

BETA DRUGS - Equity Research Report

(NSE: BETA)

CMP : ₹ 1,386.00

Market Cap (9th Feb): 1332 cr

Signal : BUY/HOLD

****This report takes a long term view on Investments. Made for Educational Purpose only.**

About the Company

Founded in early 80's by Late Shri **Vijay Batra**, Beta Drugs is one of the **leading players in the oncology space** (study and treatment of cancer) and **cytotoxic market** (market for drugs that targets and kills rapidly dividing cancer cells). It's corporate office is in Panchkula, Haryana and is currently led by the second generation, Mr. Rahul Batra (Chairperson & Managing Director) and Mr. Varun Batra (Joint Managing Director). The company manufactures from its three manufacturing plants: two in Baddi, Himachal Pradesh, and one in Mohali, Punjab. Beta drugs have a **diversified revenue stream**, generating revenue from the **branded formulations, contract manufacturing, institutional supplies, exports and APIs**.

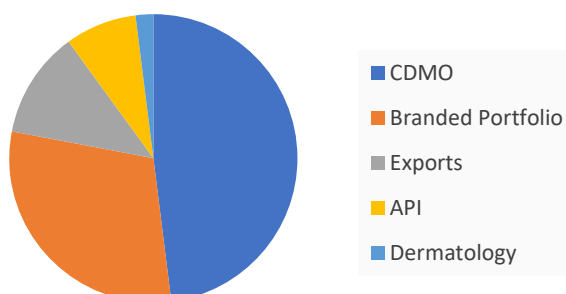
The company owns three subsidiaries: **Adley Formulations Pvt, Adley Lab India, and Beta UBK International Pvt**. BETADR fully owns Adley Formulations Pvt and Adley Lab India, while it holds a 60% stake in Beta UBK International Pvt. **Adley Formulations Pvt specializes in manufacturing and trading oncology products**. Adley Lab India and Beta UBK International Pvt are involved in the production of oncology APIs and products.

Understanding the Business

- In FY23, over **48% of the revenue came from Custom Manufacturing**. **30% from Branded Portfolio**, **12% from exports**, **8% from API's** and **balance 2% from dermatology** and cosmetology segment.

- Having a variety of income sources adds a layer of risk protection to its business model.

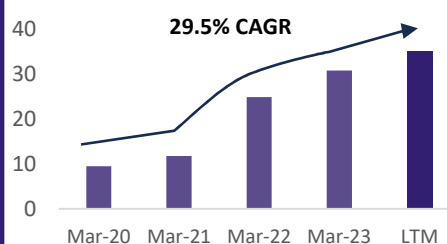
Revenue Split



Market Data

Market Cap (in cr)	1332 cr
52 week range	₹1595/600
Div Yield	NA
PE Ratio	38.3
ROE	28.60%
ROCE	33.90%

Net Profit Growth



Absolute Returns

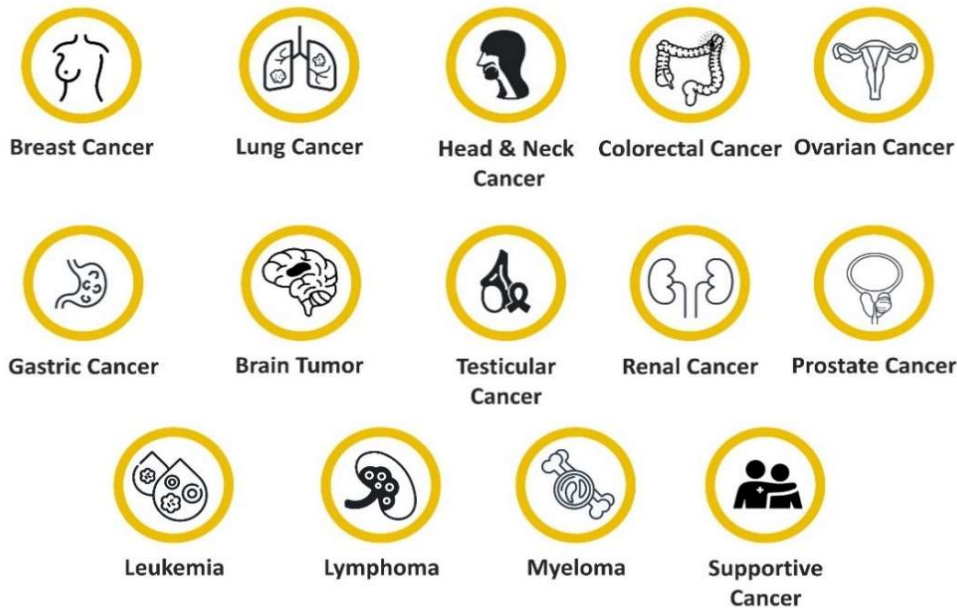
1yr	133.25%
3yr	1077.76%
5yr	1796.58%

Shareholding Pattern

Promoters	66.73%
FII's	0.32%
DII's	0.02%
Public	32.92%

Contract Development & Manufacturing Organisation

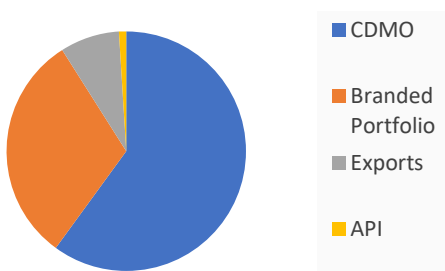
- The company has **maintained its relationship with its CDMO partners**, who consistently place repeat orders. **BETADR boasts an extensive network**, with its products available in **major private and public hospitals**.
- Leading companies like **Hetero Drugs, Cadila Pharmaceuticals, Alkem Laboratories, Shilpa Medicare, RPG Life Sciences, and Glenmark Pharmaceuticals**.



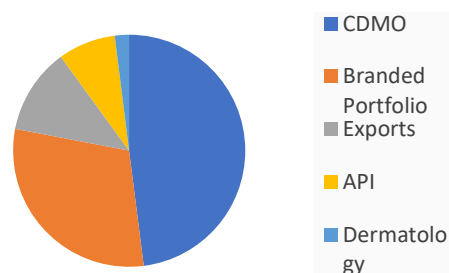
Source: Company Website

- BETADR has over **50 clients in the CDMO Segment**.
- Although the **contribution to Total Revenue** of has gone down from **60% in FY20 to 48% in FY23**, in the last 4 financial years, the **CDMO business has grown by 20% CAGR**.
- This shows that the company's growing diversified revenue streams, so it's not relying on just one segment.

Revenue Split in FY20



Revenue Split in FY23



BRANDED PRODUCTS/PORTFOLIO

- It has over **112 SKUs**, more than **64 in the oncology market** - 36 for solid tumour, 18 for haematology, and 10 for supportive care.

- **Beta continues to be among the fastest growing scaled up companies in Indian branded oncology pharma market.** The company's focus on novel delivery and formulation development innovation has helped to establish differentiation in the Indian market.



Source: Company Website

- As per management, they expect the **profit margins (EBITDA)** to improve further, supported by Beta's robust **R&D capabilities, featuring distinctive offerings like NDDS and FTL/FTTL pipeline, set to drive sustained growth for years.** According to the management, Beta took an early lead by launching Nilotinib in September 2023, and they are on schedule to introduce **two NDDS products in H2FY24, solidifying their position as a key player in the Indian oncology market.**

- Beta Drugs is gearing up to introduce over **20 new products in the solid and hematology markets** in the upcoming quarters and financial years. This presents a **significant growth opportunity** for the company.

Exports

- The **oncology market is closely regulated for international operations.** BETADR's facilities have been **audited and approved by INVIMA (Colombia) and INVISA (Brazil), allowing access to the Latin American market.** Additionally, the **company holds PIC/S (Pharmaceutical Inspection Co-operation Scheme) accreditation,** enabling entry into key markets across Latin America, South Africa, North Africa, the Middle East, and the Asia Pacific region.

- Management has applied and also **expects Eurasian Economic Audit, by the end of FY24, which further boost its exports.**

Geography	No. of Dossiers filled
Latin America	23
Middle East and Africa	44
Asia	8
CIS	2

- Management anticipates **increasing exports, particularly in the Eurasian and Latin American markets**, driven by the introduction of new oncology products. Additionally, recent investments in the **Dermatology and Cosmetology divisions are expected to become profitable.**

API - Active Pharmaceutical Ingredient

- In FY23, 8% of the Total Revenue of BETADR is from the API segment.
- **BETADR ability to develop APIs in-house and integrate them backward gives them a big competitive advantage.**
- Management suggested its **increased focus on the API segment** and plans to expand the scale. They plan to file their **first CEP (Certificate of Suitability)** which is a certification process to **demonstrate that the quality of substances used in medicines is controlled by the relevant monographs of the European Pharmacopoeia.**

Inhouse API Products

SOLID TUMOR	HEMATOLOGY	SUPPORTIVE	API UNDERDEVELOPMENT
DOCETAXEL TRIHYDRATE ERLOTINIB HYDROCHLORIDE GEFITINIB LAPATANIB DITOSYLATE PEMETREXED DISODIUM HEPTAHYDRATE SORAFENIB TOSYLATE TEMOZOLOMIDE ENZALUTAMIDE AXITINIB SUNITINIB LENVATINIB METHOTREXATE	AZACITIDINE HYDROXYUREA IMATINIB MESYLATE LENALIDOMIDE BORTEZOMIB DASATINIB BENDAMUSTINE HYDROCHLORIDE PLERIXAFOR	ETOPOSIDE BICALUTAMIDE IRINOTECAN FULVESTRANT ANASTROZOLE NINTEDANIB ABIRATERONE BOSUTINIB PAZOPANIB	APREPITANT HYDROXYCARBAMIDE ZOLEDRONIC ACID FOS-APREPITANT

Source: Company's Website

Dermatology and Cosmetology Segment

- BETADR recently started focusing on dermatology and cosmetology. In the first six months, they got more than 700 doctors to prescribe their products. This **segment contributed INR 3.9 crore in FY23.**
- They have **14 products in this area and plan to add more in the future.** They recently launched a hair growth serum called Recapro.

- As of now the company outsources the manufacturing for this segment, but once they **achieve expertise and scale in the segment, they wish to setup their own plant and manufacturing unit.**

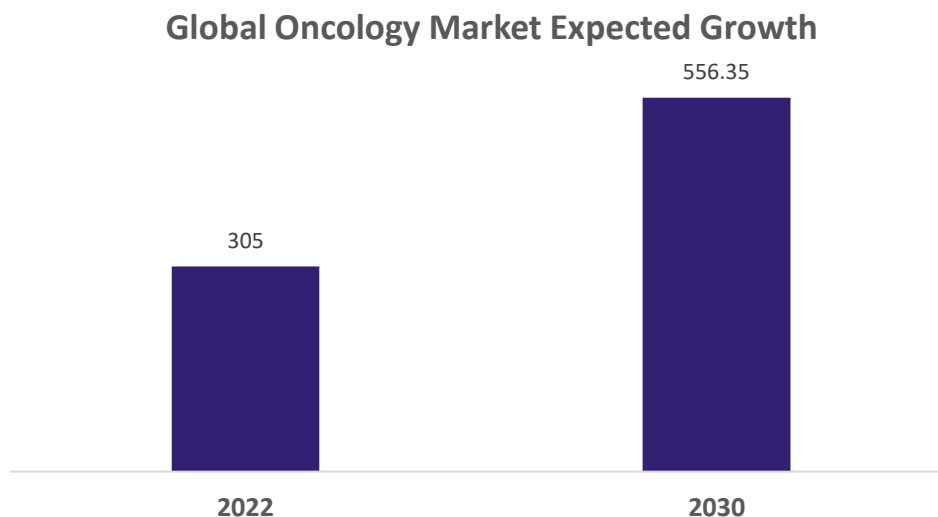
- As per the managements guidance, **the segment will turn profitable by the end of FY24.**



Source : Company Website

Oncology Industry Overview

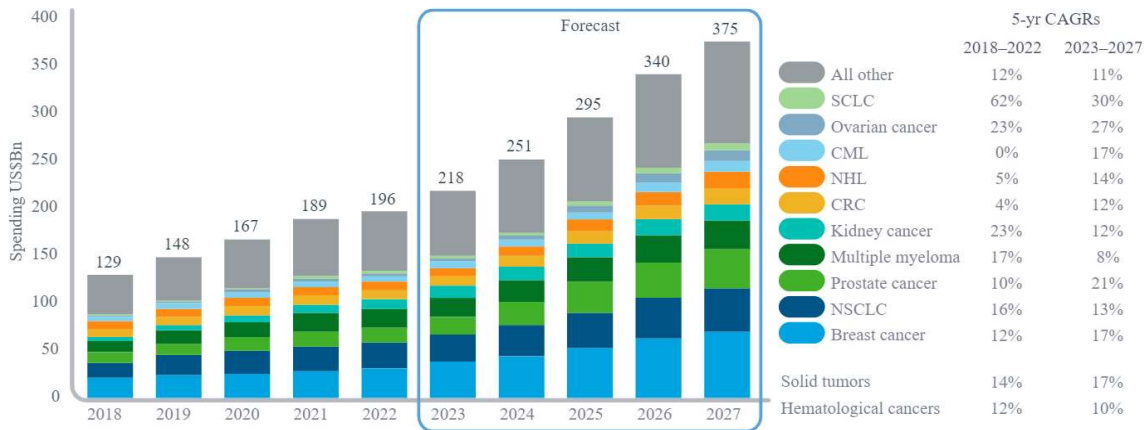
- The Global Oncology Market was valued at **\$305 Billion in 2022** and is **expected to reach at \$556.35 Billion in 2030**. The most common types of tumors, like breast cancer, lung cancer, prostate cancer, multiple myeloma, and kidney cancer, make up 53% of all oncology sales.



- The field of oncology holds the most potential for innovative therapeutic advancements, BETADR strong R&D setup and background is what makes it stand out.

- Indian Oncology Drug market is expected to **reach a valuation of \$10.6 Billion in 2030 from \$3.6 Billion in 2022**. In India, **cancer is the second leading casue of death**. Breast, prostate, oral, gastric, and cervical are most common types of cancer in India.

- The oncology global spending is **expected to reach \$375 Billion by 2027 from \$196 Billion in 2022 as IQVIA**.



Source: IQVIA Website

Know the Management

Rahul Batra - CHAIRMAN AND MANAGING DIRECTOR

Rahul Batra, is the Chairman Cum Managing Director of our Company. He holds Master of Science degree in Business and Management from University Strathclyde Scotland. His Scope of work includes managing Marketing and Sales segment of the Company.

Varun Batra - JOINT MANAGING DIRECTOR

Varun Batra is the Joint Managing Director of our Company. He holds Degree in Business Management from Toronto Canada. His Scope of work includes monitoring Production Department and Export sales of the Company.

Balwant Singh - DIRECTOR

Balwant Singh is the Director of our Company. He holds a degree in PGDPM-HR & IR from DAV College of Management, Chandigarh. He holds 19 years of experience in the field of pharmaceuticals. His scope of work includes managing over all affairs of the Company.

Ashutosh Shukla - DIRECTOR

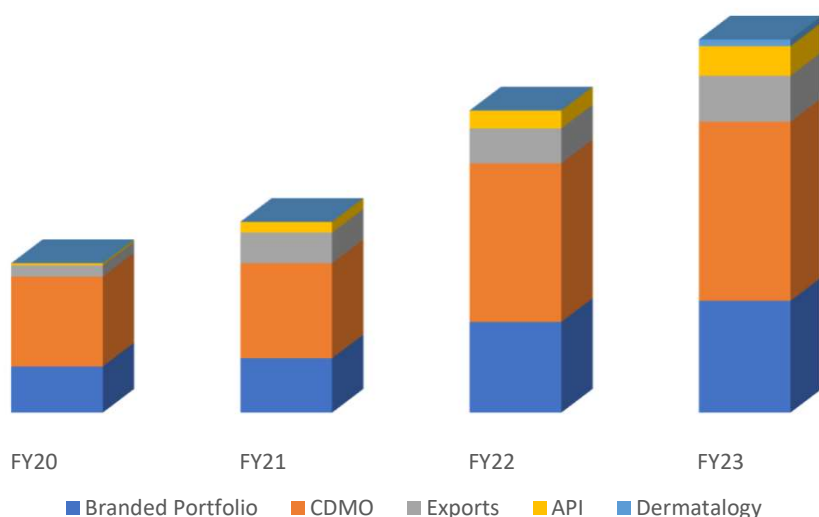
Ashutosh Shukla is a director sales & marketing. He handles domestic and international market. He holds executive MBA degree from Symbiosis International University, Pune. He is having more than 20 years of experience of sales & marketing in top pharmaceutical companies.

Financial Statements

Years	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	LTM
Income Statement (in crores)							
Sales	₹ 50.6	₹ 65.9	₹ 90.8	₹ 116.1	₹ 183.8	₹ 227.1	₹ 256.0
Sales Growth	-	30.37%	37.74%	27.87%	58.32%	23.54%	12.72%
COGS	₹ 35.9	₹ 47.1	₹ 64.7	₹ 83.2	₹ 128.4	₹ 153.1	₹ 177.0
COGS % Sales	71.03%	71.44%	71.19%	71.62%	69.83%	67.43%	69.14%
Gross Profit	₹ 14.7	₹ 18.8	₹ 26.2	₹ 33.0	₹ 55.5	₹ 74.0	₹ 79.0
Gross Margins	28.97%	28.56%	28.81%	28.38%	30.17%	32.57%	30.86%
Selling & General Expenses	₹ 5.2	₹ 7.0	₹ 8.2	₹ 8.2	₹ 12.8	₹ 20.9	₹ 19.8
S&G Exp % Sales	10.26%	10.65%	9.06%	7.08%	6.95%	9.18%	7.73%
Other Income	₹ 0.2	₹ 0.4	₹ 0.4	₹ 0.5	₹ 0.8	₹ 0.8	₹ 0.8
Other Income % Sales	0.47%	0.56%	0.43%	0.43%	0.41%	0.33%	0.31%
EBITDA	₹ 9.7	₹ 12.2	₹ 18.3	₹ 25.2	₹ 43.5	₹ 53.9	₹ 60.0
EBITDA % Sales	19.18%	18.47%	20.17%	21.74%	23.64%	23.72%	23.44%
Interest	₹ 1.0	₹ 1.4	₹ 2.6	₹ 2.4	₹ 1.9	₹ 2.4	₹ 3.0
Interest % Sales	2.00%	2.17%	2.85%	2.08%	1.03%	1.06%	1.17%
Depreciation	₹ 1.9	₹ 2.8	₹ 3.8	₹ 6.9	₹ 7.3	₹ 10.4	₹ 11.0
Depreciation % Sales	3.66%	4.31%	4.14%	5.92%	3.94%	4.58%	4.30%
EBT	₹ 6.84	₹ 7.91	₹ 11.97	₹ 15.95	₹ 34.31	₹ 41.06	₹ 46.00
EBT % Sales	13.53%	12.00%	13.18%	13.74%	18.66%	18.08%	17.97%
Tax	₹ 0.07	-₹ 0.14	₹ 2.56	₹ 4.23	₹ 9.48	₹ 10.34	₹ 11.00
Effective Tax Rate	1.02%	-1.77%	21.39%	26.52%	27.63%	25.18%	23.91%
Net Profit	₹ 6.77	₹ 8.05	₹ 9.41	₹ 11.72	₹ 24.83	₹ 30.72	₹ 35.00
Net Margin	13.39%	12.21%	10.36%	10.09%	13.51%	13.53%	13.67%
Balance Sheet							
Equity Share Capital	₹ 8.7	₹ 8.7	₹ 9.6	₹ 9.6	₹ 9.6	₹ 9.6	
Reserves	₹ 24.2	₹ 32.3	₹ 47.5	₹ 59.0	₹ 82.7	₹ 113.3	
Borrowings	₹ 7.5	₹ 20.0	₹ 22.6	₹ 17.5	₹ 20.6	₹ 20.3	
Other Liabilities	₹ 9.2	₹ 21.7	₹ 27.5	₹ 31.4	₹ 44.9	₹ 55.2	
Total Liabilities	₹ 49.6	₹ 82.5	₹ 107.2	₹ 117.5	₹ 157.9	₹ 198.4	
Fixed Assets Net Block	₹ 13.2	₹ 17.7	₹ 43.8	₹ 40.0	₹ 55.0	₹ 62.8	
Capital Work in Progress	₹ 1.4	₹ 14.7	₹ 0.1	₹ 2.8	-	-	
Investments	-	₹ 0.4	₹ 0.4	₹ 0.8	₹ 0.8	₹ 0.8	
Other Assets	₹ 5.9	₹ 12.0	₹ 13.3	₹ 13.6	₹ 17.1	₹ 22.4	
Total Non Current Assets	₹ 20.4	₹ 44.7	₹ 57.5	₹ 57.2	₹ 72.9	₹ 85.9	
Receivables	₹ 14.4	₹ 25.0	₹ 31.9	₹ 33.9	₹ 45.2	₹ 62.7	
Inventory	₹ 2.8	₹ 9.5	₹ 12.4	₹ 16.0	₹ 22.5	₹ 30.6	
Cash & Bank	₹ 11.9	₹ 3.3	₹ 5.4	₹ 10.4	₹ 17.3	₹ 19.2	
Total Current Assets	₹ 29.2	₹ 37.9	₹ 49.7	₹ 60.3	₹ 85.0	₹ 112.5	
Total Assets	₹ 49.6	₹ 82.5	₹ 107.2	₹ 117.5	₹ 157.9	₹ 198.4	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
Cash Flow							
Operating Activities							
Cash Flow from Operating Activities	₹ 17.1	₹ 0.1	₹ 8.4	₹ 18.6	₹ 29.6	₹ 23.4	
Investing Activities							
Cash Flow from Investing Activities	(₹10.8)	(₹20.8)	(₹15.1)	(₹5.9)	(₹21.8)	(₹19.1)	
Financing Activities							
Cash Flow from Financing Activities	₹ 5.5	₹ 12.1	₹ 8.7	(₹7.7)	(₹1.0)	(₹2.5)	
Net Cash Flow	₹ 11.8	(₹8.6)	₹ 2.1	₹ 5.0	₹ 6.9	₹ 1.8	

Segment Wise Revenue Breakdown					Trend/Average Growth
INR CR	FY20	FY21	FY22	FY23	
Branded Portfolio	28.10	33.10	55.20	68.00	
<i>Growth (in %)</i>	35.75%	17.79%	66.77%	23.19%	35.87%
CDMO	54.70	57.80	96.50	109.00	
<i>Growth (in %)</i>	3.40%	5.67%	66.96%	12.95%	22.24%
Exports	6.80	18.60	21.30	28.00	
<i>Growth (in %)</i>	0.00%	173.53%	14.52%	31.46%	54.88%
API	1.30	6.60	10.90	18.00	
<i>Growth (in %)</i>	8.33%	407.69%	65.15%	65.14%	136.58%
Dermatology	-	-	-	4.10	
Total	90.90	116.10	183.90	227.10	
<i>Growth (in %)</i>	11.40%	27.72%	58.40%	23.49%	30.25%

Year On Year Segment Wise Revenue Growth



- **BETADR continues to be net debt free in H1FY24** and among the **fastest growing scaled up companies in the Indian Oncology Market.**
- Over time, there has been a **notable increase in Net Profit**, accompanied by **improved Net Profit Margins.**
- Every segment has experienced a significant year-over-year (YoY) growth, contributing to the **diversification of BETADR's revenue model.**
- BETADR is **investing more money on research and development (R&D)** to get better at meeting markets want.
- With **increasing revenue, improving margins, positive cash flow, and a robust balance sheet**, the company demonstrates **strong fundamental performance.**

Future Outlook and Investment Thesis

- After receiving the INVIMA and INVISA approval recently, the company is well positioned for the growth in semi regulated and regulated markets.
- BETADR's vertically built in operations with cost efficiency has helped improve margins and also reduce dependency which also expected to continue in the coming years.
- Across all the segments, the YoY growth has been incredible. Going forward the management has guided the momentum will continue, thanks to BETA's strong R&D
- Company has been aggressively investing in R&D, human resource and product dossiers, making it one of the leading players of the market.
- Despite on going geopolitical conflicts, there has been no effect on exports, medicines are required by all countries and are not so effected by the on going wars.

Branded Portfolio

- In the first half of FY24, the **sales have risen by 19%** and made new presence in **5 new corporate hospitals in India**. Company has presence in over 85% corporate hospitals across India.
- Company plans to launch **4 new products by the end of FY24** and **two new NDDS which will be the first kind in India**. With the new launches, H2FY24 seems to be more promising.
- Company plans to expand to more **Tier 2 and Tier 3 cities** and drive further growth.

Exports

- Having received the **INVISA and INVIMA approval**, has opened the door to many **new opportunities (70% of the Globe)**.
- In the coming 2-3 years, BETADR plans to **file 200-300 dossiers**. To enhance this process, company has expanded its regulatory team.
- Growth from the Export market will be huge but will certainly take a few years.
- Exports has been a keen focus area and has multiple partners in many countries. The **EU audit is also expected to be triggered in the H1FY25**, focus is to get the approval. Company has also filed an application for **Eurasia audit**, and company expects to to get the certification within next 2-3 months.

API

- BETADR has both, API and Formulations inhouse.
- For expansion, BETA has recruited top experienced professionals in QA/QC, Production and Regulatory team with experience of EU audits.
- BETA launched **2 new products in Dec 23, for which the API was built inhouse**.
- With Experience and Expertise, company is able to be time and cost effective.
- Last year and this year, the company has added a new line for capacity expansion.
- Company has increased its **focus on API's** not only for domestic market but also for exports

CDMO

- CDMO has been the major vertical of the company for many years. This year, the segment's revenue increased significantly, mainly due to adding new partners. **Maintaining old relationships with partners and adding new partners is the top priority**.

- Company is also focusing on reducing the timelines of the deliveries.

Dermatology

- BETA has hired, and continues to hire experienced and senior individuals.
- Vision of the company is to increase the number of **products from 14 to 30-35**.
- Company plans to **open their own plant** in the next 1-1.5 years, the land and everything has been identified.
- Management has ambitious plans of doing **50cr Revenue in the next 3-4 years** from their own brands in the segment from B2C orders.

Valuation

Forecasting Revenue

- Management has provided a comprehensive revenue target for the Dermatology segment in the upcoming financial years, aiming to achieve INR 50 crores within the next 3-4 years. Being conservative and for valuation purposes, we have extended the timeline to achieve INR 50 crores within 5 years.
- With strong relationship with partners, robust R&D pipeline, growing Oncology Market positions BETADR in a favourable situation for CDMO business. It is estimated to grow at 12% which also similar to CAGR of Oncology Market for the next 5 years.
- The Branded Portfolio has been growing at a rate of 35% YoY. This growth is expected to continue. BETA has plans to launch dozens of new products, increase its domestic and global reach. Revenue from this segment is estimated to grow at 30% CAGR.
- Management has suggested Exports in the coming years will be one of the biggest contributor of the Total Revenue. Having received INVISA/INVIMA approval, filed EU and Eurasia audit, planning to file 200-300 dossiers, and the high growth rate of the Oncology Market, exports are expected to grow at a 40% CAGR.
- BETADR has strong in house API development capabilities. With new investment in R&D infrastructure, and human resource, management has increased its focus on API segment. It is estimated, the API segment will grow at a 20% CAGR.

	FY23 (A)	FY24 (E)	FY25 (E)	FY26 (E)	FY27 (E)	FY28 (E)
Branded Portfolio	68.00	88.40	114.92	149.40	194.21	252.48
CDMO	109.00	122.08	136.73	153.14	171.51	192.10
Exports	28.00	39.20	54.88	76.83	107.56	150.59
API	18.00	21.60	25.92	31.10	37.32	44.79
Dermatology	4.10	8.00	15.00	26.00	36.06	50.00
Total Revenue	227.10	279.28	347.45	436.47	546.67	689.95

- Overall margins of the company have been improving and are expected to continue to improve. The EBIT/Sales Margins are expected to be at 20%.

DCF Valuation

Calculation of PV of FCFF	Mar-23A	Mar-24F	Mar-25F	Mar-26F	Mar-27F	Mar-28F
EBIT	45.42	55.86	69.49	87.29	109.33	137.99
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
EBIT(1-T)	34.07	41.89	52.12	65.47	82.00	103.49
Less : Reinvestment Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Free Cash Flow to Firm (FCFF)	34.07	41.89	52.12	65.47	82.00	103.49
Mid Year Convention		0.5	1.5	2.5	3.5	4.5
Discounting Factor		0.942	0.837	0.744	0.661	0.587
PV of FCFF		39.48212	43.6306	48.6846109	54.163272	60.720632

Calculation of Terminal Value

FCFF(n+1)	113.84
WACC	12.58%
Terminal Growth Rate	5.00%

Terminal Value	1,501.88
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Calculation of Equity Value per Share

PV of FCFF	246.68
PV of Terminal Value	881.17
Value of Operating Asset	1,127.85

Add: Cash	19.16
Less: Debt	20.33
Value of Equity	1,127
No. of Shares	0.96
Equity Value Per Share	1,173.63

Share Price	1386.00
Discount/Premium	1.18x

- Based on my analysis, **BETADR's current trading price slightly exceeds its fair value.** Nonetheless, this report emphasizes a long-term investment outlook. Looking ahead, the company appears to be on a **positive trajectory with expectations of significant growth over the long term.**
- A slight correction can be expected in the market, as Indexes are trading at a life time high. Correction in the share price would make the investment even more attractive. However, this report is made from a long term perspective and not for swing trading opportunity.
- BETADR belongs SM category, that is can only be traded in lots. **BETADR trades in the lots of 100,** which makes it risky and less liquid. Proper **portfolio diversification hence might be an issue for smaller investors.**

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