

ALKEM LABORATORIES

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	5,726
12 month price target (INR)	5,100
52 Week High/Low	5,868/4,492
Market cap (INR bn/USD bn)	685/7.7
Free float (%)	90.5
Avg. daily value traded (INR mn)	982.4

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	51.20%	53.04%	55.13%
FII	9.48%	9.11%	9.41%
DII	21.93%	21.80%	19.42%
Pledge	0%	0%	0%

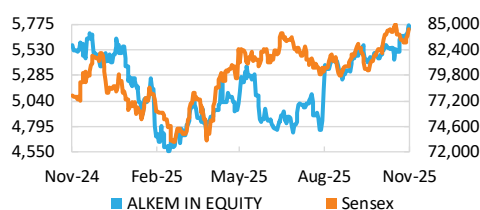
FINANCIALS

	(INR mn)			
Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	1,29,645	1,46,483	1,62,949	1,78,824
EBITDA	25,122	28,886	34,197	37,437
Adjusted profit	21,655	24,389	21,914	25,846
Diluted EPS (INR)	181.1	204.0	183.3	216.2
EPS growth (%)	12.9	12.6	(10.1)	17.9
RoAE (%)	19.4	18.8	14.7	15.4
P/E (x)	31.6	28.1	31.2	26.5
EV/EBITDA (x)	27.1	22.6	18.8	16.7
Dividend yield (%)	0.7	0.7	0.7	0.7

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	146,483	162,949	1.8	3.8
EBITDA	28,886	34,197	-1.9	3.2
Adjusted profit	24,389	21,914	2.9	3.3
Diluted EPS (INR)	204.0	183.3	2.9	3.3

PRICE PERFORMANCE



Overall beat; CDMO commissioned

Alkem's Q2FY26 revenue/EBITDA/adjusted PAT beat consensus by 6%/10%/6%. Gross margin is 65%; EBITDA margin at 23% is 67bp ahead of consensus. R&D is 3.3% of sales. Net cash: INR49.4bn.

Operating expenses are expected to remain elevated in H2FY26 given US CDMO plant is ramping up and R&D is catching up with guidance, apart from some impact due to the med-tech acquisitions. GST impact of INR500–600mn is also expected in H2FY26. While the CDMO business is an appreciative move, we note ETR rising to 35–38% FY27E onwards would dent EPS by ~11%. Retain 'REDUCE' with a revised SotP-based TP of INR5,100 (earlier INR4,915). ALKEM currently trades at 31.6x/28.1x/31.2x FY25A/FY26E/FY27E EPS.

Q2FY26: Beat on all fronts; exports drive performance

Revenue at INR40bn, grew 17% YoY/19% QoQ, led by exports (US: +28% YoY; non-US: +29% YoY). Domestic growth was +12% YoY, in-line with estimates. Gross margin at 65% (+26bp YoY/-27bp QoQ). EBITDA at INR9.2bn went up 22% YoY/25% QoQ with margin at 23% (+96bp YoY/+109bp QoQ). Adjusted PAT stood at INR7.65bn, going up 11% YoY/+17% QoQ. R&D expenses fell 11% YoY to INR1.3bn and was at 3.3% of total sales. Net cash stood at INR49.4bn (INR48.7bn at end of Jun-25).

Elevated opex phase ongoing; 19.5–20% margin guidance for FY26

Management has indicated that opex for the Enzene US plant is likely to be at ~INR1bn in H2FY26 with a breakeven timeline of 12–18 months from now. GST impact of INR500–600mn for the Sikkim facility will also be seen in H2FY26 in other operating income, while R&D spends will catch up with guidance as Q4FY26 is likely to see multiple filings. Factoring in the elevated opex, EBITDA margin guidance is at 19.5–20% for FY26 with a ~100bp expansion expected in FY27. We note US revenue guidance has been increased to 10–11% YoY growth due to sacubitril+valsartan launch; however, the base business has remained flat.

Higher ETR to impact FY27E EPS; retain 'REDUCE' with TP of INR5,100

FY27E/28E PAT is likely to be impacted due to higher ETR (35–38% versus currently 13–15%), leading to an unimpressive ~6% EPS CAGR over FY25–28E. We like the CDMO venture, but note it may not be as high margin a segment as we would have liked mainly due to its nature of development work. The med-tech business, while an interesting adjacency, as of now is relatively small to impact the overall business. GLP-1 launch in India is a key variable to monitor. We build in a revenue/EBITDA CAGR (FY25–28E) of ~11%/14% with RoCEs remaining stable around ~20%. Retain 'REDUCE' with a revised TP of INR5,100 (from INR4,915).

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	40,010	34,147	17.2	33,711	18.7
EBITDA	9,208	7,528	22.3	7,391	24.6
Adjusted Profit	6,643	6,886	(3.5)	21,526	(69.1)
Diluted EPS (INR)	55.6	57.6	(3.5)	180.0	(69.1)

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	1,29,645	1,46,483	1,62,949	1,78,824
Gross profit	82,003	94,217	1,03,899	1,15,341
Employee costs	24,539	28,749	28,427	32,625
R&D cost	5,619	6,124	7,333	8,047
Other expenses	26,723	30,458	33,942	37,232
EBITDA	25,122	28,886	34,197	37,437
Depreciation	3,572	3,876	4,192	4,508
Less: Interest expense	1,217	957	925	680
Add: Other income	4,937	4,680	5,220	5,220
Profit before tax	25,270	28,734	34,301	37,469
Prov for tax	3,110	3,957	12,005	11,241
Less: Exceptional item	0	0	0	0
Reported profit	21,655	24,389	21,914	25,846
Adjusted profit	21,655	24,389	21,914	25,846
Diluted shares o/s	120	120	120	120
Adjusted diluted EPS	181.1	204.0	183.3	216.2
DPS (INR)	40.0	40.0	40.0	40.0
Tax rate (%)	12.3	13.8	35.0	30.0

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Gross Margin (%)	63.3	64.3	63.8	64.5
R&D as a % of sales	4.4	4.2	4.5	4.5
Debt/EBITDA	(0.2)	(1.1)	(1.2)	(1.5)
EBITDA margin (%)	19.4	19.7	21.0	20.9
Net profit margin (%)	16.7	16.6	13.4	14.5
Revenue growth (% YoY)	2.4	13.1	11.3	9.8
EBITDA growth (% YoY)	11.9	15.0	18.4	9.5
Adj. profit growth (%)	12.9	12.6	(10.1)	17.9

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.3	6.5	6.5	6.5
Repo rate (%)	5.3	5.3	5.3	5.3
USD/INR (average)	84.7	88.4	87.5	87.5
India growth (%)	6.5	11.4	10.5	10.6
US sales (USD mn)	292.9	326.2	357.6	374.0
Ex-US growth	5.9	13.8	9.0	9.0
Capex	6,756.2	5,614.6	4,151.6	3,892.1
Acute growth (%)	4.6	8.3	9.3	9.3
Chronic growth (%)	12.5	20.7	15.0	15.0

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	31.6	28.1	31.2	26.5
Price/BV (x)	5.7	4.9	4.3	3.8
EV/EBITDA (x)	27.1	22.6	18.8	16.7
Dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	239	239	239	239
Reserves	1,19,610	1,39,733	1,57,246	1,78,691
Shareholders funds	1,19,849	1,39,972	1,57,485	1,78,931
Minority interest	4,488	4,488	4,488	4,488
Borrowings	10,628	11,557	9,718	9,171
Trade payables	18,394	20,066	21,429	22,537
Other liabs & prov	20,660	21,705	23,750	25,646
Total liabilities	1,76,911	2,00,680	2,19,763	2,43,666
Net block	20,639	24,264	24,072	23,564
Intangible assets	5,377	5,549	5,698	5,841
Capital WIP	4,766	2,930	2,933	2,682
Total fixed assets	30,782	32,743	32,702	32,087
Non current inv	9,109	3,662	4,074	4,471
Cash/cash equivalent	15,631	44,004	52,204	66,785
Sundry debtors	24,663	27,290	29,911	31,845
Loans & advances	90	90	90	90
Other assets	29,224	32,106	35,715	39,194
Total assets	1,76,911	2,00,680	2,19,763	2,43,666

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	21,655	24,389	21,914	25,846
Add: Depreciation	3,572	3,876	4,192	4,508
Interest (net of tax)	(806)	(957)	(925)	(680)
Others	(3,152)	2,429	2,231	1,743
Less: Changes in WC	(2,140)	(1,209)	(10,136)	(9,386)
Operating cash flow	19,128	28,529	17,276	22,031
Less: Capex	(6,756)	(5,615)	(4,152)	(3,892)
Free cash flow	12,372	22,914	13,124	18,139

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	19.4	18.8	14.7	15.4
RoCE (%)	20.8	20.4	21.5	20.9
Inventory days	214	214	210	215
Receivable days	66	65	64	63
Payable days	137	134	128	126
Working cap (% sales)	29.1	47.4	49.9	55.4
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	0	(0.2)	(0.3)	(0.3)
Interest coverage (x)	17.7	26.1	32.5	48.4

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	12.9	12.6	(10.1)	17.9
RoE (%)	19.4	18.8	14.7	15.4
EBITDA growth (%)	11.9	15.0	18.4	9.5
Payout ratio (%)	22.1	19.6	21.8	18.5

Q2FY26 conference call highlights

Guidance and outlook

- Top-line guidance could be surpassed.
- **FY26 gross margin guidance:** 64–65%.
- **FY26 EBITDA margin guidance:** 19.5–20%. 100bp margin improvement can be expected in FY27. This guidance incorporates all additional opex as well.
- **FY27 ETR** – 35–38%. Cash tax will not increase due to MAT credit.
- Q3FY26 will see US CDMO plant opex (INR500-600mn/quarter) and H2FY26 should see ~INR1bn expense.
- INR500–600mn GST impact for the Sikkim facility will be seen in H2FY26 in other operating income (INR250–300mn/quarter).
- R&D as a % of sales is expected at 4.5–5% and most filings will be in Q4FY26.
- Non-US expectation is high-teens growth for FY26. H2FY26 should see high-teens to 20% growth.
- Double-digit US growth (10–11%) is possible in FY26 due to sacubitril+valsartan (from previous expectation of ~5%). H2FY26 could see three–four more US launches.
- INR9bn/quarter of other expenses are expected for H2FY26.

India business

- Alkem will continue to outperform IPM by 100–150bp. Double-digit growth is achievable in H2FY26 as well. Q4FY26 may be slightly higher than Q3FY26. In FY27, this outperformance can continue.
- The GST revision is a positive step, and Alkem adapted swiftly to ensure a seamless transition. There was an industry-wide one-time disruption due to supply chain issues.
- In the acute segment, Alkem became the number one company in IPM this quarter.
- Alkem has grown faster than the market in six of IPM's key therapy areas.
- **GLP-1** – Alkem is waiting for the formal MA to be received (expected shortly). Alkem expects to be among the first players and it expects this opportunity to be meaningful.

US business

- Sacubitril+Valsartan launch has done really well. Other launches are not yet that significant from a number perspective. One level of price erosion has already happened but Alkem is confident of remaining competitive.
- **Tolvaptan** – gJynarque launch is slated for FY27E as there is an ongoing litigation with innovator.
- **Mirabegron** – It will be launched after patent expiry as Alkem has settled with the innovator.
- Base business in US has been flat. Volume growth has offset price erosion.

Financials/others

- Other expenses ex-R&D has gone up because of marketing spends. Q2FY26 sees higher spends on marketing.
- **GLP-1s for other markets** – It will take at least a couple of years from now.
- Constant currency growth was ~28% YoY for non-US markets.
- API prices fell in Q2FY25 but international business growth being higher than domestic business lowered gross margins.
- Other intangible assets have gone up because Alkem acquired Bombay Ortho and Adroit, which included technical know-how and trademarks that have been capitalised.

Enzene

- From US operations, average revenue is INR150–200mn/quarter and this will continue in coming quarters. ~INR400mn has been booked till now. INR700–800mn is the expectation for FY26. Opex expected at INR500mn/quarter for H2FY26.
- Asset turnover of 1x in US plant is targeted and it will take 12–18 months to get to breakeven (annual run-rate of INR3bn).
- US CDMO is mainly for product development, not commercial manufacturing.
- CDMO business has higher margin than corporate level.
- **Pune plant** – INR1.8–1.85bn revenue in H1FY26 (including US business done from Pune). It is EBITDA positive.

Medtech/acquisitions

- Adroit revenue at INR150mn for Q2FY26. It is at EBITDA breakeven.
- Medtech saw 900 knee replacements being done and revenue came in at ~INR25mn. INR80-90mn was the opex and INR55mn was the EBITDA loss.
- Medtech breakeven post expansion is expected from FY28, but the losses will not be significant.
- Alkem will do M&A wherever there is a right opportunity at the right valuation.

Exhibit 1: Revenue by segment (INR mn)

Year to March	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Nuvama estimates	Deviation (%)
India	27,660	24,610	12.4	22,650	22.1	27,538	0.4
North America	7,649	5,976	28.0	6,982	9.6	7,031	8.8
Ex-US	4,241	3,205	32.3	3,556	19.3	3,544	19.7
Other Operating Income	460	356	29.3	523	(12.1)	495	(7.2)
Total sales	40,010	34,147	17.2	33,711	18.7	38,608	3.6

Source: Company, Nuvama Research

Exhibit 2: Actual versus estimates (INR mn)

Year to March	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Nuvama estimates	Deviation (%)	Consensus	Deviation (%)
Net revenue	40,010	34,147	17.2	33,711	18.7	38,608	3.6	37,590	6.4
Raw material costs	14,010	12,047	16.3	11,712	19.6	13,706	2.2		
Gross profit	26,000	22,100	17.6	22,000	18.2	24,902	4.4		
Gross Margin (%)	65.0	64.7	26 bp	65.3	-27 bp	64.5	48		
Employee costs	7,103	6,105	16.3	6,933	2.5	6,748	5.3		
R&D cost	1,302	1,465	(11.1)	1,184	10.0	1,930	(32.6)		
Other expenses	8,387	7,002	19.8	6,493	29.2	9,266	(9.5)		
EBITDA	9,208	7,528	22.3	7,391	24.6	8,888	3.6	8,398	10
EBITDA margin (%)	23.0	22.0	96 bp	21.9	109 bp	23.0	(1)	22.3	67
Net finance expense (income)	350	281	24.4	298	17.6	239	46.4		
Depreciation	936	789	18.6	877	6.8	969	(3.4)		
Other income	1,037	1,345	(22.9)	1,365	(24.0)	1,316	(21.2)		
PBT	8,958	7,803	14.8	7,710	16.2	8,996	(0.4)		
Exceptionals	0	0		129					
Income tax expense	1,162	783	48.4	1,027	13.2	1,215	(4.3)		
Tax rate (%)	13	10		13		14			
Reported Net profit	7,651	6,886	11.1	6,643	15.2	7,652	(0.0)		
Adjusted Profit after tax	7,651	6,886	11.1	6,546	16.9	7,652	(0.0)	7,230	5.8
Adjusted Diluted EPS	64.0	57.6	11.1	54.7	16.9				

Source: Company, Nuvama Research

Exhibit 3: Quarterly snapshot (INR mn)

Year to March	Q2FY26	Q2FY25	% change	Q1FY26	% change	FY25	FY26E	FY27E
Net Revenue	40,010	34,147	17.2	33,711	18.7	1,29,645	1,46,483	1,62,949
Cost of revenue	14,010	12,047	16.3	11,712	19.6	47,643	52,267	59,051
Gross profit	26,000	22,100	17.6	22,000	18.2	82,003	94,217	1,03,899
Employee cost	7,103	6,105	16.3	6,933	2.5	24,539	28,749	28,427
R&D	1,302	1,465	(11.1)	1,184	10.0	5,619	6,124	7,333
Other expenses	8,387	7,002	19.8	6,493	29.2	26,723	30,458	33,942
EBITDA	9,208	7,528	22.3	7,391	24.6	25,122	28,886	34,197
EBITDA margin (%)	23	22		22		19	20	21
Depreciation	936	789	18.6	877	6.8	3,572	3,876	4,192
EBIT	8,272	6,739	22.7	6,514	27.0	21,550	25,010	30,006
Less: Interest Expense	350	281	24.4	298	17.6	1,217	957	925
Add: Other income	1,037	1,345	(22.9)	1,365	(24.0)	4,937	4,680	5,220
Add: Exceptional items	0	0		129		0	129	0
Profit before tax	8,958	7,803	14.8	7,710	16.2	25,270	28,863	34,301
Less: Provision for Tax	1,162	783	48.4	1,027	13.2	3,110	3,957	12,005
Less: Minority Interest	145	133	9.2	41	258.1	505	387	382
Reported Profit	7,651	6,886	11.1	6,643	15.2	21,655	24,519	21,914
Adjusted Profit	7,651	6,886	11.1	6,546	16.9	21,655	24,389	21,914
No. of Diluted shares outstanding	120	120		120		120	120	120
Adjusted Diluted EPS	64.0	57.6	11.1	54.7	16.9	181.1	204.0	183.3
as % of revenues								
Cost of revenue	35.0	35.3		34.7		36.7	35.7	36.2
Employee cost	17.8	17.9		20.6		18.9	19.6	17.4
R&D	3.3	4.3		3.5		4.3	4.2	4.5
Total operating expenses	77.0	78.0		78.1		80.6	80.3	79.0
Gross profit	65.0	64.7		65.3		63.3	64.3	63.8
Operating profit	20.7	19.7		19.3		16.6	17.1	18.4
Net profit	19.1	20.2		19.7		16.7	16.7	13.4
Tax rate	13.0	10.0		13.3		12.3	13.7	35.0

Source: Company, Nuvama Research

Company Description

Alkem is the seventh-largest branded pharma company in India and among the leaders in its major therapy areas—anti-infectives, gastro-intestinal (GI), vitamins and minerals (VMN), and pain; they account for 75% of its branded sales. For more than 15 years, the company has defended the number 1 position in anti-infectives by successfully tapping into the largest sub-therapy area, i.e. anti-bacterial. At the same time, GI and VMN have injected growth in the company. The company has slowly diversified its revenue base in chronic/semi-chronic therapies such as Neuro/CNS, derma, cardiac and anti-diabetic.

Investment Theme

Alkem has an acute-heavy portfolio and ~26% of Alkem's portfolio is under NLEM. We note Alkem is trying to increase the breadth of its business by diversifying in the segments like Medtech and CDMO. However, these businesses would take a decade to show up in the valuation. Alkem's US business is oral driven, which generally sees frequent price erosion cycle.

We like Alkem's largely organic story in the domestic branded business however, this is driven by monsoon-led seasonality due to acute heavy focus. Alkem's chronic business contributes <20% of the domestic revenue and would take many years, before it leads to margin improvement.

On this back-drop, we think Alkem's profitability would improve gradually. Additionally, the rise in the tax rate in the near term would affect its probability. Overall, Alkem remains a seasonality driven investment opportunity and hence not warranting higher valuation multiples.

Key risks

- Weak anti-infective season
- Higher than expected price erosion
- Input price escalation
- USFDA related compliance challenge

Additional Data

Management

Chairman	Basudeo Singh
MD	Sandeep Singh
Joint MD	Dhananjay Kumar Singh
CEO	Vikas Gupta
Auditor	B S R & Co LLP

Holdings – Top 10*

% Holding		% Holding	
ICICI Pru AMC	3.95	HDFC Life	1.43
SBI Funds	3.07	Vanguard	1.41
HDFC AMC	2.27	Blackrock	1.22
Nippon Life AMC	2.01	Norges	0.99
DSP	1.56	Tata AMC	0.82

*Latest public data

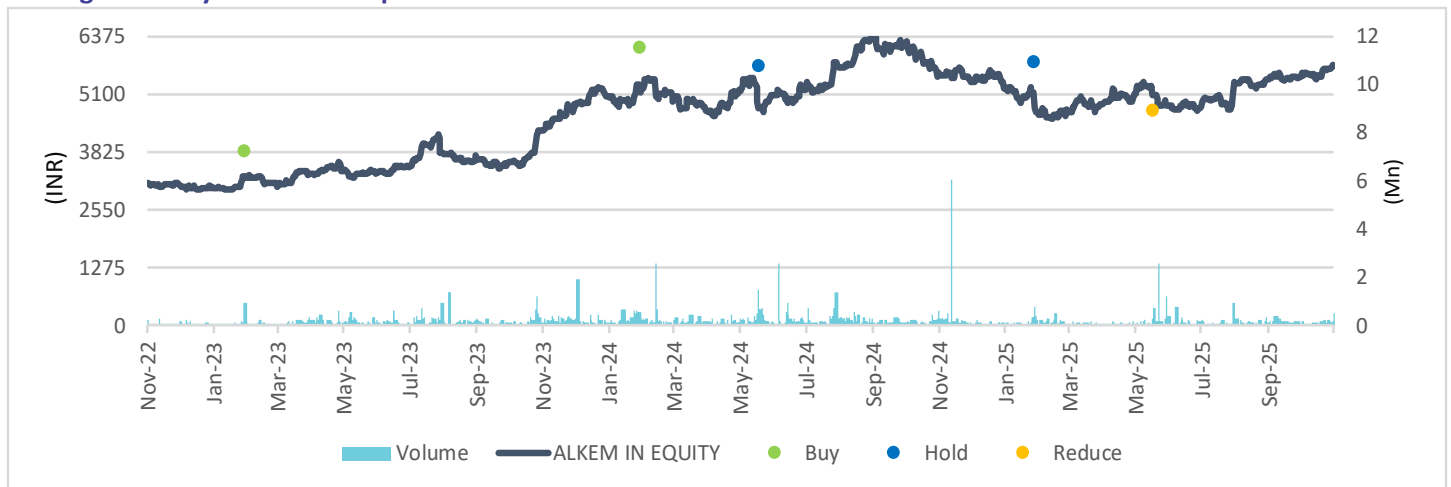
Recent Company Research

Date	Title	Price	Reco
12-Aug-25	Good execution; consistency key ; <i>Result Update</i>	5,149	Reduce
29-May-25	Guidance triggers downward revision; <i>Result Update</i>	5,266	Reduce
08-Feb-25	Acute slowdown persists; <i>Result Update</i>	5,151	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
12-Nov-25	Biocon	Gaining momentum; upgrade prescribed; <i>Result Update</i>
11-Nov-25	Orchid Pharma	FY26: a lost year; rebound likely in FY2; <i>Result Update</i>
08-Nov-25	Divi's Lab.	CS grows, hinting more capex ; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	208
Hold	<15% and >-5%	68
Reduce	<-5%	37

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