

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 8 Sell 5

Current price:	Rs5,151
Target price:	Rs6,150
Previous target:	Rs6,150
Up/downside:	19.4%
InCred Research / Consensus:	6.5%

Reuters:	
Bloomberg:	ALKEM IN
Market cap:	US\$8,482m
	Rs615,921m
Average daily turnover:	US\$19.1m
	Rs1384.2m
Current shares o/s:	119.6m
Free float:	43.3%

*Source: Bloomberg

Key changes in this note

- FY25F/26F estimates remain broadly unchanged.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.4)	(10.0)	0.5
Relative (%)	(7.0)	(8.1)	(6.9)

Major shareholders	% held
Promoters	56.7
DSP MF	3.4
ICICI Pru MF	2.7

Research Analyst(s)



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Alkem Laboratories Ltd

On-track performance in 3Q

- 3QFY25 results were overall strong, with EBITDA beat of 5% and margin at 22.5%, a beat of around 100-150bp.
- Retains FY25F margin guidance of 19%, but we feel this is conservative. The FY26F margin should further benefit from possibly lower PenG prices.
- Retain ADD rating on the stock with an unchanged target price of Rs6,150.

Strong 3QFY25 performance

Alkem Laboratories' (Alkem) 3QFY25 EBITDA was 5% above expectations with a margin of 22.5%, around 100-150bp above our/Bloomberg or BB consensus expectations. However, revenue was 3% down, largely on account of lower RoW market sales (-4% YoY, pulled out of a tender in Chile and adverse forex movement). India business grew at a healthy 6% YoY, with most therapies outperforming the IPM growth. Trade generics business was ~20% of India sales in 3Q and 9MFY25. Alkem expects India growth to be around 7% YoY in FY25F, implying a 10% YoY exit growth in 4QFY25F. The US business was up 5% QoQ, while FY25F was lower due to supply problem and a reduced launch pipeline. FY26F performance is likely to be better.

Retains margin guidance, but we believe this is conservative

Alkem retained its margin guidance of 19% in FY25F, implying ~13% margin in 4QFY24F. 4Q is seasonally weak for margin (a continuous trend over the years), and management expects certain cost build-up (especially on R&D with around five filings in 4QFY25F vs. three filings in 9MFY25) and loss funding for adjacencies (Rs0.6bn in FY25F for the US plant, medtech business) to impact margin. We note that Alkem has been under-promising and over-delivering on its margin guidance in recent times, and especially with higher India sales in 4QFY25F, we feel FY25F margin is likely to be higher than the guidance of 19%. Further, with Aurobindo Pharma's Pen-G plant likely to stabilize fully by Mar 2025F, we expect some rationalization in Pen-G prices which should benefit Alkem and drive FY26F margin higher. Notably, Alkem's gross margin is quite robust in the last three quarters, at around 64.5%, & cost efficiency/operating leverage can drive the margin higher.

Other highlights

a) Expects to be in the first wave of generic launch of Semaglutide in India. b) Will launch Sacubitril/Valsartan on Day-1 of genericization. c) Non-US margin much better than corporate-level margin. d) For every 1% depreciation in INR/US\$, Alkem benefits by Rs100-200m. e) Acquired Adroit Biomed for Rs1.4bn (revenue at Rs535m, 19% CAGR over FY22-24) and Bombay Ortho for Rs1.47bn (revenue at Rs55m). Bombay Ortho gives access to a manufacturing facility and an entry in the hip and knee replacement segment while Adroit Biomed is focused on the dermato-cosmetology segment in India.

Retain ADD rating with an unchanged target price of Rs6,150

Our FY25F/26F EPS estimates remain broadly unchanged. Retain ADD rating. Slowdown in India & US business is a key downside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	106,342	115,993	126,676	130,462	143,762
Operating EBITDA (Rsm)	20,380	16,095	22,455	25,626	29,762
Net Profit (Rsm)	16,456	9,842	17,958	22,365	25,731
Core EPS (Rs)	137.6	89.0	159.3	187.1	215.2
Core EPS Growth	3.8%	(35.4%)	79.1%	17.4%	15.1%
FD Core P/E (x)	37.43	57.91	32.34	27.54	23.94
DPS (Rs)	34.0	54.0	35.0	35.0	40.0
Dividend Yield	0.66%	1.05%	0.68%	0.68%	0.78%
EV/EBITDA (x)	30.18	37.31	27.23	22.62	19.24
P/FCFE (x)	32.52	19.64	16.60	8.85	30.49
Net Gearing	(0.8%)	(17.3%)	(4.9%)	(29.8%)	(30.2%)
P/BV (x)	7.13	6.81	5.97	5.10	4.32
ROE	20.6%	12.0%	19.7%	20.0%	19.5%
% Change In Core EPS Estimates				(1.11%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	30,409	29,026	29,677	34,402	33,239	29,358	30,318	34,147	33,743	-1%	13%
Consumption of raw materials	12,489	12,555	11,986	13,271	13,045	11,074	10,760	12,047	12,043	-9%	12%
as % of sales	41.1%	43.3%	40.4%	38.6%	39.2%	37.7%	35.5%	35.3%	35.7%		
Employee costs	5,254	5,030	5,677	5,554	5,722	5,058	6,023	6,105	6,248	10%	1%
as % of sales	17.3%	17.3%	19.1%	16.1%	17.2%	17.2%	19.9%	17.9%	18.5%	-198.65	
R&D costs	1,300	1,472	1,202	1,158	1,110	1,757	1,257	1,465	1,312	27%	17%
as % of sales	4.3%	5.1%	4.1%	3.4%	3.3%	6.0%	4.1%	4.3%	3.9%		
Other expenditure	5,376	6,437	6,921	6,952	6,286	7,449	6,193	7,002	6,546	1%	13%
as % of sales	17.7%	22.2%	23.3%	20.2%	18.9%	25.4%	20.4%	20.5%	19.4%		
EBITDA	5,991	3,533	3,892	7,467	7,076	4,020	6,086	7,528	7,594	1%	24%
Margins (%)	19.7%	12.2%	13.1%	21.7%	21.3%	13.7%	20.1%	22.0%	22.5%		
Depreciation	784	783	724	739	696	834	805	789	853		
Other income	453	687	658	632	936	882	1,203	1,345	930		
Interest	271	289	298	303	255	269	291	281	360		
PBT	5,389	3,147	3,529	7,057	7,062	3,799	6,194	7,803	7,311	11%	26%
Total tax	789	1,440	650	332	506	629	691	783	903		
Tax rate (%)	14.6%	45.8%	18.4%	4.7%	7.2%	16.5%	11.2%	10.0%	12.3%		
PAT before MI	4,600	1,707	2,878	6,726	6,556	3,170	5,502	7,020	6,408	4%	28%
Minority interest (MI)	-52	33	-11	56	-93	-109	-51	-133	-150		
Adj. PAT before extraordinary items	4,547	1,740	2,867	6,782	6,463	3,061	5,452	6,886	6,258	2%	26%
Extraordinary expenses	0	-1,030	0	-577	-513	-125	0	0	0		
Reported PAT	4,547	710	2,867	6,205	5,950	2,936	5,452	6,886	6,258	11%	26%
No. of shares	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6		
EPS	38.0	14.5	24.0	56.7	54.0	25.6	45.6	57.6	52.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	59%	57%	60%	61%	61%	62%	65%	65%	64%	356	-41
EBITDA	20%	12%	13%	22%	21%	14%	20%	22%	23%	122	46
Adj. PAT	15%	6%	10%	20%	19%	10%	18%	20%	19%	-90	-162
Effective tax rate	15%	46%	18%	5%	7%	17%	11%	10%	12%	518	231

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
North America	7,612	5,916	6,955	7,675	6,838	6,241	6,416	5,976	6,340	-7%	6%
% total revenue	25.0%	20.4%	23.4%	22.3%	20.6%	21.3%	21.2%	17.5%	18.8%		
ROW	2,316	2,654	3,191	2,866	3,402	2,855	3,261	3,205	3,265	-4%	2%
% total revenue	7.6%	9.1%	10.8%	8.3%	10.2%	9.7%	10.8%	9.4%	9.7%		
India	19,922	20,113	19,007	23,278	22,328	19,724	20,223	24,610	23,649	6%	-4%
% total revenue	65.5%	69.3%	64.0%	67.7%	67.2%	67.2%	66.7%	72.1%	70.1%		
Others	559	343	524	583	671	538	418	356	489	-27%	37%
% total revenue	1.8%	1.2%	1.8%	1.7%	2.0%	1.8%	1.4%	1.0%	1.4%		
Total revenue	30,409	29,026	29,677	34,402	33,239	29,358	30,318	34,147	33,743	2%	-1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs m)	33,743	34,865	(3.2)	36,280	(7.0)
EBITDA (Rs m)	7,594	7,224	5.1	7,802	(2.7)
Margin (%)	22.5	20.7		21.5	
PAT (Rs m)	6,258	6,281	(0.4)	6,731	(7.0)

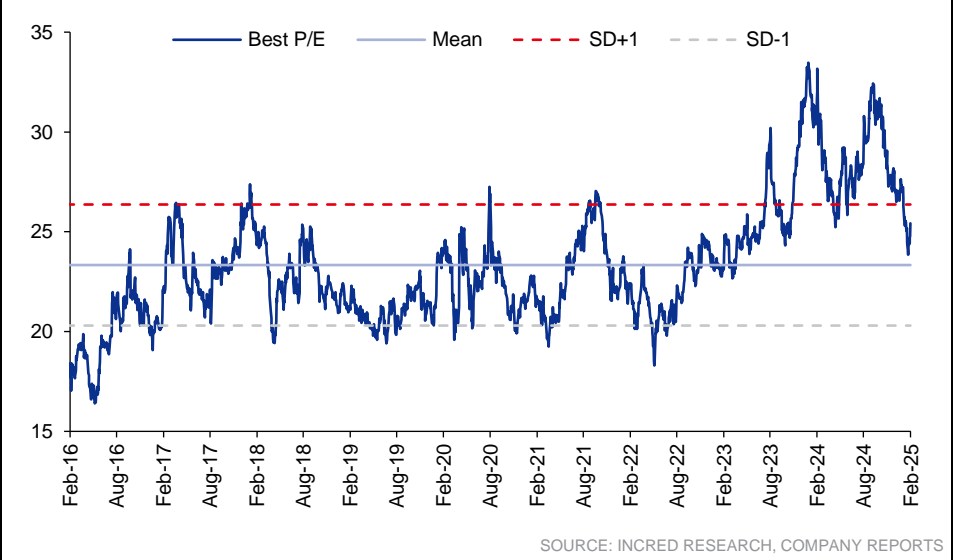
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

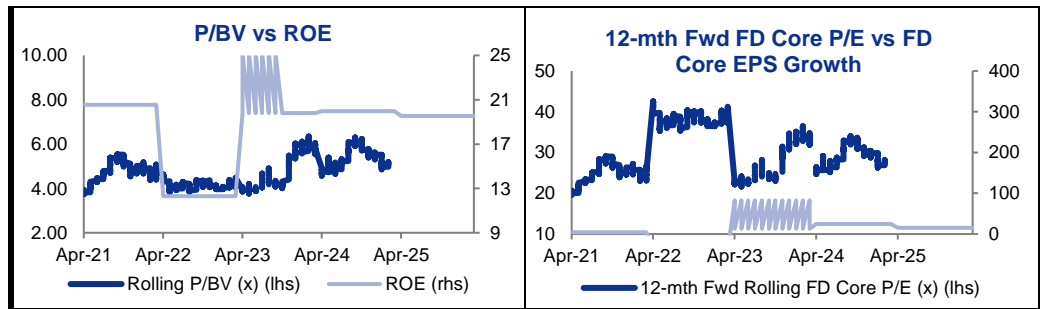
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	1,35,433	1,30,462	(3.7)	1,48,263	1,43,762	(3.0)
EBITDA (Rs m)	26,029	25,626	(1.5)	29,962	29,762	(0.7)
Margin (%)	19.2	19.6		20.2	20.7	
PAT (Rs m)	22,616	22,365	(1.1)	25,731	25,731	0.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: After the recent price correction, Alkem Laboratories trades near its long-term mean valuation



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	106,342	115,993	126,676	130,462	143,762
Gross Profit	64,539	66,924	77,300	83,495	92,726
Operating EBITDA	20,380	16,095	22,455	25,626	29,762
Depreciation And Amortisation	(3,040)	(3,104)	(2,993)	(3,200)	(3,500)
Operating EBIT	17,340	12,990	19,462	22,426	26,262
Financial Income/(Expense)	(524)	(1,074)	(1,124)	(1,200)	(1,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,627	2,161	3,108	4,700	4,700
Profit Before Tax (pre-EI)	18,443	14,078	21,446	25,926	29,862
Exceptional Items		(1,030)	(1,215)		
Pre-tax Profit	18,443	13,048	20,231	25,926	29,862
Taxation	(1,640)	(2,980)	(2,117)	(3,111)	(4,181)
Exceptional Income - post-tax					
Profit After Tax	16,803	10,068	18,115	22,815	25,681
Minority Interests	(347)	(226)	(157)	(450)	50
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	16,456	9,842	17,958	22,365	25,731
Recurring Net Profit	16,456	10,636	19,045	22,365	25,731
Fully Diluted Recurring Net Profit	16,456	10,636	19,045	22,365	25,731

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	20,380	16,095	22,455	25,626	29,762
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,450)	24	(517)	14,746	(13,029)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,820)	706	(2,457)	(3,561)	(4,131)
Net Interest (Paid)/Received	(524)	(1,074)	(1,124)	(1,200)	(1,100)
Tax Paid	(4,923)	649	(3,227)	(7,061)	(7,731)
Cashflow From Operations	11,110	16,825	19,481	36,811	12,602
Capex	(3,280)	(2,297)	(1,868)	(4,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	7,830	14,528	17,613	32,811	7,602
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		1,615			
Shares Repurchased					
Dividends Paid	(4,219)	(5,295)	(5,405)	(4,185)	(4,185)
Preferred Dividends					
Other Financing Cashflow	3,866	(8,820)	(24,242)	3,100	3,610
Cash Flow From Financing	(354)	(12,501)	(29,647)	(1,085)	(575)
Total Cash Generated	7,477	2,027	(12,035)	31,726	7,027
Free Cashflow To Equity	18,941	31,353	37,093	69,621	20,204
Free Cashflow To Firm	19,464	32,427	38,217	70,821	21,304

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	27,381	29,409	17,374	49,100	56,127
Total Debtors	18,846	21,322	22,528	24,788	27,315
Inventories	30,055	26,075	26,612	30,006	34,503
Total Other Current Assets	8,072	10,491	37,602	11,742	17,251
Total Current Assets	84,354	87,297	104,116	115,635	135,196
Fixed Assets	26,266	25,135	25,570	26,370	27,870
Total Investments	2,317	3,046	3,348	3,348	3,348
Intangible Assets	6,227	4,926	4,743	4,743	4,743
Total Other Non-Current Assets	21,529	17,163	17,972	17,972	17,972
Total Non-current Assets	56,338	50,270	51,633	52,433	53,933
Short-term Debt	25,923	13,072	11,740	11,740	11,740
Current Portion of Long-Term Debt					
Total Creditors	11,734	11,650	17,481	11,559	12,541
Other Current Liabilities	10,396	12,350	10,725	11,186	9,709
Total Current Liabilities	48,053	37,072	39,946	34,485	33,989
Total Long-term Debt	759		400		10
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,407	6,145	8,260	8,260	8,260
Total Non-current Liabilities	4,165	6,145	8,660	8,260	8,269
Total Provisions					
Total Liabilities	52,219	43,217	48,605	42,744	42,259
Shareholders Equity	86,379	90,453	103,121	120,851	142,447
Minority Interests	2,094	3,897	4,023	4,473	4,423
Total Equity	88,473	94,350	107,144	125,324	146,871

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	19.8%	9.1%	9.2%	3.0%	10.2%
Operating EBITDA Growth	4.3%	(21.0%)	39.5%	14.1%	16.1%
Operating EBITDA Margin	19.2%	13.9%	17.7%	19.6%	20.7%
Net Cash Per Share (Rs)	5.85	136.64	43.78	312.47	371.16
BVPS (Rs)	722.44	756.52	862.46	1,010.76	1,191.38
Gross Interest Cover	33.11	12.10	17.31	18.69	23.87
Effective Tax Rate	8.9%	22.8%	10.5%	12.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.93	63.20	63.17	66.19	66.14
Inventory Days	232.17	208.77	194.74	220.00	230.68
Accounts Payables Days	97.91	86.97	107.67	112.84	86.18
ROIC (%)	14.6%	12.0%	13.6%	18.1%	18.3%
ROCE (%)	16.7%	11.7%	17.2%	17.5%	17.8%
Return On Average Assets	13.4%	8.6%	13.8%	14.6%	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.