The CUB Series

Beta Drugs Ltd

nuvama
professional clients group

Under the **'CUB'** series banner, we are covering small-cap companies with robust long-term growth potential.

Our endeavour is to recommend smallcap companies that are not widely covered. Despite low liquidity and small size of business, these companies have strong long-term fundamentals and sustainable structural growth drivers.

In our view, investment themes in equity markets play out over the long-term with potential pay-offs taking time to materialize.

By introducing the CUB series our objective is to identify quality small-cap companies in the early stages of their growth cycle.

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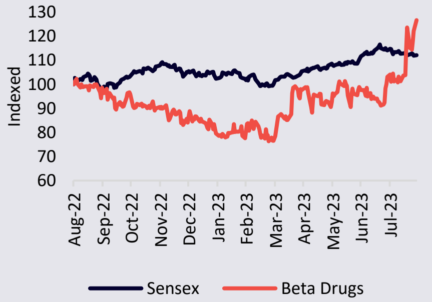
CMP (INR)	1,000
Target (INR)	1,325
Upside (%)	
Rating	BUY

Date: September 03, 2023

Bloomberg:	BETADR:IN
52-week range (INR):	600/1,020
M-cap (INR cr):	961
Promoter holding (%)	66.71
FIIs	66.73%
DIIs and MFs	-
Others	32.97%



Beta Drugs (BETADR) is one of the leading players in the domestic oncology space and ranks among the top 10 in the cytotoxic market. Equipped with three state-of-the-art manufacturing facilities, it produces and markets a wide range of oncology (anti-cancer) drugs, which are available across major government and private hospitals. It expanded, upgraded, and received regulatory approvals from INVIMA (Colombia) /INVISA (Brazil) for its key facilities which will aid exports. BETADR is well placed to capitalise on growth opportunities in the oncology drugs segment, aided by its comprehensive product portfolio, focus on product development, and improving export prospects with the receipt of accreditations and approvals. Besides sticky customers for contract manufacturing, backward integration and a healthy Balance Sheet boost confidence in the company. We expect a revenue/earnings CAGR of 26%/33% over FY23–26 led by product launches and an expansion in exports. We initiate coverage with a 'BUY' rating and a TP of INR1,325.

A diversified revenue base to de-risk the business

In FY23, BETADR derived ~30% of revenue from branded products; 48% from contract manufacturing for leading companies like Hetero Drugs, Cadila Pharmaceuticals, Alkem Laboratories, Shilpa Medicare, RPG Life Sciences, and Glenmark Pharmaceuticals; 13% from exports; 8% from APIs; and 1% from the recently launched dermatology and cosmetology divisions. This diversified revenue base helps de-risk its business model. It has been able to retain its CMO partners and secure repeat orders from most of them, while the proportion of branded business has increased over the past few years. The dermatology/cosmetology segment is expected to break even in H2FY24.

A strong products pipeline to boost the branded business

The branded formulation business contributed ~30% to revenue in FY23 from 25% in FY19, thanks to continuous product launches, especially the first-to-launch (FTL) or first-few-to-launch (FFTL) products, in the oncology space. As nearly 70% of its formulations are backward integrated with APIs, it enjoys competitive strength in the local market. Of its basket of 62 products, 35 relate to solid tumours, 18 to hematology, and 10 to supportive care. Most (~60%) of its products are injectables, which enjoys a superior profit margin. Its pipeline constitutes 23 products (including five new drug delivery systems or NDDS) to be launched over the next four years. Apart from launches, it aims to expand the number of prescribers (doctors), which will aid growth. We expect this business to clock 32% CAGR over FY23–26. We expect the healthy EBITDA margin to sustain on the back of high-value product launches.

Regulatory approvals open the door to Latin America and Africa

Though export revenue clocked 44% CAGR over FY19–23, it remains in the nascent phase (contributed ~12% in FY23). The decent size of the generic oncology market in semi-regulated markets offers immense growth potential. BETADR received approval from INVIMA (Colombia)/INVISA (Brazil) in March/April, which will open the door to Latin America and South African markets. In FY23, it filed 77 dossiers and is expected to file more than 150 dossiers in these geographies going forward. The management expects a Eurasian Economic Union (EAEU) audit, which will widen export opportunities in this region. We expect meaningful revenue from Latin America and South Africa to start flowing in within 12–18 months. We expect 43% export CAGR over FY23–26.

A calibrated expansion plan augers well

The management has adopted a calibrated expansion plan to meet the demand for its products. It has been incurring an annual capex of INR18–20cr (except FY21) to gradually expand capacities. In FY23, it expanded its oral solid doses (OSD)/injection capacities at Adley Formulations Pvt (100% subsidiary) by 92%/180% YoY and lyophilisation capacity by ~3x to boost growth. It plans to expand the API business in CEP markets (Europe). BETADR has added one new API line to focus on EU GMP audit. It incurred a capex of INR36cr over FY22–23, majorly from internal accruals. It is currently sitting on cash and cash equivalents of INR19.16cr against a gross debt of INR16cr (as of March 31), which holds scope for further expansion.

Initiate 'BUY' with a target price of INR1,325

Historically, BETADR has delivered a healthy performance despite interruptions during the COVID-related lockdowns. A strong pipeline of FTL/FFTL products, approvals from the export market, client additions in the domestic market, and a healthy Balance Sheet augur well for the company. Average RoE stood at 24% in the past three years. The stock is currently trading at a P/E ratio of 15x average EPS for FY25/FY26. Our TP of INR1,325 is based on 20x average EPS for FY25E/FY26E.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (INR Cr)	184	227	281	354	449
% Growth (YoY)	*58*	*24*	*24*	*26*	*27*
EBITDA (INR Cr)	43	53	69	88	113
% Growth (YoY)	*73*	*24*	*29*	*28*	*29*
Net Profit (INR Cr)	25	31	43	55	72
Diluted EPS (INR)	26	32	44	58	75
Diluted P/E (x)	22	32	23	18	14
EV/EBITDA (x)	13	12	14	11	8
ROACE (%)	38	36	38	38	37

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Business structure

We expect BETADR to clock 26% revenue CAGR over FY23–26E driven by:

- ***i)*** *Around 32% revenue CAGR from **branded formulations** on the back of product launches and a higher number of prescribers. It plans to launch five products each in FY24 and FY25 and seven products in FY26 including four-to-five NDDS.*
- ***ii)*** *Around 15% revenue CAGR from the **CMO business** on customer additions and demands from existing customers. It has added a new customer in FY24 and continues to scout for additional clients.*
- *iii)* *Around 43% revenue CAGR from **exports** on geographical expansions and a larger product portfolio. The lion's share of the growth will accrue from Latin American and African markets from FY25.*
- ***iv)*** *About 50% revenue CAGR from external sales of **APIs** on capacity expansions and product developments.*
- v) The company recently forayed into the **dermatology and cosmetology** segment. A ramp-up in the dermatology division is expected to accentuate revenue growth.

We expect **EBITDA margin to expand to ~25% in FY25/FY26 from ~23% in FY23** aided by:

- i) Improved backward integration, the launch of high-value branded products, and the benefit of operating leverage.
- ii) Focus on differentiated products, where the competitive intensity is relatively low. Its first-to-market products and speedy introduction of newer products will effectively counter competition and help achieve healthy growth.
- iii) The expected increase in the share of exports to improve margin owing to better realisation in export markets.
- iv) Dermatology division turning profitable with a ramp-up in sales.

BETADR is well placed to witness a revenue/PAT CAGR of 26%/33% over FY23–26E, which will result in a free cash flow of INR65cr, while average RoE will sustain ~29%. We initiate coverage with a 'BUY' rating and a TP of INR1,325, valuing the stock at 20x its average earnings for FY25E and FY26E. The re-rating of the stock will be mainly triggered by the launch of high-value products, a foray into Latin America, and regulatory approvals from key countries.

We expect a 26% revenue CAGR over FY23–26E due to product launches, an uptick in export sales, and foray into the dermatology segment

INR cr	FY23	FY24E	FY25E	FY26E
Revenue	227	281	354	449
EBITDA	53	69	88	113
EBITDA Margin (%)	23.4	24.4	24.8	25.1
PAT	31	43	55	72

We expect the operating margin to improve on healthy backward integration, a better margin profile of new launches, and a higher share of exports. Return and coverage ratios will be sustained at a healthy level.

INR cr	FY23	FY24E	FY25E	FY26E
RoACE (%)	36	38	38	37
OCF	23	24	52	65
Net D/E ratio	0	-0.1	-0.2	-0.3

We value BETADR at PE ratio of 20x average earnings for FY25E and FY26E .

	Average for FY25E and FY26E	Target
P/E ratio (x)	20x	INR1,325

At the CMP, the P/E ratio is 15x the average EPS for FY25E/FY26E + **Average RoCE over FY24–26E: 38%** + **At the target price, the P/E ratio is 20x the average EPS for FY25–26E**

Upside: 31%

Charting the story

Exhibit 1: Diversified revenue base (FY23)

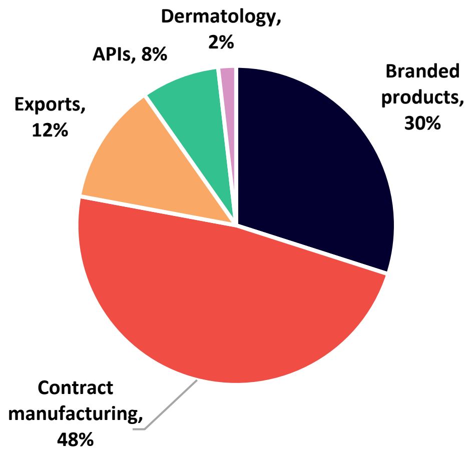

Exhibit 2: Revenue mix trend

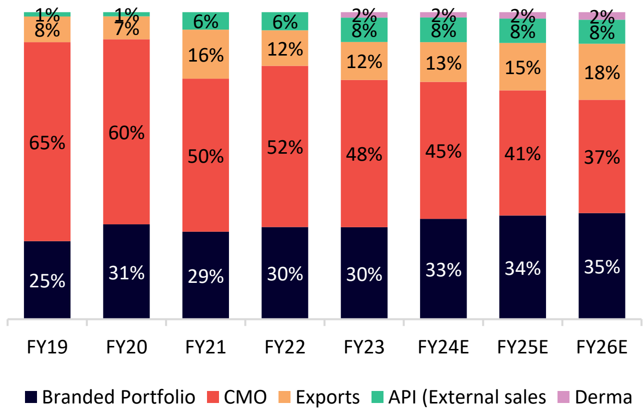

Exhibit 3: Product launches

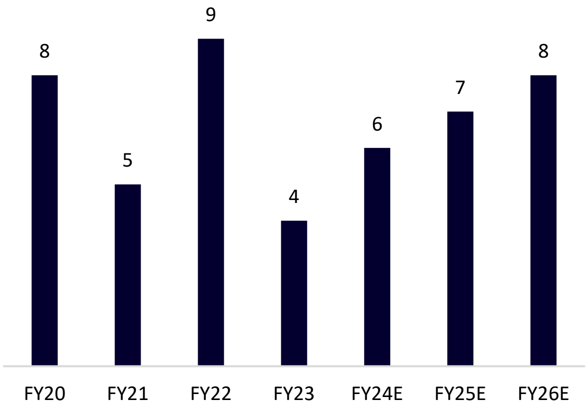

Exhibit 4: Capacity expansions (mn units)

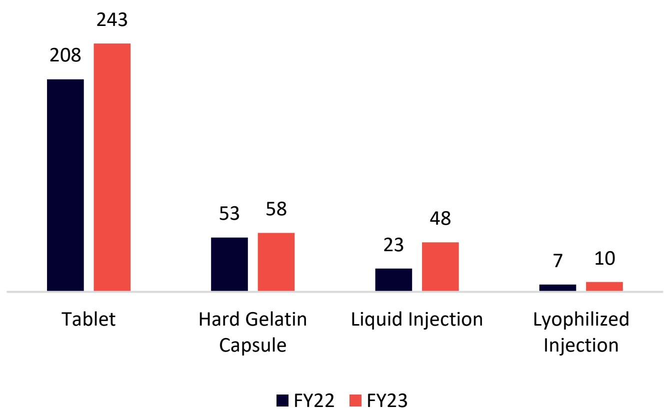

Exhibit 5: Revenue from the branded business

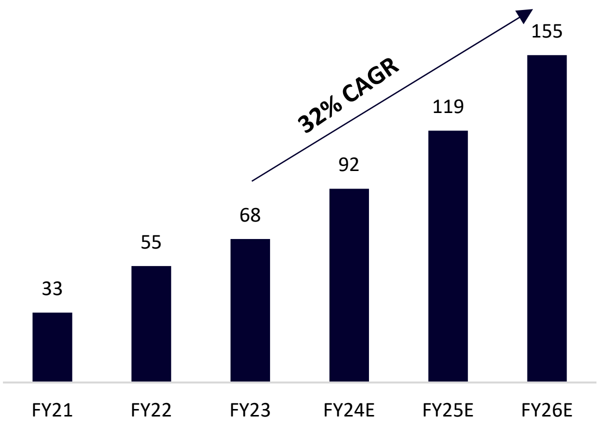

Exhibit 6: Revenue from the API segment

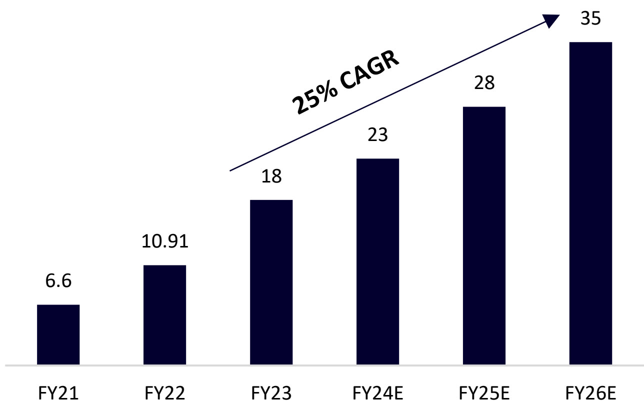

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Exhibit 7: Revenue from exports

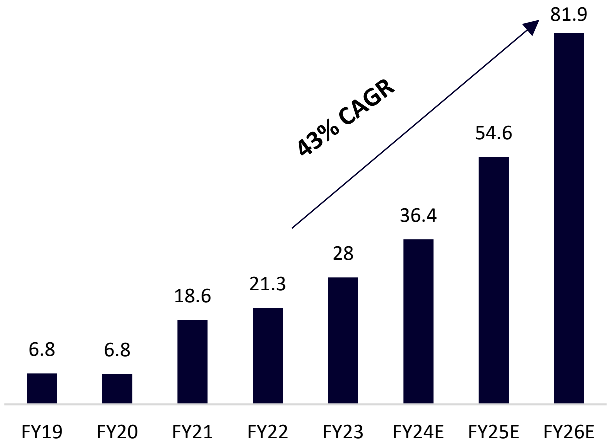


Exhibit 8: Revenue from the CDMO segment

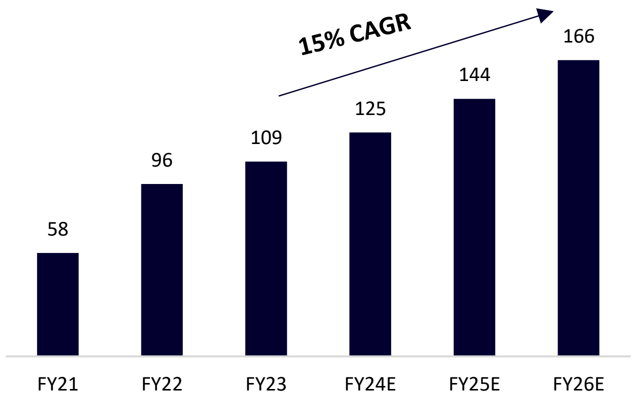


Exhibit 9: Better product mix to drive EBITDA margin (%)

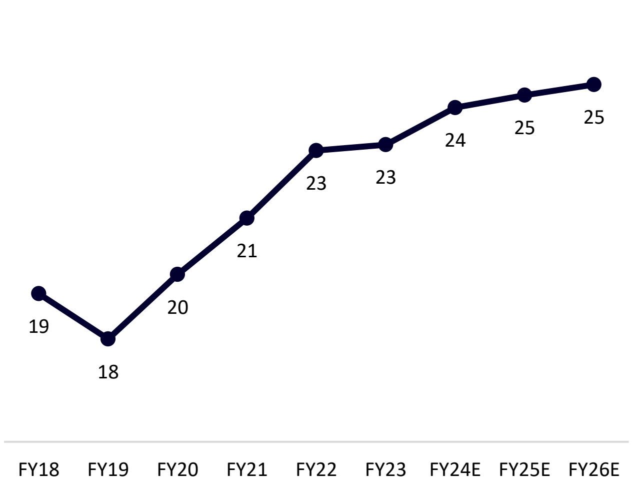
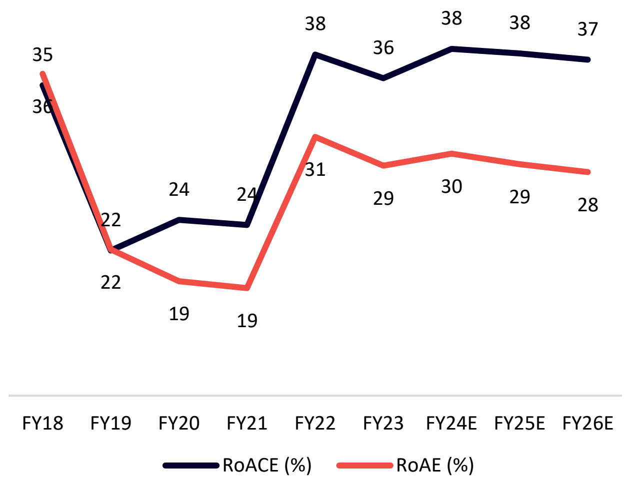


Exhibit 10: Healthy return ratios to sustain



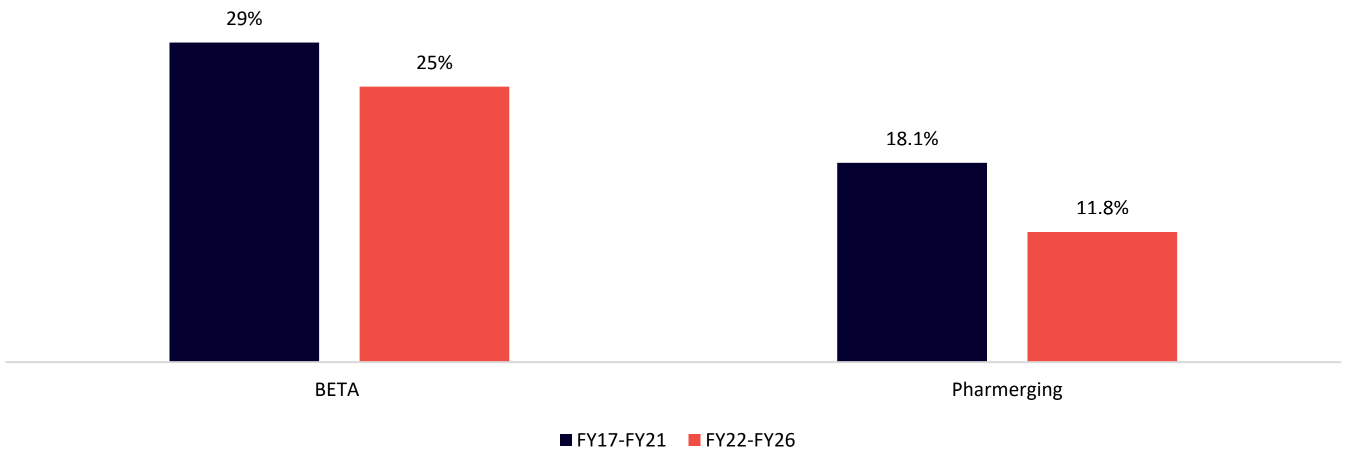
Source: Nuvama Wealth Research

Key investment thesis

I. Well placed to capitalise on the fast-growing oncology drugs segment

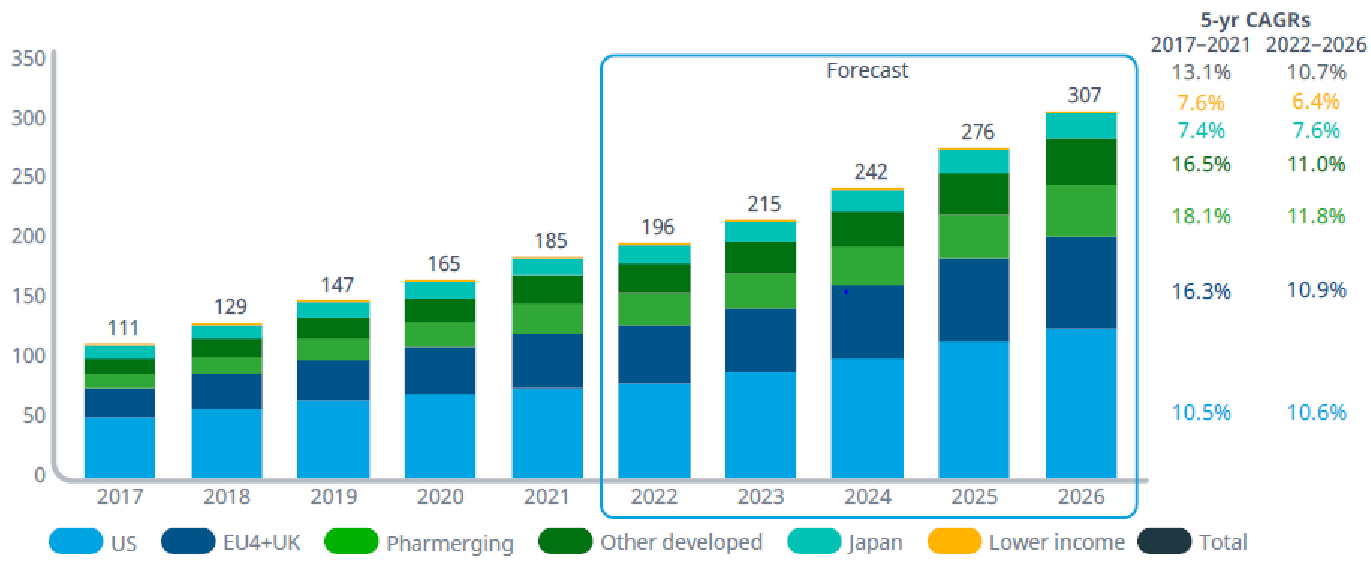
Global spending on cancer medicines rose to USD185bn in 2021 and is expected to cross USD300bn by 2026 led by continued innovation. The growth in spending is likely to be driven by product launches, patent expiries, and rising incidence of cancer among the population. As per IQVIA, spending by Pharmerging and low-income countries stood at USD25bn in 2021, accounting for ~14% of total spending. Pharmerging is likely to be the fastest growing geography, witnessing 11.8% CAGR over FY22–26. BETADR is well placed to capitalise on these growth opportunities given its comprehensive product portfolio and improving export prospects with the receipt of accreditations and approvals. We expect the company to grow faster than the pharmerging growth rate due to the drivers mentioned above.

Exhibit 11: Growth for BETADR vis-à-vis pharmerging



Source: Nuvama Wealth Research

Exhibit 12: Oncology spending by region (USD bn)



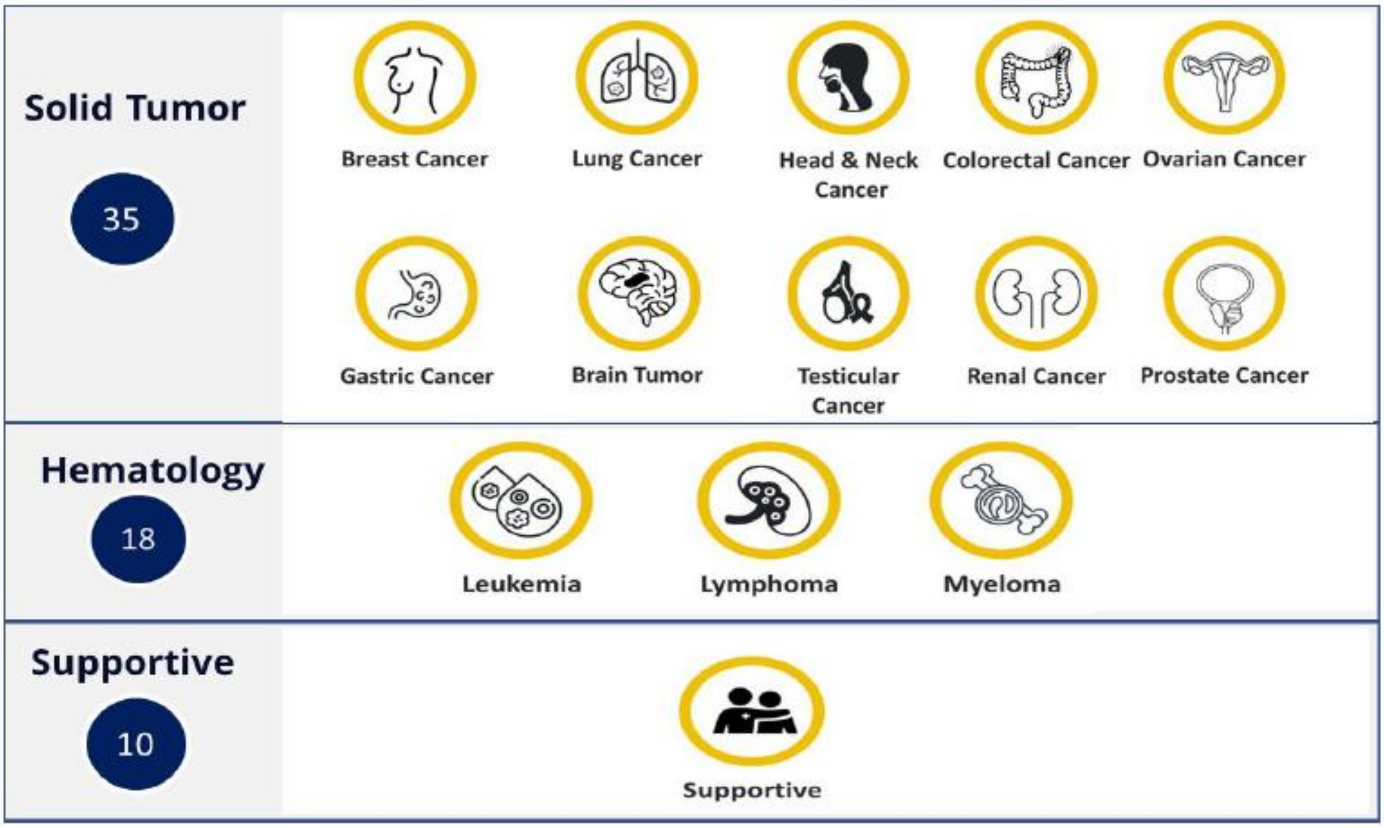
Source: IQVIA Oncology Link, Apr 2022.

II. A diversified revenue base

BETADR has a comprehensive oncology portfolio, encompassing products for all major cancers such as breast, lung, testicular, and brain tumour. As of FY23, it had a diversified revenue base. It derived 30% of revenue from branded products; 48% from contract manufacturing for leading companies like Hetero Drugs, Cadila Pharmaceuticals, Alkem Laboratories, Shilpa Medicare, RPG Life Sciences, and Glenmark Pharmaceuticals; 13% from exports; 8% from APIs; and 1% from the recently launched dermatology and cosmetology divisions.

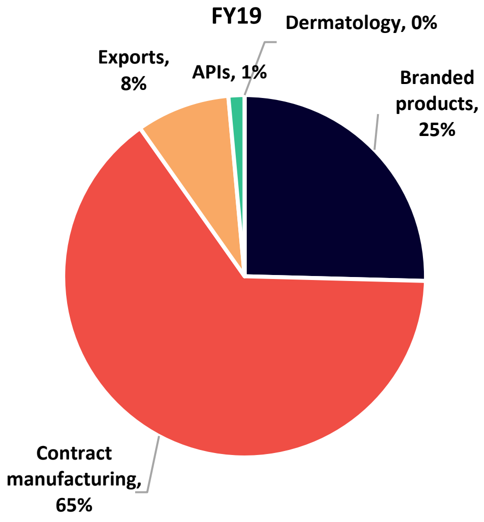
A diversified revenue base helps de-risk its business model. It has been able to retain its CMO partners and secure repeat orders from most of them. BETADR boosts of a strong network as its products are available at all major private and public hospitals. The management has been continuously striving to increase its presence in new corporate and private hospitals. It has over 112 SKUs and ~64 products in the oncology portfolio. Of these 63 products, 36 are for solid tumour, 18 for haematology, and 10 for supportive care. It has a fair bit of diversity on the customer front as it derives ~50% of the revenue from its top 10 clients.

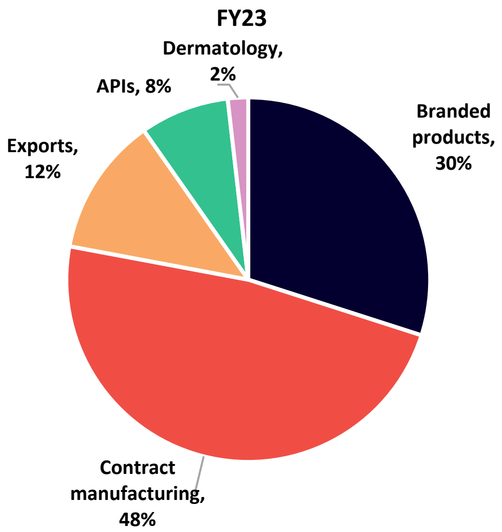
Exhibit 13: Presence across all major cancer therapies



Source: Company, Nuvama Wealth Research

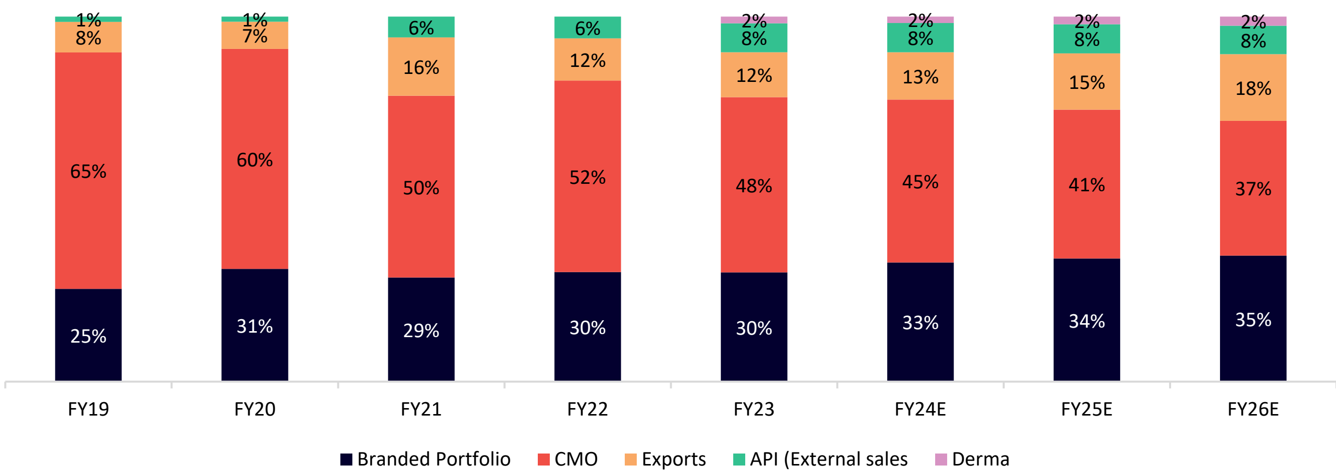
Exhibit 14: Improving revenue diversity





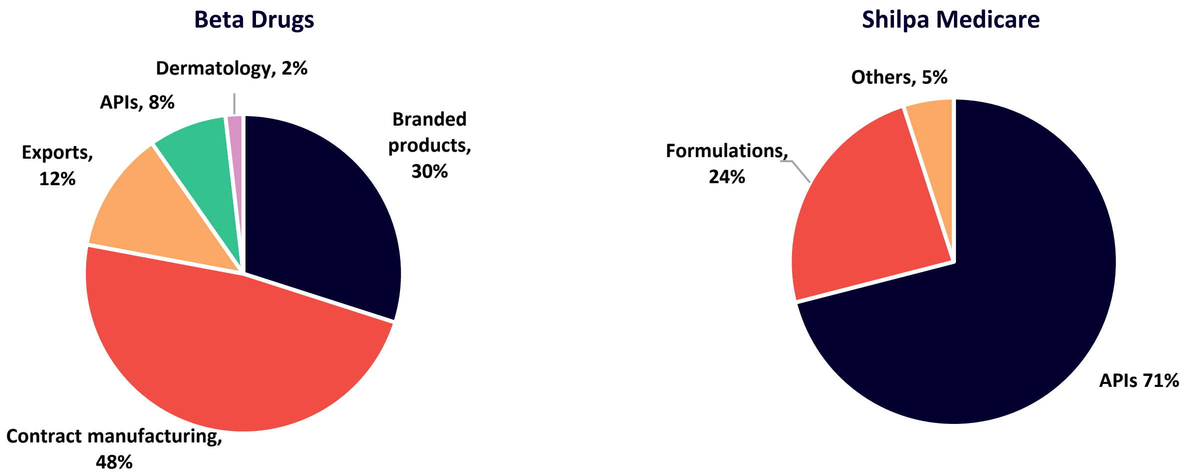
Source: Nuvama Wealth Research

Exhibit 15: Diversified revenue base



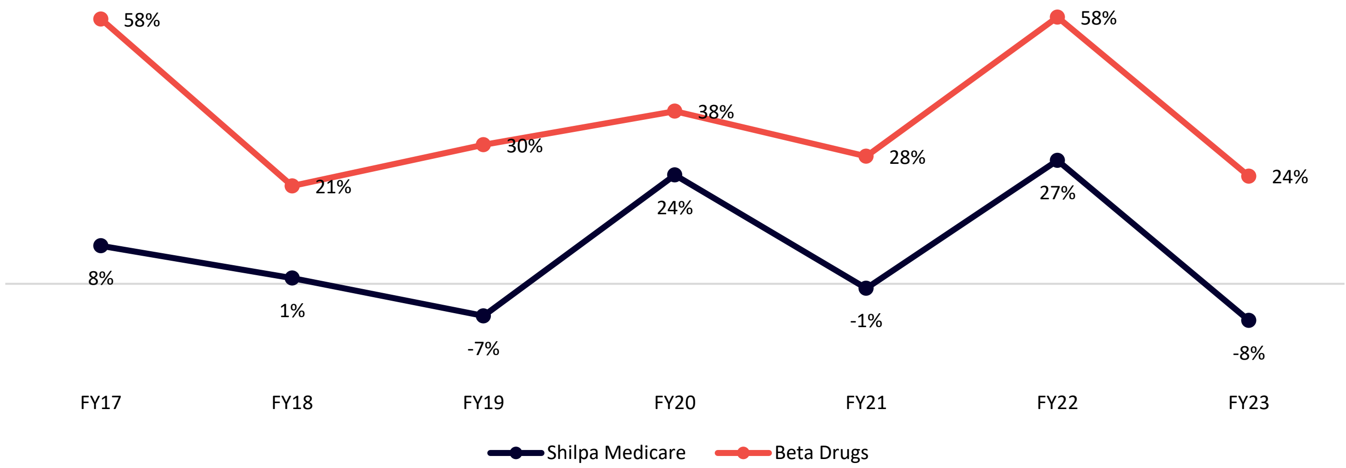
Source: Nuvama Wealth Research

Exhibit 16: Diversified revenue base and branded portfolio helps BETADR generate superior revenue growth vis-à-vis its peers



Source: Nuvama Wealth Research

Exhibit 17: Revenue growth vis-à-vis its peers

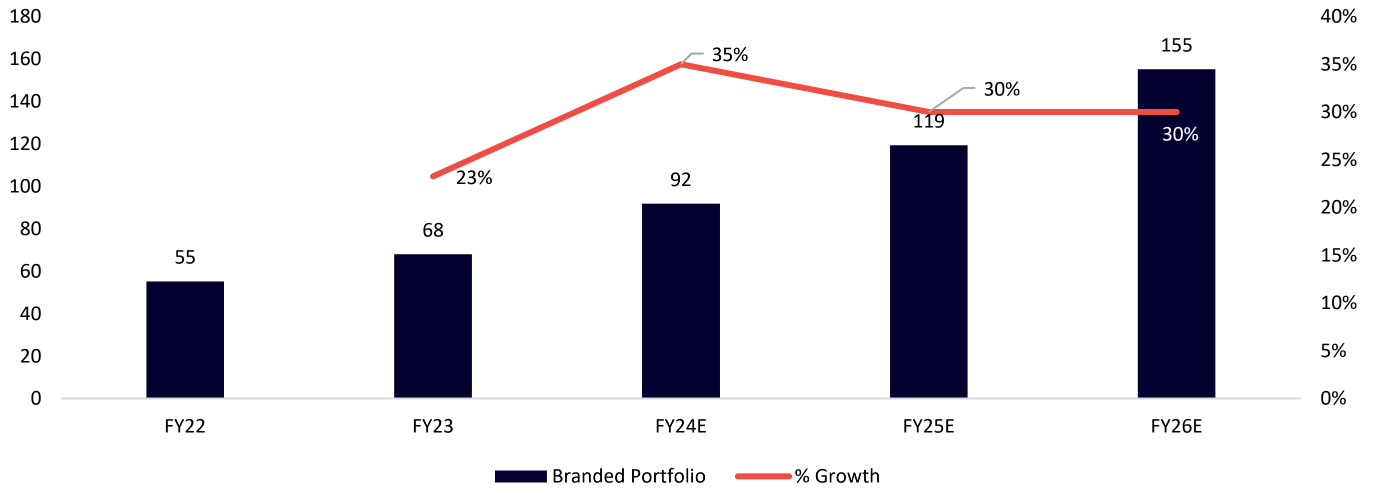


Source: Nuvama Wealth Research

III. Product launches in the branded portfolio to drive growth

Revenue growth has been driven by continuous product launches. In the last four years, it has launched more than 20 products which has resulted in 35% revenue CAGR over FY19–23 in the branded portfolio revenue. It is planning to launch ~22 new products in the branded portfolio in the solid and haematology basket, which will enable it to generate 30% revenue CAGR over FY23–25.

Exhibit 18: Revenue growth in the branded portfolio



Source: Nuvama Wealth Research

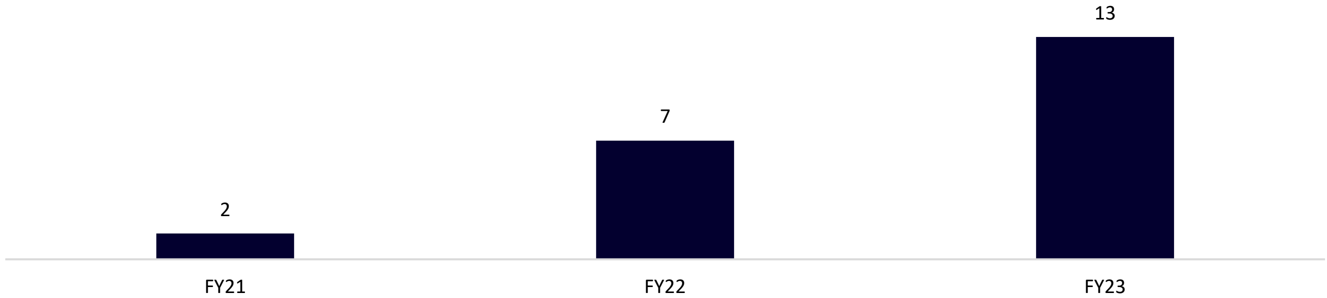
Exhibit 19: Branded product portfolio

Source: Company, Nuvama Wealth Research

IV. Multiple growth drivers to sustain healthy growth

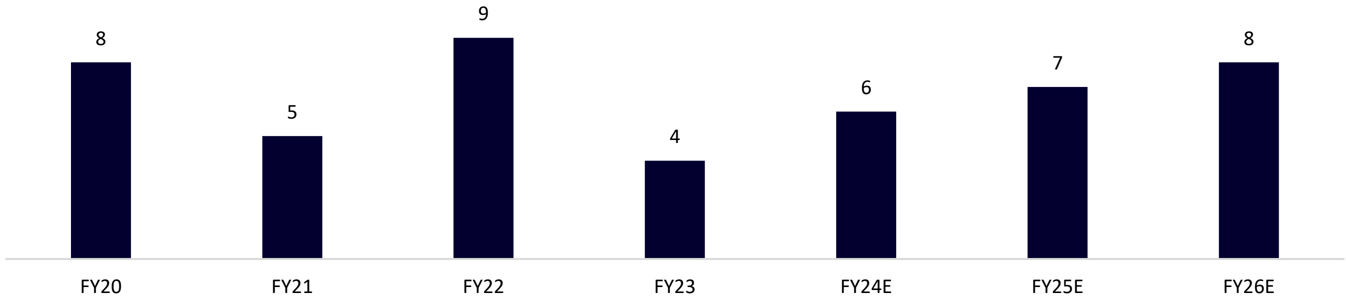
The company has multiple growth drivers in the branded business. These include its focus on FTL or FFFTL products in the oncology space under its own brands and the thrust on NDDS. It is planning to launch four new brands in the domestic branded portfolio and four products under NDDS to further drive growth. It has developed 10 new products in the API segment and is planning to expand the API business in CEP markets (Europe). BETADR has added one new line to focus on EU GMP Audit. It has expanded its OSD/injection capacities at Adley Formulations Pvt by 92%/180% YoY in FY23. Recently, it expanded its lyophilisation capacity by ~3x to support the next level of growth.

Exhibit 20: Revenue from sales of FFTLs



Source: Company, Nuvama Wealth Research

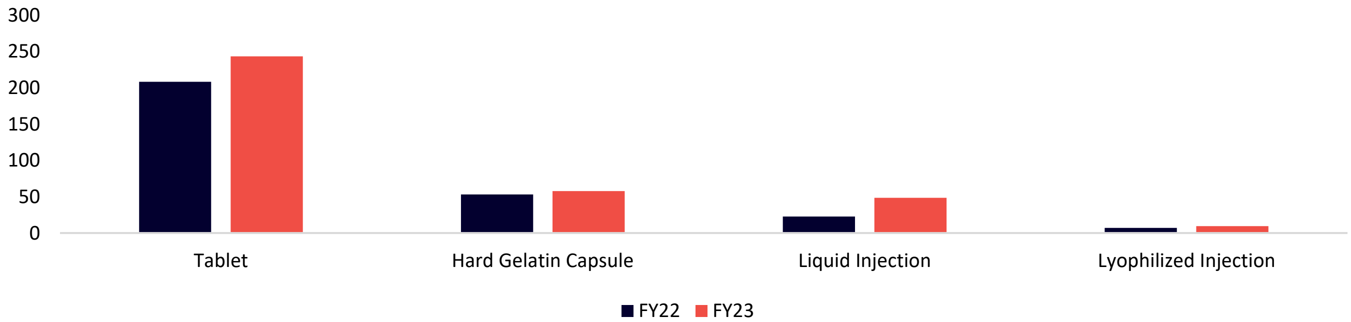
Exhibit 21: Product launches



Source: Company, Nuvama Wealth Research

Capacity expansion: To meet increased demand, BETADR has raised capacities. It increased lyophilised injection capacity at the Baddi plant by 2.5x. Capacities have been significantly increased at the Adley Formulations plant. It has increased tablet/ capsule/liquid injection/lyophilised injection capacity by 2x/1.6x/2.8x/1.2x.

Exhibit 22: Capacity expansion in the formulation segment



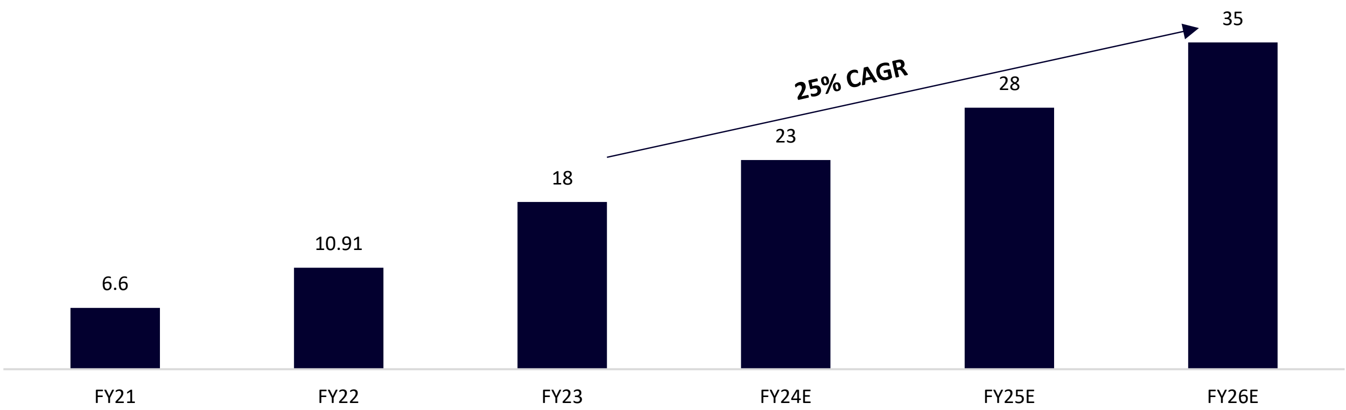
Source: Company, Nuvama Wealth Research

Increased focus on APIs

The API segment is housed under Adley Lab India. BETADR currently derives ~8% revenue from the API segment. We expect the share of revenue from APIs to rise to 12% by FY25 due to the management's increased focus on this segment. BETADR is one of the few companies in the API space to develop carfilzomib, cabozantinib, afatinib, pazopanib, and rucaparib. In FY23, it developed 10 new products in this segment. A new R&D laboratory has also been developed to expand its product offering.

To expand the scale of the API segment, the management is working to file its first CEP (Europe). It has initiated the export of API products in semi-regulated markets. The management is gearing up to export its API products to 12 countries. To meet the increase in scale, it has added one new line to focus on EU GMP and expanded capacity by five glass lined reactors (GLRs, 3,250 litres per annum), three stainless steel reactors (SSRs, 3,200 litres per annum), and six glass flask assemblies (200 litres per annum). With capacity expansion and a focus on geographical expansion, we expect the API segment to register 25% CAGR over FY23–26.

Exhibit 23: Revenue from the API segment



Source: Company, Nuvama Wealth Research

Strong API development capabilities

BETADR has a strong in-house API development capability as it has developed products in solid tumour, haematology, and supportive baskets.

Exhibit 24: In-house API products

Solid Tumor

AFATINIB
DOCETAXEL TRIHYDRATE
ERLOTINIB HYDROCHLORIDE
GEFITINIB
GEMCITABINE HYDROCHLORIDE
FLUDARABINE PHOSPHATE
LAPATANIB DITOSYLATE
PEMETREXED DISODIUM HEPTAHYDRATE
SORAFENIB TOSYLATE
TEMOZOLOMIDE
ENZALUTAMIDE
AXITINIB
SUNITINIB
LENVATINIB

Solid Tumor

METHOTREXATE
BICALUTAMIDE
IRINOTECAN
FULVESTRANT
ANASTROZOLE
NINTEDANIB
PAZOPANIB
RUCAPARIB
CABOZANTINIB

Hematology

AZACITIDINE
HYDROXYUREA
HYDROXYCARBAMIDE
IMATINIB MESYLATE
LENALIDOMIDE
BORTEZOMIB
DASATINIB
BENDAMUSTINE HYDROCHLORIDE
PLERIXAFOR
CARFILZOMIB

Supportive

APREPITANT
HYDROXYCARBAMIDE
ZOLEDRONIC ACID
FOS-APREPITANT
ELTROMBOPAG OIAMINE

DCGI approved - Cabozantinib
DCGI approved - Rucaparib

API UNDERDEVELOPMENT

CERITINIB
IBRUTINIB
PALBOCICLIB

Source: Company, Nuvama Wealth Research

V. Strong export prospects

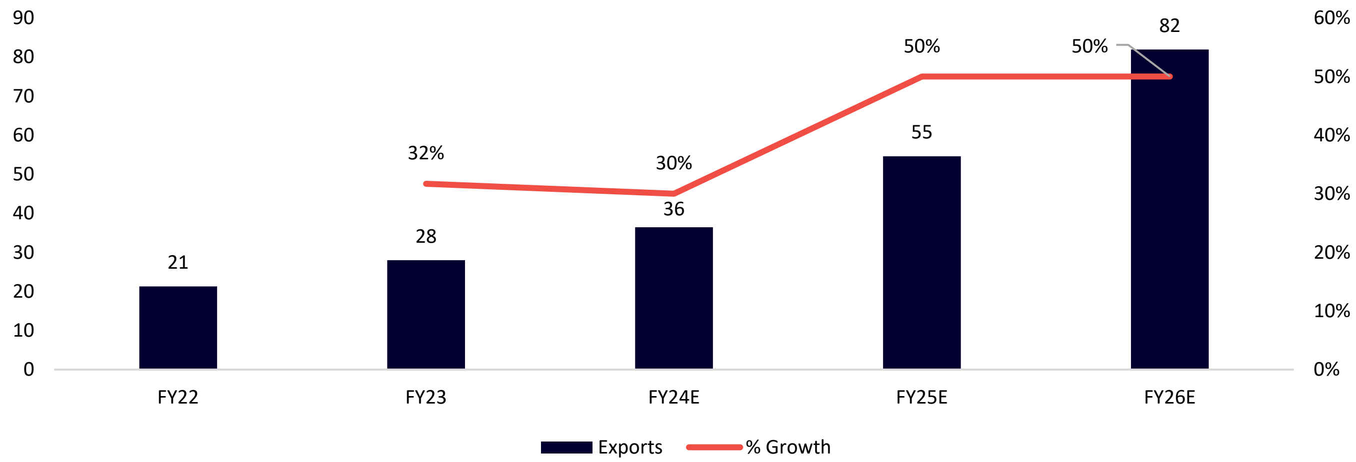
The company derived ~28% of revenue from exports in FY23. Revenue from exports clocked 44% CAGR over FY19–23. Recently, its facilities were approved/audited by INVIMA (Colombia)/INVISA (Brazil), which opens the door to key Latin American markets. Including INVIMA and INVISA, the company has PIC/S accreditation which enables it to tap into major markets in LatAm, South Africa, North Africa, the Middle East, and the Asia Pacific. Pre-audit for the Eurasia Economic Union has been completed and the management expects an audit in FY24. The addition of this certification will enable BETADR to increase its presence in the Asian market. In FY23, it filed 77 dossiers and is expected to file more than 150 dossiers in these geographies going forward. The filing of several doses in LatAm and African markets will boost revenue over the next 12–18 months. We expect export revenue to clock 43% CAGR over FY23–26 due to exciting export prospects, healthy revenue potential, and a strong pipeline of dossier filings.

Exhibit 25: Dossier filing geography-wise

Geography	No. of dossiers	Registered	Planning to file
LatAm	23	41	86
Middle East and Africa	44	30	127
Asia	8	55	134
CIS	2	20	10

Source: Company, Nuvama Wealth Research

Exhibit 26: Expect 43% CAGR in exports over FY23–26

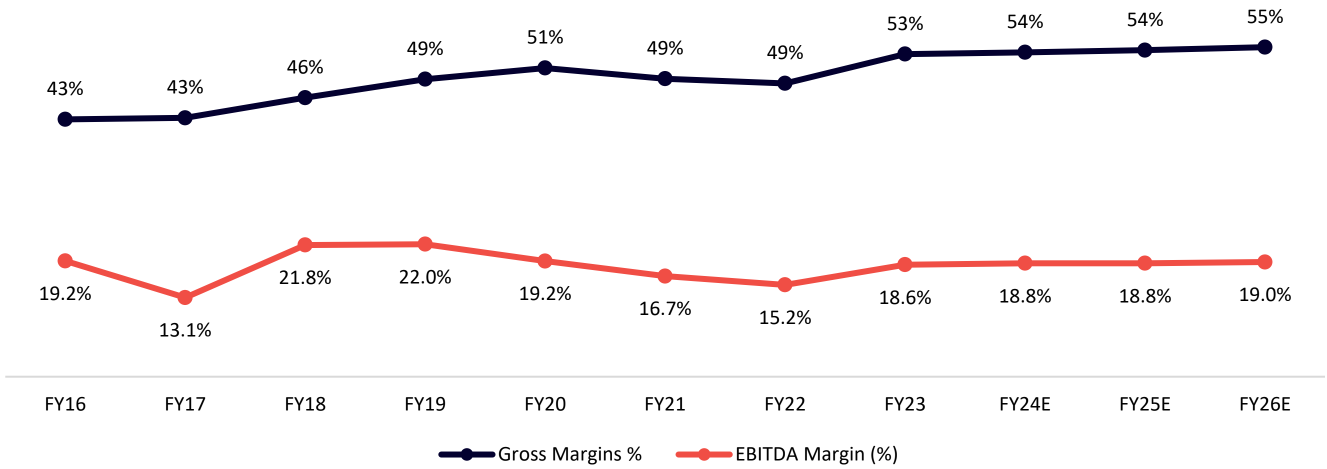


Source: Company, Nuvama Wealth Research

VI. Margin profile to improve

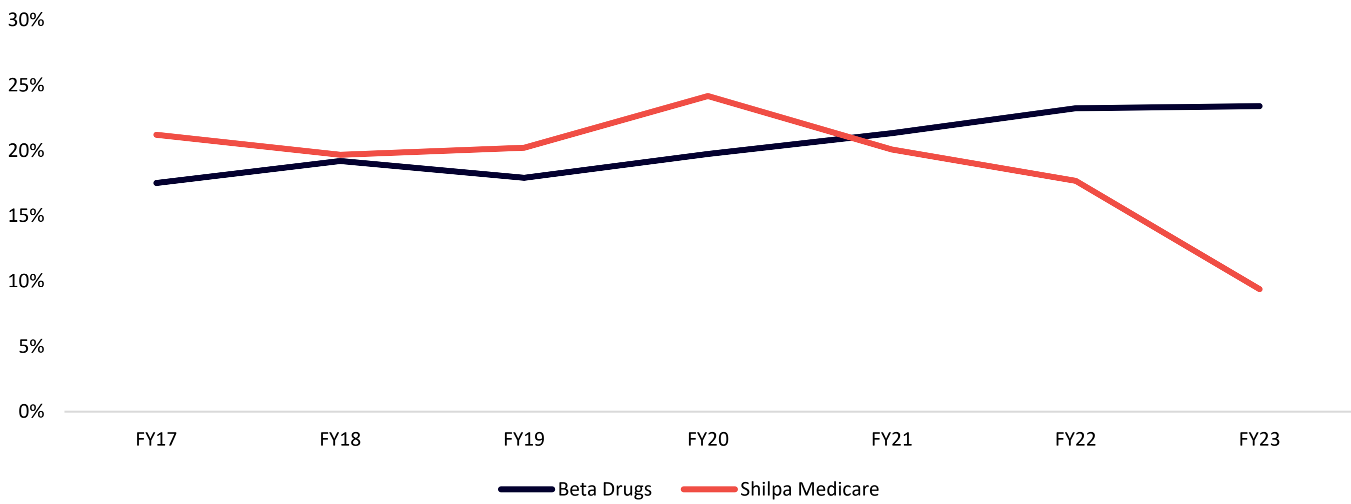
Historically, gross profit margin has remained between 38% and 41%. However, it improved to 48% in FY23 aided by savings in material cost and operating leverage benefits. We expect gross margin to sustain at similar levels going forward due to benefits from improved operating efficiency. EBITDA margin, which stood at 23.4% in FY23, has improved over the years through increasing backward integration, continuous development of branded products, and operating leverage benefits. Through increased efforts towards backward integration, it has developed APIs for 70% of the branded products. The management expects margin between 22% and 24% going forward on a ramp-up in exports (especially to Eurasia and Latin America), launch of value-added products, and a turnaround in the dermatology and cosmetology divisions in FY24.

Exhibit 27: Better revenue mix to drive profit margin



Source: Company, Nuvama Wealth Research

Exhibit 28: Margin vis-à-vis its peers

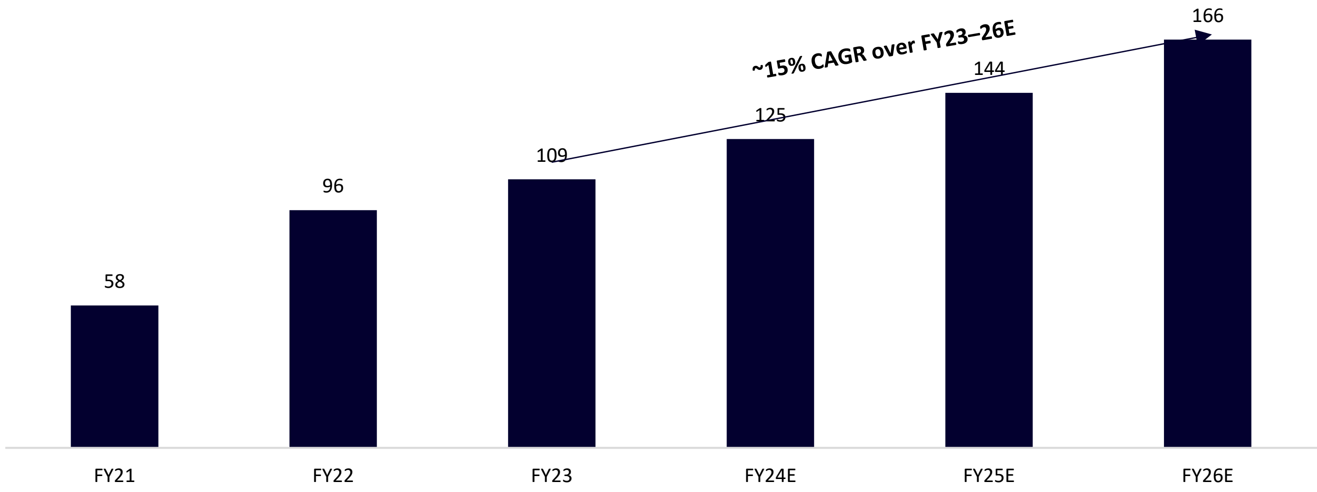


Source: Company, Nuvama Wealth Research

VII. CDMO segment to witness healthy growth

The CDMO segment accounted for 48% of revenue in FY23 and clocked 20% CAGR over FY19–23. Over the years, it has developed strong partnerships with its partners. BETADR has more than 50 customers in the CDMO segment. Some of its marquee clients are Intas Pharmaceuticals,, Glenmark Pharmaceuticals, Reliance Life Sciences Pvt. We expect this segment to clock 15% CAGR over FY23–26 led by strong partnerships and continual focus on new drug development and customer additions.

Exhibit 29: Revenue from the CDMO segment



Source: Company, Nuvama Wealth Research

Exhibit 30: Marquee clientele

Source: Company, Nuvama Wealth Research

VIII. Dermatology foray to accentuate growth

BETADR recently forayed into the dermatology and cosmetology segment and has added more than 700 prescribers within the first six months of its launch. The company recognised a revenue of INR3.9cr from this segment in FY23. It has 12 products in this segment and is expected to increase its product offering going forward. It recently launched a hair growth serum under the brand name Recapro. This division has a 56-member team.

At present, it outsources product manufacturing in this segment. However, the management is planning to set up its own dermatology plant once satisfactory scale and profitability are achieved. The total capex outlay for setting up a new facility is ~INR20cr. This segment incurred an operating loss of INR2.04cr in FY23. The management expects to break even by H2FY24 with a ramp-up in sales.

We expect the dermatology segment to accentuate revenue and profitability, with a ramp-up in sales with product introductions and by enhancing the prescriber base. Dermatology has a total market size of ~INR14,000cr, and it is expected to clock 15% CAGR in the near-to-medium term. We have built in a revenue of INR5cr/INR7cr/INR11cr from the dermatology segment in FY24E/FY25E/FY26E.

Financials analysis

BETADR reported a revenue/PAT CAGR of 35% each over FY18–23 led by its established position in the cytotoxic market, continual product launches, healthy demand from CMO customers, and ramping up of export revenue. We have built-in a revenue/PAT CAGR of 26%/33% over FY23–25 driven by product launches, strong export potential, and a foray into the dermatology space. We expect EBITDA margin to improve to 25% in FY25 and FY26 (from 23.4% in FY23) on healthy backward integration, launch of value-added products, higher export revenue, and return to profitability in the dermatology division.

Exhibit 31: Segmental break

INR cr	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (FY19–23)	CAGR (FY23–26E)
Branded portfolio	20.7	28.1	33.1	55.2	68	91.8	119.3	155.1	35%	32%
CMO	52.9	54.7	57.8	96.5	109	125.4	144.2	165.8	20%	15%
Exports	6.8	6.8	18.6	21.3	28	36.4	54.6	81.9	42%	43%
API (external sales)	1.2	1.3	6.6	10.9	18	22.5	28.1	35.2	98%	25%
Dermatology		0	0	0	4.1	4.9	7.4	11.1		
Total	**81.6**	**90.8**	**116.1**	**183.8**	**227.1**	**281**	**353.6**	**449.1**	29%	26%

Source: Company, Nuvama Wealth Research

Product launches and scaling up of exports to boost EBITDA margin

We expect margin to improve to 25% by FY25 on healthy backward integration, the launch of value-added products, higher export revenue, and return to profitability in the dermatology division. We expect absolute EBITDA to clock 28% CAGR over FY23–25.

Exhibit 32: Trend and assumptions in revenue and EBITDA

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**1**	**0**	**26**	**42**	**51**	**66**	**91**	**116**	**184**	**227**	**281**	**354**	**449**
Growth		-81%	10046%	58%	21%	30%	38%	28%	58%	24%	24%	26%	27%
COGS	**1**	**0**	**15**	**24**	**27**	**33**	**44**	**59**	**94**	**106**	**130**	**162**	**204**
As a % of sales	62%	58%	57%	57%	54%	51%	49%	51%	51%	47%	46%	46%	45%
Gross profit	**1**	**0**	**11**	**18**	**23**	**33**	**46**	**57**	**89**	**121**	**151**	**191**	**245**
Margin	*38%*	*42%*	*43%*	*43%*	*46%*	*49%*	*51%*	*49%*	*49%*	*53%*	*54%*	*54%*	*55%*
Power and fuel	**0**	**0**	**0**	**1**	**1**	**1**	**2**	**2**	**3**	**3**	**4**	**5**	**7**
As a % of sales	0%	0%	0%	2%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Employee expenses	**0**	**0**	**3**	**4**	**2**	**5**	**9**	**11**	**16**	**23**	**25**	**32**	**40**
YoY growth		*-43.8%*		*40.6%*	*-57.7%*	*179.9%*	*79.6%*	*15%*	*46.1%*	*42.7%*	*11.5%*	*25.8%*	*27%*
As a % of sales	*11.6%*	*34.6%*	*12%*	*10.7%*	*3.7%*	*8%*	*10.4%*	*9.4%*	*8.6%*	*10%*	*9%*	*9%*	*9%*
SG&A expenses	**0**	**0**	**5**	**5**	**11**	**14**	**17**	**19**	**28**	**42**	**53**	**66**	**85**
As a % of sales	*13%*	*7.7%*	*19.2%*	*13.1%*	*21.8%*	*22%*	*19.2%*	*16.7%*	*15.2%*	*18.6%*	*19%*	*19%*	*19%*
Other income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**1**	**1**	**1**	**1**
EBITDA	**0**	**0**	**3**	**7**	**10**	**12**	**18**	**25**	**43**	**53**	**69**	**88**	**113**
EBITDA margin	*13%*	*0*	*11.4%*	*17.5%*	*19.2%*	*17.9%*	*19.7%*	*21.3%*	*23.2%*	*23.4%*	*24.4%*	*24.8%*	*25.1%*

Source: Company, Nuvama Wealth Research

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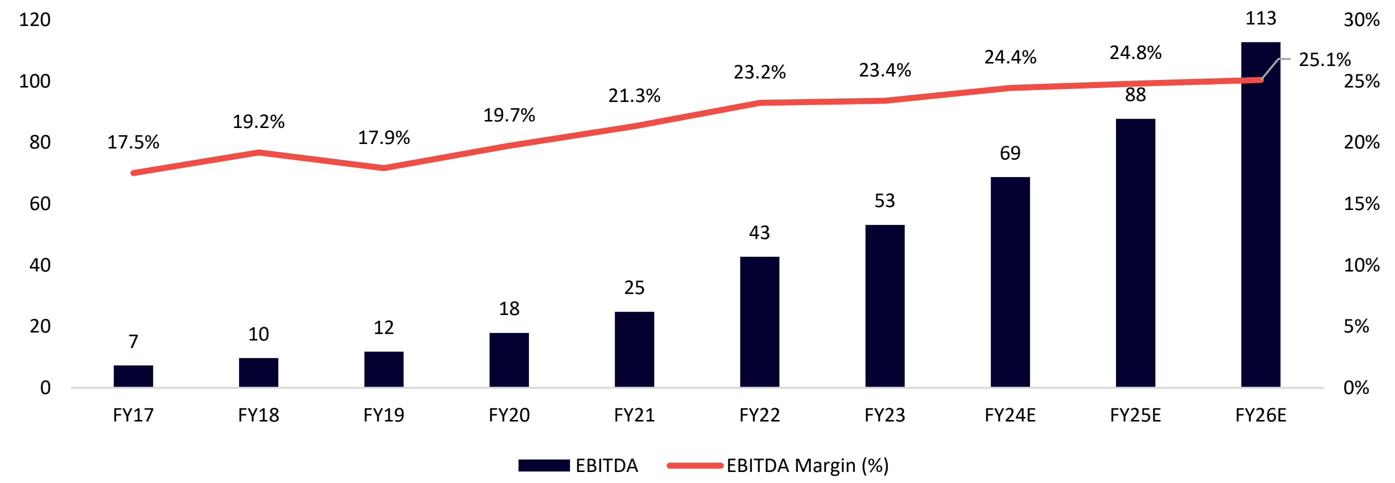
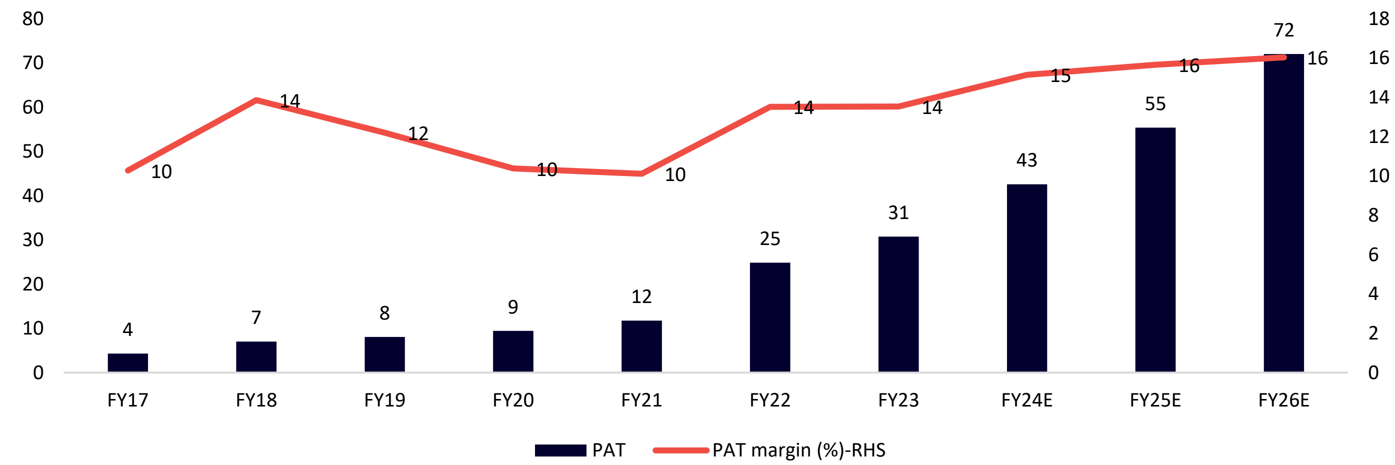
Exhibit 33: Trend in EBITDA margin



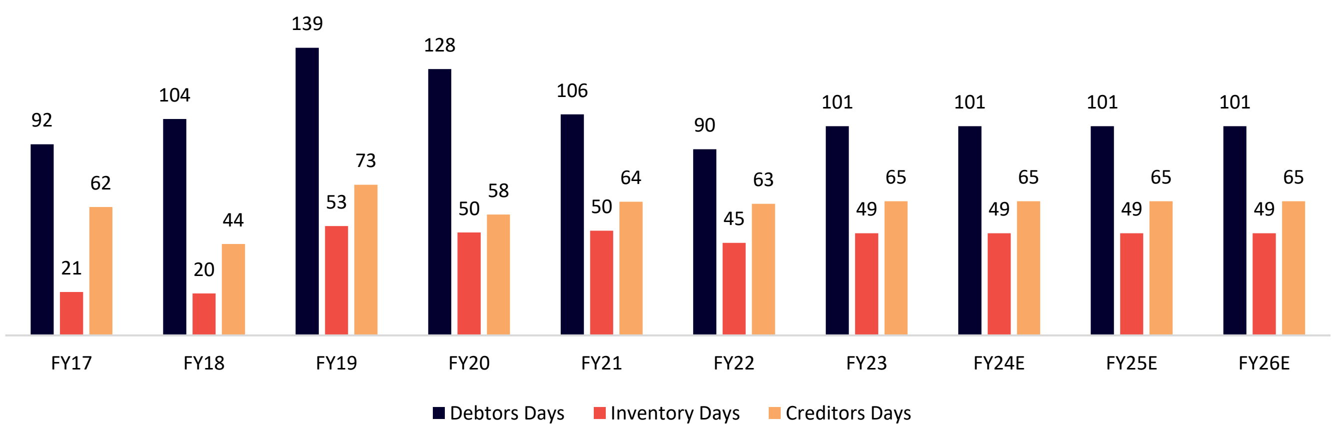
Source: Company, Nuvama Wealth Research

Exhibit 34: Expect 33% PAT CAGR over FY23–26E



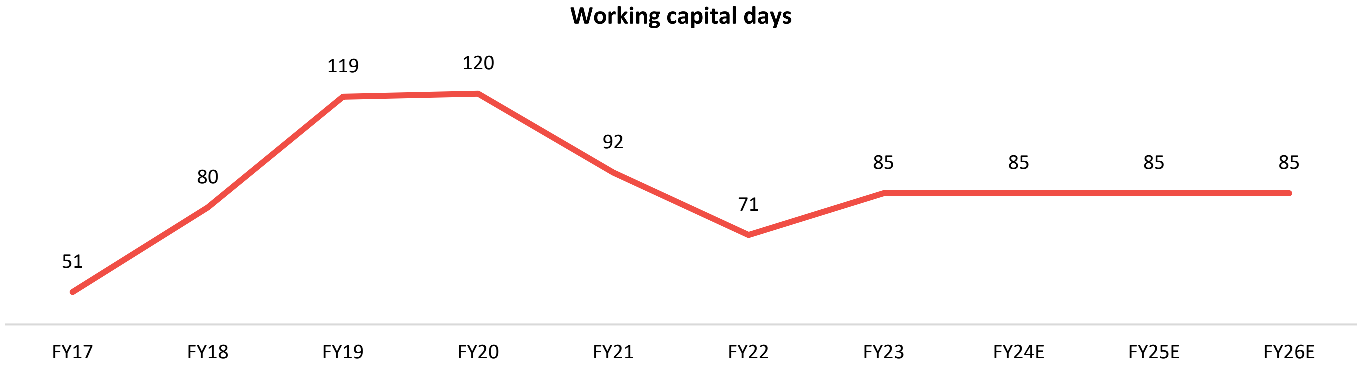
Source: Company, Nuvama Wealth Research

Exhibit 35: Working capital cycle likely to remain comfortable



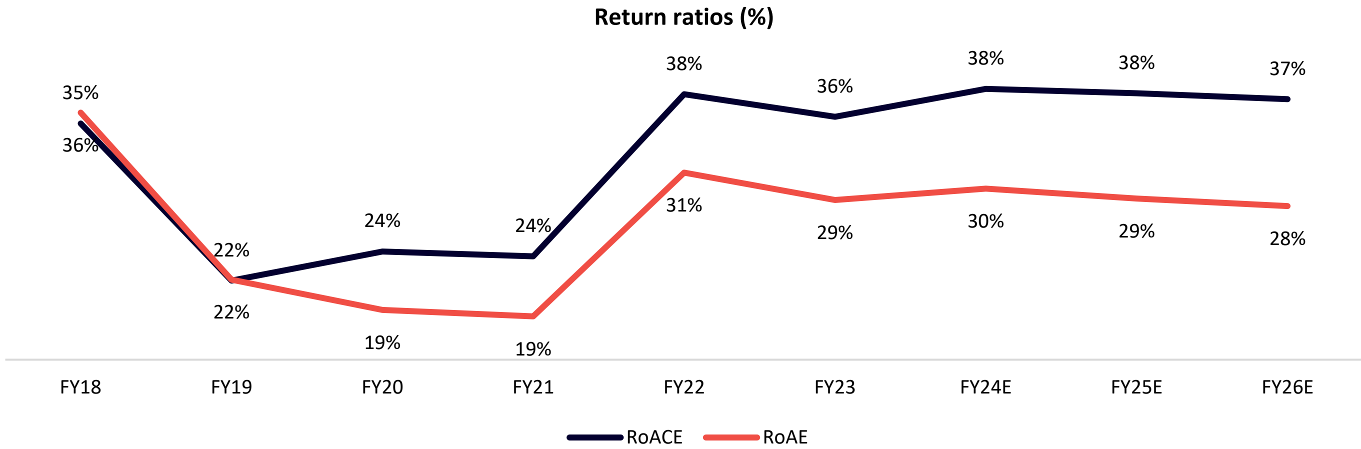
Source: Company, Nuvama Wealth Research

Exhibit 36: Trend in working capital days



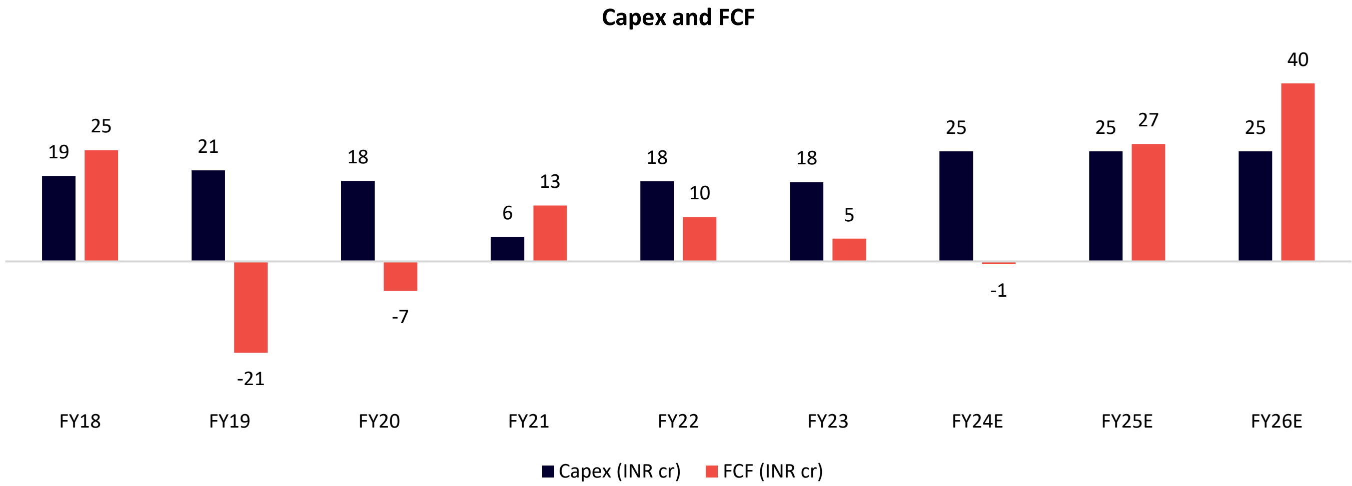
Source: Company, Nuvama Wealth Research

Exhibit 37: Expect return profile to improve with the completion of capex and benefit of operating leverage



Source: Company, Nuvama Wealth Research

Exhibit 38: Expect a FCF of INR66cr over FY24–26



Source: Company, Nuvama Wealth Research

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Valuation and view

Historically, BETADR has delivered a healthy performance despite interruptions during the COVID-related lockdowns led by its comprehensive product portfolio, thrust on new product development, expanding export leg space, and diversified revenue base. We expect the growth momentum to continue aided by a strong pipeline of FTL/FFTL products, approvals from the export market, client additions in the domestic market, and a healthy Balance Sheet. We expect 26% revenue CAGR over the next three years and expect EBITDA margin to improve to ~25% going forward. We expect the return ratios to improve with the completion of major capex and the expected benefit of operating leverage. At the CMP, the stock is trading at 15x average EPS for FY25E and FY26E, which we believe is set for a re-rating. We assign a P/E ratio of 20x to average earnings for FY25E and FY26E to derive a TP of INR1,325.

Exhibit 39: Valuation vis-à-vis its peers

Peers	M-cap (INR cr)	CMP (INR)	Revenue (TTM)	EBITDA margin (TTM)	PAT (TTM)	RoCE (TTM %)	RoE (TTM %)	EV/EBITDA (TTM)	P/E ratio (TTM)	Book value (TTM)
Shilpa Medicare	3,149	363	1049	12%	-32	0.8	-1.72	28.8	Negative	205
Themis Medicare	1,465	1,592	357	19%	58	19.7	17.3	16.4	25.4	369
Gufic BioSciences	2,975	307	720	19%	79	22.6	25.8	23.7	37.5	35.9
Sakar Healthcare	695	365	144	24%	13	9.04	8.48	20.2	54.7	91.1
Average								22.3	39.2	
Beta Drugs	**961**	**1,000**	**227**	**23%**	**31**	**38.5**	**33.3**	**17.8**	**31.3**	**128**
Discount to average								-20%	-20%	

Source: Company, Nuvama Wealth Research

Annexure I: Snapshot of the oncology Industry

Oncology is the most promising therapeutic area for innovation, when we take into consideration the following: i) the volume of clinical trial activity; ii) the number of companies investing in therapeutics; iii) the size of the pipeline of therapies in clinical development; iv) the introduction of novel active substances; and v) the amount of money spent on these drugs. With growing oncology mortality in India, this therapeutic area needs a focused intervention.

Oncology incidences in India

With a growing ageing population, the number of cases per year is expected to reach 1.5lk to 3.5lk. Tobacco use, alcohol consumption, use of processed food, and air pollution are expected to further boost the number of cases to 4.5lk from 3.5lk. Growing public emphasis on screening and a narrowing diagnostic gap are expected to lead to higher reported cancer rates. With all these factors catalysing incidence growth, new cancer cases are expected to grow to ~2mn cases by FY24.

Cancer is on the rise in India, a pattern that is coinciding with the overall rise in non-communicable diseases (NCDs). Cancer cases are pegged to touch 20lk by 2040, up from about 11.6lk in 2018. In 2018, India's cancer prevalence more than doubled in comparison to the previous 26 years. While the incidence of cancer in India is lower than most Western countries, the sheer size of its population becomes a significant public health burden. In India, cancer is the second leading cause of death. Breast, prostate, oral, gastric, and cervical are the most prevalent cancers affecting the country's population.

According to the National Cancer Registry Programme (NCRP) Report 2020, published by the ICMR and the National Centre for Disease Informatics and Research in Bengaluru, the number of cancer cases in 2020 is estimated at 13.9lk and is projected to increase to 15.7lk by 2025. The report suggests that females are more prone to cancer than males, with 712,758/679,421 cases of cancer reported in females/men in 2020. The results indicate that one in 68 males (lung cancer), one in 29 females (breast cancer), and one in nine Indians will be diagnosed with cancer between the ages of zero and 74.

While lung, throat, stomach, and esophageal cancers are most common among men, breast and cervix uteri cancers are on the rise among women in India. Incidences of breast cancer have touched alarming proportions. It continues to affect a larger proportion of women in metropolitan cities such as Hyderabad, Chennai, Bengaluru, and Delhi, than in other parts of the country. In 2022, around 19-20lk new cervical cancer cases were estimated to have been reported in India. However, the real incidence of cancer is conservatively estimated to be 1.5-3x higher than the reported incidence from cancer registries.

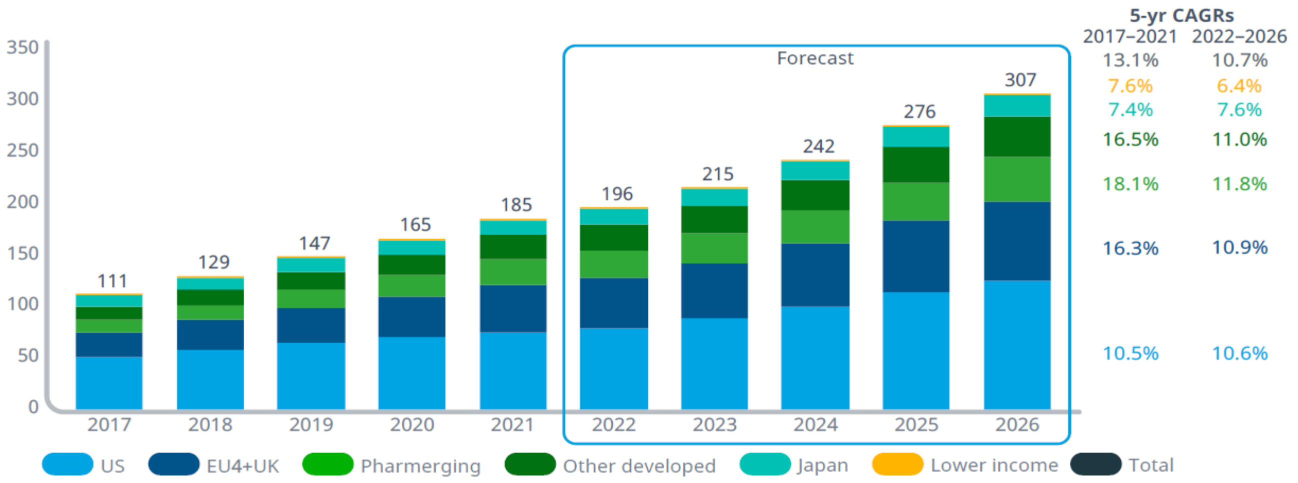
Incidence across countries

India faces a grave challenge of higher cancer incidence, which is growing at a faster pace vis-à-vis other developing countries According to the 2020 WHO ranking on cancer burden, India ranks third after China and the US in terms of new yearly cancer incidence being reported. Based on the historical growth in reported cancer incidence (5% CAGR over 2012–16), India's cancer incidence crude rate is estimated to be 122 per lakh of population and the age-specific incidence (ASR-W*) rate is estimated to be 116 per lakh of population in 2020. Considering the growth in population and crude rate, India's cancer incidence is estimated to be growing at 6.8% CAGR (2015–20) which is significantly higher than other developing countries such as China (1.3%, which has a comparable population size), Brazil (4.5%), and Indonesia (4.8%) as well as developed countries such as the UK (4.4%).

SPENDING ON ONCOLOGY MEDICINES

Cancer medicine spending rose to $185Bn globally in 2021 and is expected to reach more than $300Bn by 2026

Exhibit 42: Oncology spending by region, US$Bn

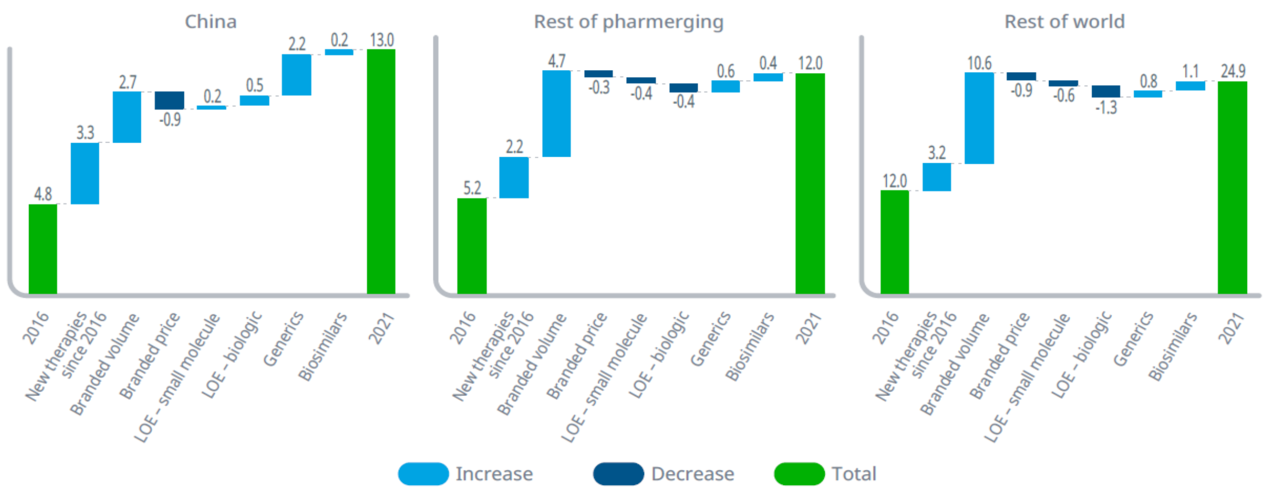


Source: IQVIA Oncology Link, Apr 2022.

SPENDING ON ONCOLOGY MEDICINES

China oncology spending now exceeds the rest of pharmerging countries driven by new therapies, brand volume and generics

Exhibit 44: Spending and growth drivers constant US$Bn, 2016–2021



Source: Company, Nuvama Wealth Research

The other 20 pharmerging countries grew USD6.8bn in five years, driven by new drugs and additional volume from existing protected brands. These drivers were offset by price declines and the impact of patent expires.

Annexure II: Company background

BETADR was taken over by Mr Vijay Batra in 2014 from its erstwhile promoters. It is now part of the Adley group which was founded by Mr Batra in 1985. It is one of the leading players in the domestic oncology space and is among the top 10 domestic companies in the cytotoxic market. The company manufactures and markets a wide range of oncology (anti-cancer) drugs at its three production facilities: two in Baddi, Himachal Pradesh, and one is in Mohali, Punjab. It derives its revenue from branded formulations, contract manufacturing, institutional supplies, exports, and APIs. Its products are available across all major government and private hospitals. The company recently expanded and upgraded its facilities to gear up for the next level of growth. Its facilities were recently approved/audited by INVIMA (Colombia)/INVISA (Brazil), which opens the door to key Latin American markets.

The company has three subsidiaries: Adley Formulations Pvt, Adley Lab India, and Beta UBK International Pvt. Adley Formulations Pvt and Adley Lab India are 100% held by BETADR, whereas Beta UBK International Pvt is 60% held. Adley Formulations Pvt is engaged in the manufacture and trading of oncology products. Adley Lab India/Beta UBK International Pvt produces oncology APIs/products. However, it has not recognised any revenue from Beta UBK International Pvt so far.

Exhibit 40: Performance of Adley Formulations Pvt

	FY20	FY21	FY22
Revenue	25	32	51
PAT	2	3	5
Revenue share	27%	27%	28%
PAT share	23%	21%	20%

Source: Company, Nuvama Wealth Research

Exhibit 41: Performance of Adley Lab India

	FY20	FY21	FY22
Revenue	11	21	34
PAT	8	2	6
Revenue share	12%	18%	18%
PAT share	81%	19%	22%

Source: Company, Nuvama Wealth Research

Key management personnel

Name	Designation	Profile
Mr Rahul Batra	Chairman and Managing Director	Mr Rahul Batra holds a Master of Science degree in Business and Management from University Strathclyde, Scotland. His scope of work includes managing the marketing and sales functions of the company
Mr Varun Batra	*Joint Managing Director*	Mr Varun Batra holds a Degree in Business Management from Toronto, Canada. He monitors the production department and export sales.
Mr Balwant Singh	*Director*	Mr Balwant Singh has done his PGDM in HR and IR from DAV College of Management, Chandigarh. With 19 years of experience in the pharma field, he manages all the affairs of the company
Mr Ashutosh Shukla	*Director Sales & Marketing*	With more than 20 years of sales and marketing experience at top pharma companies, Mr Ashutosh Shukla handles the domestic and international market. He holds an executive MBA degree from Symbiosis International University, Pune.

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Financials

Income statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	184	227	281	354	449
Direct costs	94	106	130	162	204
Power & Fuel	3	3	4	5	7
Employee costs	16	23	25	32	40
Other expenses	28	42	53	66	85
Total operating expenses	141	174	212	266	336
EBITDA	43	53	69	88	113
Depreciation and amortisation	7	10	10	11	14
EBIT	35	43	59	76	99
Interest expenses	2	2	2	2	2
Other income	1	1	1	1	1
Profit before tax	34	41	57	75	98
Provision for tax	9	10	15	20	26
Core profit	25	31	43	55	72
Extraordinary items	0	0	0	0	0
Profit after tax	25	31	43	55	72
Share from associates	0	0	0	0	0
Adjusted net profit	25	31	43	55	72
Equity shares outstanding (mn)	1.0	1.0	1.0	1.0	1.0
EPS (INR) basic	26	32	44	58	75
Diluted shares (Cr)	1.0	1.0	1.0	1.0	1.0
EPS (INR) fully diluted	26	32	44	58	75
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	76.8	76.6	75.6	75.2	74.9
Depreciation	3.9	4.6	3.6	3.2	3.1
Interest expenditure	1.0	1.1	0.7	0.6	0.4
EBITDA margins	23.2	23.4	24.4	24.8	25.1
Net profit margins	13.5	13.5	15.1	15.7	16.0

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	58.3	23.5	23.7	25.8	27.0
EBITDA	72.5	24.4	29.3	27.7	28.5
PBT	114.9	19.7	40.0	31.0	30.0
Net profit	111.6	23.7	38.5	30.1	30.0
EPS	111.6	23.7	38.5	30.1	30.0

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Balance sheet (INR crs)

As on 31st March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	10	10	10	10	10
Preference Share Capital	0	0	0	0	0
Reserves & surplus	83	113	156	211	283
Shareholders funds	92	123	165	221	293
Borrowings	17	16	12	12	12
Net Deferred tax	-1	-1	-1	-1	-1
Minority interest	0	0	0	0	0
Sources of funds	**108**	**138**	**176**	**231**	**303**
Net block	51	58	53	66	77
Capital work in progress	0	0	25	25	25
Total fixed assets	51	58	78	91	102
Investments	1	1	1	1	1
Inventories	22	31	38	48	61
Sundry debtors	45	63	78	98	124
Cash and equivalents	17	19	25	50	88
Loans and advances	4	6	6	6	6
Other current assets	0	0	0	0	0
Total current assets	89	119	147	201	279
Sundry creditors and others	32	40	50	63	80
Provisions	4	4	4	4	4
Total CL & provisions	36	44	54	67	84
Net current assets	54	74	93	135	195
Misc expenditure	3	5	5	5	5
Uses of funds	**108**	**138**	**176**	**231**	**303**
Book value per share (INR)	96	128	172	229	304

Cash flow statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net profit	34	41	43	55	72
Add: Depreciation	7	10	10	11	14
Add: Misc expenses written off	-2	-8	-16	2	2
Add: Deferred tax	0	0	0	0	0
Gross cash flow	39	43	37	69	88
Less: Changes in W. C.	-10	-20	-13	-17	-22
Operating cash flow	29.5	23	24	52	65
Less: Capex	19	18	25	25	25
Free cash flow	**10**	**5**	**-1**	**27**	**40**

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	31	29	30	29	28
ROACE (%)	37.5	36	38	38	37
Debtors (days)	45	63	78	98	124
Current ratio	2	2	2	3	3
Inventory (days)	45	49	49	49	49
Payable (days)	32	40	50	63	80
Cash conversion cycle (days)	58	72	77	84	94
Net Debt/EBITDA	0	0	0	0	-1
Net debt/Equity	0.0	0.0	-0.1	-0.2	-0.3

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	25.8	31.9	44.2	57.5	74.8
Y-o-Y growth (%)	*111.6*	*23.7*	*38.5*	*30.1*	*30.0*
Diluted P/E (x)	21.9	31.7	22.9	17.6	13.5
Price/BV(x)	5.9	5.2	5.9	4.4	3.3
EV/Sales (x)	3.0	2.8	3.4	2.6	2.0
EV/EBITDA (x)	12.7	11.9	14.0	10.7	8.0
Basic EPS	25.8	31.9	44.2	57.5	74.8
Basic PE (x)	21.9	31.7	22.9	17.6	13.5

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