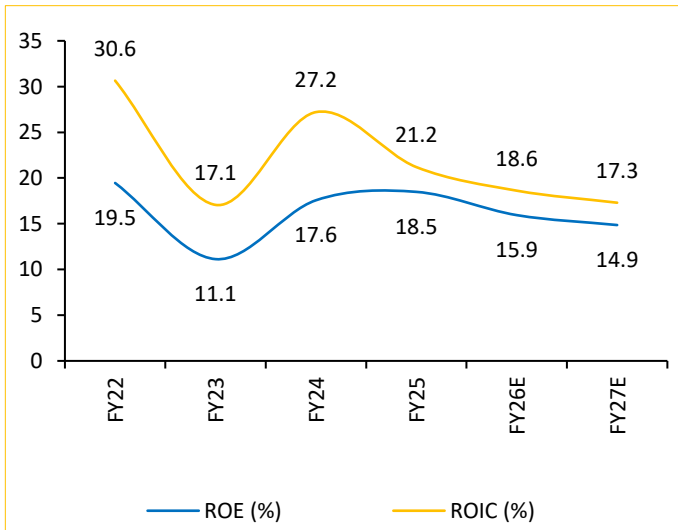
Source: Company, CEBPL

EBITDA Margin Expected to Remain Flat

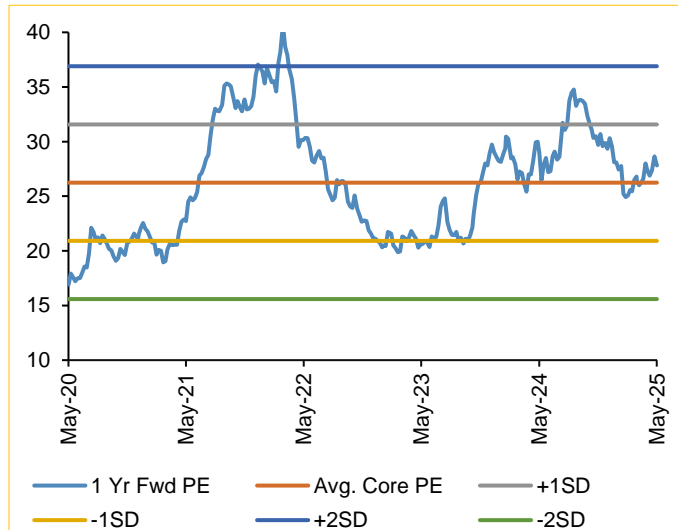
Source: Company, CEBPL

PAT Gains to Reflect EBITDA Momentum

Source: Company, CEBPL

ROE and ROIC

Source: Company, CEBPL

1 Yr Forward PE Band

Source: Company, CEBPL

Income statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,15,992	1,26,676	1,29,645	1,39,412	1,51,702
Gross Profit	66,924	77,300	82,002	89,224	97,089
EBITDA	16,094	22,455	25,121	27,185	29,582
Depreciation	3,104	2,993	3,572	3,593	4,113
EBIT	12,990	19,462	21,550	23,592	25,469
Other Income	2,161	3,108	4,937	3,485	3,793
Interest Expense	1,074	1,124	1,217	1,063	883
PBT	13,047	20,231	25,270	26,015	28,378
Reported PAT	9,846	17,958	21,655	22,134	24,190
EPS	82.4	150.2	181.1	185.1	202.3
Ratio Analysis	FY23	FY24	FY25	FY26E	FY27E
Revenues	9.1	9.2	2.3	7.5	8.8
Gross Profit	3.7	15.5	6.1	8.8	8.8
EBITDA	(21.6)	39.5	11.9	8.2	8.8
EBIT	(25.7)	49.8	10.7	9.5	8.0
PBT	(29.3)	55.1	24.9	2.9	9.1
PAT	(40.2)	82.4	20.6	2.2	9.3
Margins					
Gross Profit Margin	57.7	61.0	63.3	64.0	64.0
EBITDA Margin	13.9	17.7	19.4	19.5	19.5
EBIT Margin	11.2	15.4	16.6	16.9	16.8
PBT Margin	11.2	16.0	19.5	18.7	18.7
Tax rate	22.8	10.5	12.0	13.0	13.0
PAT Margin	8.7	14.3	17.1	16.2	16.3
Profitability					
Return on equity (ROE)	11.1	17.6	18.5	15.9	14.9
Return on invested capital (ROIC)	17.1	27.2	21.2	18.6	17.3
Return on capital employed (ROCE)	12.1	16.0	15.6	14.9	14.1
Financial leverage					
OCF/EBITDA (x)	1.0	0.9	0.8	0.7	0.7
OCF / Net profit (x)	1.7	1.1	0.9	0.8	0.8
Debt to Equity (x)	0.1	0.1	0.1	0.1	0.1
Interest Coverage (x)	12.1	17.3	17.7	22.2	28.8
Working Capital					
Inventory days (x)	82	77	82	81	81
Receivable days (x)	67	65	69	70	70
Creditor days (x)	37	50	52	50	50
Current Ratio (x)	2.3	2.6	2.7	3.3	3.8
Valuation Metrics					
No of Shares (INR Mn)	120	120	120	120	120
EPS (INR)	82	150	181	185	202
BVPS (INR)	789	896	1,040	1,225	1,428
Market Cap (INR Mn)	6,36,604	6,36,604	6,36,604	6,36,604	6,36,604
PE (x)	59.8	33.4	29.4	28.8	26.3
P/BV (x)	6.7	5.9	5.1	4.3	3.7
EV/EBITDA (x)	40.2	28.7	25.2	23.4	21.5
EV/Sales (x)	5.6	5.1	4.9	4.6	4.2

Source: Company, CEBPL

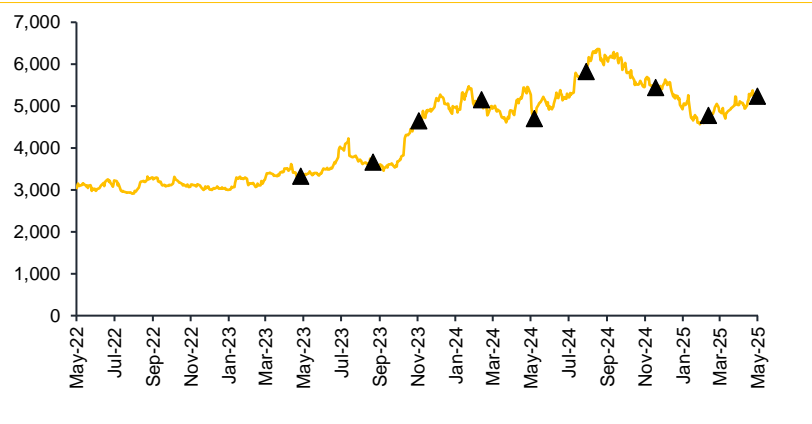
Balance sheet (Consolidated in INR Mn)

Particular	FY23	FY24	FY25	FY26E	FY27E
Net Worth	94,350	1,07,144	1,24,336	1,46,470	1,70,660
Borrowings	13,264	14,184	13,809	11,809	9,809
Trade Payables	11,650	17,481	18,394	19,098	20,781
Other Non-current Liabilities	6,145	6,367	7,142	3,602	3,602
Other Current Liabilities	12,158	10,573	13,231	8,231	8,231
Total Net Worth & Liabilities	1,37,566	1,55,749	1,76,911	1,89,209	2,13,083
Net Block	20,654	21,615	20,639	23,546	25,933
Capital WIP	3,103	1,484	4,766	6,766	8,766
Goodwill, Intangible Assets	6,304	7,215	8,599	8,599	8,599
Investments	6,218	4,838	18,455	18,455	18,455
Trade Receivables	21,322	22,528	24,663	26,737	29,094
Cash & Cash Equivalents	26,169	15,794	15,631	18,918	31,487
Other Non-current Assets	17,162	17,972	24,017	25,817	27,662
Other Current Assets	36,634	64,304	60,142	60,372	63,088
Total Assets	1,37,566	1,55,749	1,76,911	1,89,209	2,13,083
Cash Flows (INR Mn)	FY23	FY24	FY25	FY26E	FY27E
Cash Flows From Operations	16,825	19,480	19,128	18,689	19,297
Cash Flows From Investing	1,128	(10,085)	(12,987)	(9,970)	(8,500)
Cash Flows From Financing	(17,608)	(11,450)	(8,110)	(3,113)	(2,933)
DuPont Analysis	FY23	FY24	FY25	FY26E	FY27E
Tax Burden	77.2%	89.5%	87.7%	87.0%	87.0%
Interest Burden	100.4%	104.0%	117.3%	110.3%	111.4%
EBIT Margin	11.2%	15.4%	16.6%	16.9%	16.8%
Asset Turnover	0.8	0.8	0.7	0.7	0.7
Equity Multiplier	1.52	1.51	1.48	1.33	1.28
ROE	11.1%	17.6%	18.5%	15.9%	14.9%

Source: Company, CEBPL



Historical share price chart: Alkem Laboratories Ltd



Date	Rating	Target Price
May 20, 2023	ADD	3,511
August 11, 2023	NEUTRAL	3,957
November 8, 2023	ADD	4,375
February 16, 2024	ADD	5,668
May 30, 2024	BUY	5,676
August 12, 2024	BUY	6,234
November 14, 2024	HOLD	6,252
February 10, 2025	SELL	4,186
May 30, 2025	SELL	4,108

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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 consistent 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 20,000Cr Market Cap  
\*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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