



India

HOLD (previously ADD)

Consensus ratings*: Buy 10 Hold 6 Sell 7

Current price: Rs5,295
 Target price: ▼ Rs5,750
 Previous target: Rs6,150
 Up/downside: 8.6%
 InCred Research / Consensus: 11.1%

Reuters: ALKE.NS
 Bloomberg: ALKEM IN
 Market cap: US\$7,401m
 Rs633,037m
 Average daily turnover: US\$7.5m
 Rs643.4m
 Current shares o/s: 119.6m
 Free float: 43.3%

*Source: Bloomberg

Key changes in this note

- FY26F EPS cut by 10%.
- Downgrade our rating to HOLD (ADD earlier).
- Target price cut to Rs5,750 from Rs6,150.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.2	14.0	0.6
Relative (%)	3.4	2.2	(8.9)

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

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Alkem Laboratories Ltd

Chasing growth over profitability

- Alkem Laboratories' 4QFY25 results showed a significant miss, with EBITDA being 24% below our estimate & margin at 12.4%, 400bp below our estimate.
- Flat margin in FY26F. Planned R&D expenses and operating losses from CDMO & med-tech businesses are likely to exert 70-90bp pressure on margin.
- FY26F EPS cut by 10% because of margin pressure. We downgrade our rating on the stock to HOLD with a lower target price of Rs5,750.

Significant margin miss despite in-line growth

Alkem Laboratories (Alkem) posted a sharp EBITDA miss in 4QFY25, coming in 24%/10% below our/Bloomberg (BB) consensus estimates, with the EBITDA margin at 12.4% - a miss of 400bp/140bp vs. our/Bloomberg estimates, respectively. Revenue was broadly in line, aided by robust performance in the RoW market (+28% YoY/+12% QoQ), driven primarily by Australia and key European geographies. The India business posted a healthy 8% YoY growth, with volume growth at 2.1% (1.2% for IPM). Key therapies, including gastrointestinal, gynaecology, respiratory and VMN, outperformed IPM growth, while the trade generics segment saw mid-single digit growth. Management expects India revenue to grow by ~100bp above the projected IPM growth of 7–8%, implying high-single digit growth in FY26F. Meanwhile, the US business dipped 6.5% QoQ to US\$70m (estimated US\$79m) but is guided to grow in mid-single digit in FY26F, led by five-to-six new launches.

Navigating margin pressure amid strategic investments

Alkem's EBITDA margin in FY26F is projected to remain close to FY25 level, at ~19.5%, despite operational leverage benefits from anticipated revenue growth. While gross margin is expected to remain stable at approximately 63.3%, the margin trajectory is constrained by planned R&D investments (up to 5% of revenue in FY26F vs. 4.3% in FY25) and operating losses from CDMO (Enzene Bioscience) and med-tech businesses, estimated at Rs1–1.25bn. These factors are likely to exert a 70–90bp pressure on margin. Accordingly, we have cut our EBITDA margin estimate by 120bp to 19.5%, reflecting the impact of strategic investments and segmental headwinds, underscoring the dilemma between growth aspiration and profitability in FY26F.

Downgrade to HOLD rating with a lower target price of Rs5,750

While Alkem's top-line growth remains robust, the sharp cut in FY26F margin (by 120bp) underscores the pressure from rising fixed costs, strategic R&D investments, and operating losses in CDMO and med-tech segments. We downgrade our rating on Alkem to HOLD (ADD earlier) with a lower target price of Rs5,750 (Rs6,150 earlier), reflecting limited upside potential. While Alkem's strategic investments aim to drive long-term value creation, the near-term margin pressure & earnings volatility warrant a more cautious stance. Our revised valuation methodology shifts from P/E-based to EV/EBITDA, better aligning with the evolving earnings dynamics driven by deferred tax adjustments, despite resilient operating margin. Downside/upside risks: Slowdown in India & US businesses, early improvement in margin and vice-versa.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	115,993	126,676	129,645	141,635	156,611
Operating EBITDA (Rsm)	16,095	22,455	25,122	27,580	32,731
Net Profit (Rsm)	9,842	17,958	21,655	23,161	19,853
Core EPS (Rs)	89.0	159.3	181.1	193.7	166.0
Core EPS Growth	(35.4%)	79.1%	13.7%	7.0%	(14.3%)
FD Core P/E (x)	59.52	33.24	29.23	27.33	31.89
DPS (Rs)	54.0	35.0	35.0	40.0	40.0
Dividend Yield	1.02%	0.66%	0.66%	0.76%	0.76%
EV/EBITDA (x)	38.37	27.99	24.44	21.86	18.21
P/FCFE (x)	20.19	17.07	20.05	20.27	25.92
Net Gearing	(17.3%)	(4.9%)	(11.3%)	(17.8%)	(20.6%)
P/BV (x)	7.00	6.14	5.28	4.57	4.13
ROE	12.0%	19.7%	19.4%	17.9%	13.6%
% Change In Core EPS Estimates				(9.99%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Other highlights

a) Management gave guidance of high-single digit overall growth in FY26F and double-digit in FY27F. b) The RoW market is expected to grow in mid-teens in FY26F. c) Capex in FY26F seen at Rs7-7.5bn, of which Rs2-2.5bn will be spent on Enzene Biosciences. d) Expected tax rate or ETR in FY26F will be 13-15% whereas in FY27F it will be 35-37% due to MAT credit and completion of tax holidays.

Figure 1: Financial summary

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	29,026	29,677	34,402	33,239	29,358	30,318	34,147	33,743	31,438	7%	-7%
Consumption of raw materials	12,555	11,986	13,271	13,045	11,074	10,760	12,047	12,043	12,793	16%	6%
as % of sales	43.3%	40.4%	38.6%	39.2%	37.7%	35.5%	35.3%	35.7%	40.7%		
Employee costs	5,030	5,677	5,554	5,722	5,058	6,023	6,105	6,248	6,164	22%	-1%
as % of sales	17.3%	19.1%	16.1%	17.2%	17.2%	19.9%	17.9%	18.5%	19.6%		
R&D costs	1,472	1,202	1,158	1,110	1,757	1,257	1,465	1,312	1,585	-10%	21%
as % of sales	5.1%	4.1%	3.4%	3.3%	6.0%	4.1%	4.3%	3.9%	5.0%		
Other expenditure	6437	6921	6952	6286	7449	6193	7002	6546	6983	-6%	7%
as % of sales	22.2%	23.3%	20.2%	18.9%	25.4%	20.4%	20.5%	19.4%	22.2%		
EBITDA	3,533	3,892	7,467	7,076	4,020	6,086	7,528	7,594	3,913	-3%	-48%
Margins (%)	12.2%	13.1%	21.7%	21.3%	13.7%	20.1%	22.0%	22.5%	12.4%		
Depreciation	783	724	739	696	834	805	789	853	1,125	35%	32%
Other income	687	658	632	936	882	1,203	1,345	930	1,460		
Interest	289	298	303	255	269	291	281	360	284	6%	-21%
PBT	3,147	3,529	7,057	7,062	3,799	6,194	7,803	7,311	3,963	4%	-46%
Total tax	1,440	650	332	506	629	691	783	903	733		
Tax rate (%)	45.8%	18.4%	4.7%	7.2%	16.5%	11.2%	10.0%	12.3%	18.5%		
PAT before MI	1,707	2,878	6,726	6,556	3,170	5,502	7,020	6,408	3,230	2%	-50%
Minority interest (MI)	33	-11	56	-93	-109	-51	-133	-150	-171		
Adj. PAT before extraordinary items	1,740	2,867	6,782	6,463	3,061	5,452	6,886	6,258	3,059	0%	-51%
Extraordinary expenses	-1,030	0	-577	-513	-125	0	0	0	0		
Reported PAT	710	2,867	6,205	5,950	2,936	5,452	6,886	6,258	3,059	4%	-51%
No. of shares (m)	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6		
EPS (Rs)	14.5	24.0	56.7	54.0	25.6	45.6	57.6	52.3	25.6		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	57%	60%	61%	61%	62%	65%	65%	64%	59%	-297	-500
EBITDA	12%	13%	22%	21%	14%	20%	22%	23%	12%	-125	-1,006
Adj. PAT	6%	10%	20%	19%	10%	18%	20%	19%	10%	-70	-882
Effective tax rate	46%	18%	5%	7%	17%	11%	10%	12%	19%	195	615

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
North America	5,916	6,955	7,675	6,838	6,241	6,416	5,976	6,340	6,086	-2%	-4%
% total revenue	20.4%	23.4%	22.3%	20.6%	21.3%	21.2%	17.5%	18.8%	19.4%		
RoW	2,654	3,191	2,866	3,402	2,855	3,261	3,205	3,265	3,661	28%	12%
% total revenue	9.1%	10.8%	8.3%	10.2%	9.7%	10.8%	9.4%	9.7%	11.6%		
India	20,113	19,007	23,278	22,328	19,724	20,223	24,610	23,649	21,355	8%	-10%
% total revenue	69.3%	64.0%	67.7%	67.2%	67.2%	66.7%	72.1%	70.1%	67.9%		
Others	343	524	583	671	538	418	356	489	336	-38%	-31%
% total revenue	1.2%	1.8%	1.7%	2.0%	1.8%	1.4%	1.0%	1.4%	1.1%		
Total revenue	29,026	29,677	34,402	33,239	29,358	30,318	34,147	33,743	31,438	7%	-7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incrid Estimate	Variance (%)	Bloomberg Estimate	Variance (%)
Revenue (Rsm)	31,438	31,356	0.3	31,663	(0.7)
EBITDA (Rsm)	3,913	5,150	(24.0)	4,355	(10.2)
Margin (%)	12.4	16.4		13.8	
PAT (Rsm)	3,059	4,240	(27.9)	3,595	(14.9)

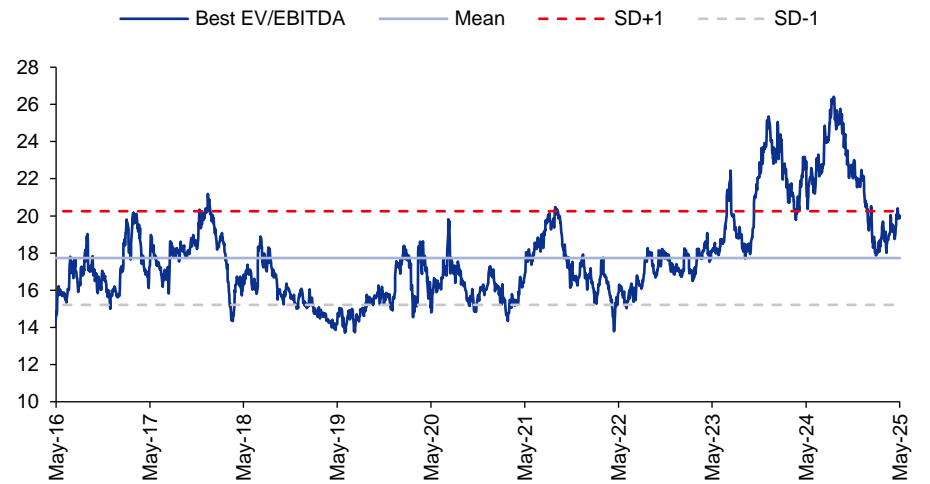
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Financial summary

	FY26F		
	Old	New	Variance (%)
Revenue (Rsm)	1,43,762	1,41,635	(1.5)
EBITDA (Rsm)	29,762	27,580	(7.3)
Margin (%)	20.7	19.5	
PAT (Rsm)	25,731	23,161	(10.0)

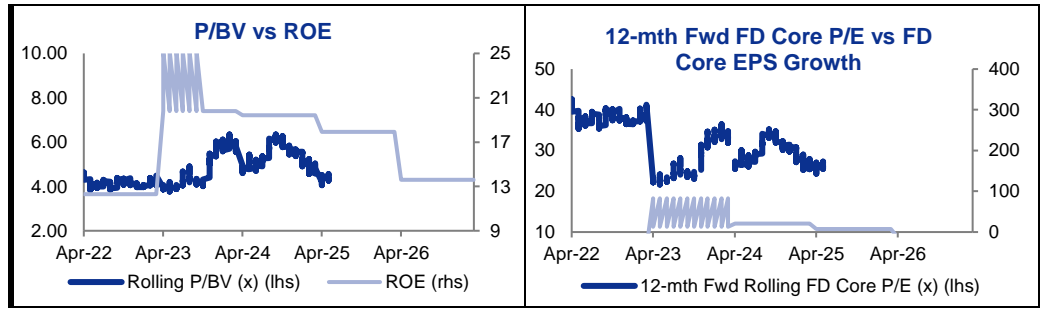
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: After the recent price correction, Alkem Laboratories trades close to the SD+1 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	115,993	126,676	129,645	141,635	156,611
Gross Profit	66,924	77,300	82,003	89,938	100,231
Operating EBITDA	16,095	22,455	25,122	27,580	32,731
Depreciation And Amortisation	(3,104)	(2,993)	(3,572)	(3,900)	(4,350)
Operating EBIT	12,990	19,462	21,550	23,680	28,381
Financial Income/(Expense)	(1,074)	(1,124)	(1,217)	(1,100)	(1,300)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,161	3,108	4,937	4,700	4,000
Profit Before Tax (pre-EI)	14,078	21,446	25,270	27,280	31,081
Exceptional Items	(1,030)	(1,215)			
Pre-tax Profit	13,048	20,231	25,270	27,280	31,081
Taxation	(2,980)	(2,117)	(3,110)	(3,819)	(10,878)
Exceptional Income - post-tax					
Profit After Tax	10,068	18,115	22,160	23,461	20,203
Minority Interests	(226)	(157)	(505)	(300)	(350)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,842	17,958	21,655	23,161	19,853
Recurring Net Profit	10,636	19,045	21,655	23,161	19,853
Fully Diluted Recurring Net Profit	10,636	19,045	21,655	23,161	19,853

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	16,095	22,455	25,122	27,580	32,731
Cash Flow from Invt. & Assoc.					
Change In Working Capital	24	(517)	(1,102)	(4,345)	(6,292)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	706	(2,457)	(4,891)	(4,119)	(11,228)
Net Interest (Paid)/Received	(1,074)	(1,124)	(1,217)	(1,100)	(1,300)
Tax Paid	649	(3,227)	(8,612)	(7,719)	(13,928)
Cashflow From Operations	16,825	19,481	19,128	19,116	15,211
Capex	(2,297)	(1,868)	(6,348)	(7,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(330)		
Other Investing Cashflow					
Cash Flow From Investing	14,528	17,613	12,451	12,116	9,211
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	1,615				
Shares Repurchased					
Dividends Paid	(5,295)	(5,405)	(5,046)	(4,185)	(4,783)
Preferred Dividends					
Other Financing Cashflow	(8,820)	(24,242)	(125)	4,437	3,906
Cash Flow From Financing	(12,501)	(29,647)	(5,171)	252	(877)
Total Cash Generated	2,027	(12,035)	7,279	12,368	8,334
Free Cashflow To Equity	31,353	37,093	31,579	31,232	24,422
Free Cashflow To Firm	32,427	38,217	32,796	32,332	25,722

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	29,409	17,374	24,653	37,022	45,356
Total Debtors	21,322	22,528	24,663	26,911	29,756
Inventories	26,075	26,612	29,224	33,992	37,587
Total Other Current Assets	10,491	37,602	29,572	16,996	18,793
Total Current Assets	87,297	104,116	108,112	114,921	131,492
Fixed Assets	25,135	25,570	28,627	31,727	33,377
Total Investments	3,046	3,348	9,432	9,432	9,432
Intangible Assets	4,926	4,743	5,377	5,377	5,377
Total Other Non-Current Assets	17,163	17,972	25,363	25,363	25,363
Total Non-current Assets	50,270	51,633	68,799	71,899	73,549
Short-term Debt	13,072	11,740	7,519	7,519	7,519
Current Portion of Long-Term Debt					
Total Creditors	11,650	17,481	18,394	12,528	13,624
Other Current Liabilities	12,350	10,725	13,738	9,699	10,548
Total Current Liabilities	37,072	39,946	39,650	29,746	31,690
Total Long-term Debt		400	3,109	3,946	5,152
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,145	8,260	9,816	9,816	9,816
Total Non-current Liabilities	6,145	8,660	12,925	13,762	14,968
Total Provisions					
Total Liabilities	43,217	48,605	52,575	43,508	46,658
Shareholders Equity	90,453	103,121	119,849	138,525	153,245
Minority Interests	3,897	4,023	4,488	4,788	5,138
Total Equity	94,350	107,144	124,336	143,313	158,383

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	9.1%	9.2%	2.3%	9.2%	10.6%
Operating EBITDA Growth	(21.0%)	39.5%	11.9%	9.8%	18.7%
Operating EBITDA Margin	13.9%	17.7%	19.4%	19.5%	20.9%
Net Cash Per Share (Rs)	136.64	43.78	117.30	213.75	273.37
BVPS (Rs)	756.52	862.46	1,002.37	1,158.58	1,281.69
Gross Interest Cover	12.10	17.31	17.71	21.53	21.83
Effective Tax Rate	22.8%	10.5%	12.3%	14.0%	35.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	63.20	63.17	66.43	66.45	66.03
Inventory Days	208.77	194.74	213.89	223.17	231.70
Accounts Payables Days	86.97	107.67	137.42	109.16	84.65
ROIC (%)	12.0%	13.6%	14.6%	15.0%	16.8%
ROCE (%)	11.7%	17.2%	17.0%	16.3%	17.4%
Return On Average Assets	8.6%	13.8%	13.9%	13.4%	10.8%

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.