“Beta Drugs Limited H1FY23 Earnings Conference Call”

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MANAGEMENT: **MR. RAHUL BATRA – CHAIRMAN & MANAGING DIRECTOR, BETA DRUGS LIMITED**
MR. NIPUN ARORA - CHIEF FINANCIAL OFFICER, BETA DRUGS LIMITED
MR. ASHUTOSH SHUKLA - DIRECTOR (SALES & MARKETING), BETA DRUGS LIMITED

MODERATOR: **MR. APURVA SHAH – PHILLIPCAPITAL(INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the H1 FY23 Earnings Conference Call of Beta Drugs Limited hosted by Phillip Capital PCG Desk. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Apurva Shah from Phillip Capital India Private Limited. Thank you and over to you, Mr. Shah.

Apurva Shah: Thank you, Roselle. Good evening, everyone. On behalf of Phillip Capital, I welcome all of you to the H1 FY23 Post Earnings Conference Call of Beta Drugs Limited. From management, we have Mr. Rahul Batra - Chairman & Managing Director; Mr. Nipun Arora - Chief Financial Officer and Mr. Ashutosh Shukla - Director, Sales & Marketing.

I now hand over the conference to Mr. Rahul Batra for his opening remarks and post that we will open the floor for question and answer. Over to you, Rahul sir.

Rahul Batra: Thank you, Apurva. Good afternoon, everyone. First of all, I on behalf of entire Beta family wish you all a very Happy Diwali and a Prosperous New Year. I would like to thank you all for attending this post earning call of Beta Drugs for H1 22-23.

To start with, I will take on the numbers. The consolidated revenue of Beta Drugs is Rs. 112.39 as compared to the H1 22 which was Rs. 88 crores. The overall growth is 28%. Coming on the EBITDA margins, they grew from Rs. 20.5 absolute number to Rs. 27.13 crores with a percentage of 32% as compared to the H1 21-22. Profit after tax has also increased by 80 bps that is from 13.3% to 14.1% as compared to H1 22.The overall ratios also improved significantly which has already been shared in the presentation. The growth of the company has been derived by all different verticals. 42% of the growth has come from the own brands, 58% of the growth has come from the export side, 119 to 120% growth has come from the API side and 5% from our partner's OEM.

I will just walk you through to the key highlights for the last 6 months in own brands:

First, we will talk about the own brands:

In own brands, we have significantly increased our Hematological basket. The only flaw which was there in the last couple of years that we could not focus on this particular specialty. We were focusing largely upon the Solid Tumors, but the Hematology was one division where our focus was less. So, in the last 6 months, we have increased our Hematology basket and we have recently launched one product which is Carfilzomib this year. This product had significantly added the revenue towards the topline. Our major top 10 brands have contributed towards 50% of our total sale. I feel encouraged to state that we have added many new prescribers in this half year till now.

Coming onto the export side:

I feel delighted to share that we have got a major breakthrough in exports through our INVIMA that is Colombia approval. This was the first step for the company for any regulated approval. The confidence of the staff members is very high to further to take on any stringent approvals. We have opened around 4 to 5 new countries in these 6 months.

Followed by API:

API is one of our key focus areas where company has achieved 2 DCGI approvals and the penetration has gone deep into the domestic market. We talk about OEMs, the major contributor towards Beta's growth is the revenue from the OEMs. We have well maintained our relationship with all our partners and further strengthening by giving them the quality product at the best prices. Company has also added 3 or 4 new companies which will be commencing soon.

Now, I will take up each division, each vertical on a detail side. What is the plan of moving forward? So, as you have seen the growth path from the own brands, so on own brands, particularly what we have been planning and what we have to execute is as follows:

The company has increased its presence in all the metro cities. In future, Beta look forward on focusing on tier 2 and tier 3cities. We will also be focusing majorly on the government institution side. For this, we have kept a dedicated team to further enhance our presence in the government sectors. The main government sector where our focus will be relied on that is Railways, Army and the Regional Cancer Centers across India. Beta is continuously focusing upon developing new NDDS and new molecules. We are planning to launch 23 molecules in the next 3 to 4 years for which the development has already been started. We are also working on many NDDS which will be launched later in 2023. In this, we expect a quite handsome growth and an edge in the oncology market. These NDDS, we look forward to launch by 2023 December and this will be the first one to be launched in Indian market. So, this was all about our own brands.

Coming onto the API business**:**

In Adley Lab, in last 6 months, we have shown a great growth in terms of the sales. This is primarily because we have increased our presence in the domestic market. There is one dedicated person who is looking after the sales of API to the other companies. The best part is that the API as we followed the path of the formulations, the same path has been followed for the API. The quality has been accepted by almost all the companies and we are getting repeated demand for the oncology API. This is our major key focus area for next 2 to 3 years down the line. Beta is currently focusing on a new line which is to be commenced in the next 2 to 3 months. Almost the entire work of that line is over and we just need to install the machineries that will be commenced by December end. As we talked about the last concall which we had on April 28, the first CEP which we were supposed to file in the month of October but that has been delayed by 2 months. The first CEP now will be filed in the month of January followed by next 4 CEPs in 1 to 2 years. We have invested close to around Rs. 4 to Rs. 5 crores in scaling up the facility of the new line. We will be majorly focusing on the exports of API and glad to share that we have got our first export order in the month of October for API which will be followed by many more to come. This order is from the non-regulated market. The new line which we are coming up with where we are putting our CAPEX is for the regulated market.

Then, coming onto the Exports part:

Export gives us lot of excitement right now. Exports will be the major growth driver for our future. I am just now talking only about the Formulation Exports. With a dedicated and experienced export team, we are glad to share that company has signed more than 22 agreements in the last one year. We have got lot of confidence through our Colombia approval and now we are ready to face any further regulated audits. Already, the company has filed an application with Brazil and Mexico. The COFEPRIS Mexico Audit is expected in the month of November and ANVISA we have already got the confirmation from Brazil that it will be in the month of March. We are also in talks with specialized consultants for EU GMP and SAFRA South Africa which will be concluded within 1 month time. We plan to file more than 200 dossiers in the coming 2 to 3 years down the line. We have very dedicated regulatory team where we have increased the staff also to file the dossiers on time. There, the staff is highly qualified and have come from a very reputed company. We are also evaluating the tech transfer models in many countries which are already under negotiation. This is a new line which we have picked up where right now the major countries are focusing on developing the oncology drugs in their own countries. So, we have been approached by many companies from many countries that they want to buy technology know-how from us. There, the agreements what we have initiated is that the API will be supplied by Beta, will be having some royalty from all the partners and then the technology for manufacturing that particular formulation will be provided by Beta Drugs Limited. As on today, we have opened more than 8 countries where the goods have been supplied. This will be followed by many more in the coming few months.

Let us take out to the CRAM business:

The CRAM business is our major contributor towards our revenue. We aim to provide all our latest products to our partners with the best quality. Already, the new products which are under development have been shown as a keen interest from the partners. There are two products which have been approached by many companies to get those products outsourced by Beta only. So, not only though the existing clients, there are some other clients also who have approached us for those products. We aim to add more companies in the coming years and still we have lot of leverage in place.

Now, coming onto our major new thing is Cosmetology and Dermatology:

Most of you must be thinking that why Beta has entered into this division, why not they are just focusing only Oncology. My primarily answer for this is that we are only Oncology focused company, but if company has brains, if company has time, if company can leverage their brains, they should enter some other division as well. So, this Cosmetology and Dermatology, why we chose was….one is that we have been seeing this division, we have been working on this division since last 2 years. This is one of the fastest growing markets. The most important reason we entered Derma is that it is not a high capital investment like Neuropsychiatric and Cardio diabetic. The sales operations are similar to Oncology as the sales process is very identical to the oncology sales. Here, the prescription doesn't flow outside the market. So, the products need not to be available at every chemist counter. If we go to a cosmetology or dermatology center, any doctor, they have their own pharmacies, so the first point comes is that the sales works on the same way as oncology run. The most important is that, particularly in cosmetics, it is very easy to make our own niche segment. Since we are in research, this will further enhance to strengthen this market. Going forward, we want to make this division a strong brand with substantial number of products, substantial number of revenue eventually coming up with our own plant in next 2-3 years. For this, the land is already acquired and further in 2-3 years down the line, we have a plan of coming up with our own plants.

I conclude here and before concluding, a small message is that we would like to say that we will continue to grow at a pace of 25% to 30% in the next 3-4 years. We will be continuously working on the new drug delivery systems. Our major focus will be exports and API which will make our company stand tall in this market.

Last but not the least we will make our Derma and Cosmetology a good brand in the coming 3 to 4 years down the line. Thank you. We hereby invite the questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Darshil Pandya from Finterest Capital. Please go ahead.

Darshil Pandya: Sir, congratulations on the good numbers. Sir, I just have a question, as you said you are expecting a substantial revenue from the Cosmetic-Dermatology segment, I just wanted to understand what is the revenue projection from your end, what do you think that this segment is going to contribute in coming future years?

Rahul Batra: In next 3 years, we have a target of having a topline of Rs. 30 to Rs. 35 crores.

Darshil Pandya: Rs. 30 to Rs. 35 crores and any market expectations on this?

Rahul Batra: EBITDA margin will be close to 15 to 17%. It can be more also because since the products are outsourced, once the product will be in line in our own production, then the EBITDA margin will grow substantially.

Darshil Pandya: And sir, I just missed out, we have already acquired a land for this part, right?

Rahul Batra: Yes, we have already acquired a land.

Moderator: Thank you. Our next question is from the line of Rajat Sethia from ithought PMS. Please go ahead.

Rajat Sethia: Sir, I wanted to understand about the dossiers that we have filed in multiple countries, so does one dossier mean one product?

Rahul Batra: Yes, one dossier means one product, yes.

Rajat Sethia: So, these are all formulations, right?

Rahul Batra: All formulations, yes.

Rajat Sethia: And what is going to be the cost for filing so many dossiers?

Rahul Batra: The thing is, it depends on country to country, somewhere it is $500, somewhere it is $1,000, somewhere it is $2,000. It depends on country to country. If you talk about LATAM, overall the cost of dossier filing is $1,000 to $2,000.

Rajat Sethia: And I think we are filing somewhere around 500 dossiers in the next 2 years across these countries like you have mentioned in our PPT?

Rahul Batra: We are in the process of filing these many dossiers, but we have not filed 500-600 dossiers. Our clients have short listed the products. That count is close to around 300 to 400 and we plan to submit around 200 to 300 dossiers in next 2 to 3 years down the line.

Rajat Sethia: For these 200-300dossiers, what is going to be the total investment from our side?

Rahul Batra: So, here the thing is, here the initial investment what model we have chosen is that the initial investment is done by the partner and then gradually on the first order, we reimburse the amount.

Rajat Sethia: We will reimburse that amount to our partners?

Rahul Batra: We will reimburse on whatever first invoice will be raising, so we will reimburse that amount in the first invoice system.

Rajat Sethia: So, unless the product is commercialized, we will not be reimbursing it?

Rahul Batra: No, we will not be bearing any cost. There are countries where we will be going ahead with the expenditure, so that is the continuous process. In pharma, if you need to do exports, you need to spend a lot right, so basically for exports, we have to do some expenditure in terms of registrations. So for the registration part, what expenditure we have done is that we have done the filing part in terms of getting the approvals, in terms of filing for INVIMA, filing of ANVISA, we have done that expenditure part. So, now for the dossiers, the particular client will be bearing that cost. In case the MA belong to us, we can also bear the cost, so that depends totally on different countries altogether.

Rajat Sethia: So, these are the frontend partners for us, I mean they will be selling the products in those markets with their sales force, right?

Rahul Batra: Yes.

Rajat Sethia: And sir, what will be the timelines to monetize these many products that we are planning to file there?

Rahul Batra: See, the average time takes around 1 year to 15 months to get one product registered in one country. There are countries which can give you approval in 6 months also, 8 months also, but average time is around 12 to 15 months, so the first commercial order if you file in any country may take around 15 months.

Rajat Sethia: Right now, we are filing like 200-300 products, so are we going to once we get the approval?

Rahul Batra: See, the 200-300 products is not going to be filed today, right, in gradually it will be filed gradually in 2 to 3 years down the line, right.

Rajat Sethia: Yes, I understand, my question is, once we get the approval for all of them, are we going to launch all of them or is it like at that point in time we will also evaluate whether it make sense to launch that product because others might have and the competition scenario might have changed?

Rahul Batra: No, we intent to launch all the products for which we have filed the dossiers. The reason is, whatever dossiers we are filing, we are seeing the future of those products and then we are filing. We are not filing the old products which we used to file.

Rajat Sethia: These are all oncology products?

Rahul Batra: All oncology.

Rajat Sethia: And what kind of margin do you expect from the export side similar to our company level margins?

Rahul Batra: On the semi-regulated and regulated markets, again we expect the EBITDA margins to be close between 26%to 28% and in the un regulated market we expect the EBITDA margins to be between 22%to 25%.

Rajat Sethia: And finally on this one, what kind of financial arrangements or revenue sharing or profit sharing arrangement do you work with our frontend partners?

Rahul Batra: It is very clear that we totally work on advance. We don't give any credit to our outsider. The only partner whom we have built a relationship for 5 years, we tend to give credit for 30 to 60 days, otherwise the new partners is totally advanced or against letter of credit.

Rajat Sethia: So, we sell our product with some profits in that and then after that adverse price they are selling it is up to them?

Rahul Batra: Exactly, it is like an arrangement where we have an exclusive agreement with them and they have an exclusive agreement with us. So, for seven products, we have given exclusivity to them and those 7 products, they will not buy from any other company from anywhere in the world. So, this is how the agreements are made.

Moderator: Thank you. Our next question is from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Sir, what is the differentiation strategy and how do you differentiate yourself from the other peers in the market?

Rahul Batra: Dhiral, the thing is, we are one of the exclusive players of oncology. The other companies you see in the market like you talk about any big player in the market, they are not exclusively into oncology, so whatever our mind, whatever our strength, whatever our focus that goes only on oncology. That is the one differentiation we see. Then the second differentiation we see is, today even the sales line, the finance line, even the production line, all our lines work on only one segment, so that is one differentiation we see plus moreover what we work is, we do lot of research and development on the new technology like we develop Albumin-bound paclitaxel, we developed ready to use Gemcitabine, we developed ready to use Docetaxel, so all these things make us niche apart. Apart from that, whatever product which have become off patent, we tend to launch the first in the market. Not only this, we are working on some other NDDS which will, as I told you that when I was discussing about the own brands that these NDDS will be launched in the month of 2023 December, so we are working on some technologies which will be the first time in India, so these are something make us niche apart as compared to the market.

Dhiral: Sir, what is our market share in the domestic oncology space?

Rahul Batra: Ashutosh ji, can you please answer?

Ashutosh Shukla: You are asking about the market share?

Dhiral: Yes.

Ashutosh Shukla: It is close to 4%.

Dhiral: And sir, what may be the target for over next 3 to 5 years?

Ashutosh Shukla: So, we will keep on going at the rate of around 25% to 30% as Mr. Rahul has said.

Dhiral: And sir, second thing, what is the cancer incidents in India and how the future look like?

Ashutosh Shukla: The cancer prevalence is roughly around 25 lakh cases in India and the market as per the different studies which has been published in recent times, the market is going explode in near future. In next 5 to 10 years time, the cancer incidence will become more like diabetic incidence as it is becoming a lifestyle disease nowadays. So, 10 years back, 20 years back you see the cancer incidence was very low. We could hardly see one or two cases in a village or in a city, but now, today, in every family we see one or the other cases. That is how the cancer incidence is growing. So, it is majorly becoming a lifestyle disease now and hence we expect that the prevalence might cross 2 Cr in next 10 year's time.

Rahul Batra: We were reading one article where the survey said that in next 10 years down the line, every one member in the family will have cancer, so this is how the dynamics will change for oncology.

Moderator: Thank you. Our next question is from the line of Gurjot Ahluwalia, an Individual Investor. Please go ahead.

Gurjot Ahluwalia: Congratulations on good set of results, so you talked about the foray into Cosmetic Dermatology, so on this slide which talks about that in the presentation, you have also mentioned a point that it has low entry barrier, so I am just wondering that when you enter the market what kind of differentiation will Beta be able to create that other new market entrance cannot take away that market share because if it is low entry barrier, then other people can also enter into this market, so what will be in plan over here?

Rahul Batra: As you have seen in the last 3-4 years down the line in our oncology portfolios, how the market, how we have grown our own brands, one strength we do have is that we have got an excellent team to handle any situation. Then, we have got a very motivated class of team to promote any brand in front of the doctors. You talked about Dermatology and Cosmetology, so every company wants to diversify their basket, one is that you have gained some experience from one and putting on that experience to some other division now, see for Dermatology, the

GM who has been hired, he has worked in Ajanta for 4 years, the team who have been hired, they all have an excellent experience in Dermatology. So to move forward we will create a brand differentiation in front of the doctors. Then, we do have a habit of creating a brand, right from last 3 to 4 years, so we tend to do in the same philosophical manner, we tend to do the same effort which we have done in the last to replicate the same in Dermatology.

Gurjot Ahluwalia: So, basically, it is on brand building where people will be able to differentiate Beta's products?

Rahul Batra: It is brand building plus when we launch the product, there are 2-3 products which are niche in the market we have launched. Ashutosh ji, can you detail about those products?

Ashutosh Shukla: Yes, so basically like we have launched couple of products which is a differentiated product in the market. Like for example, Recapro that is hair growth serum which contains Redensyl, Capixyl and Procapil. When we launched this product, there was no company marketing this product and when we introduced this in the market in front of the doctors, doctors appreciated this combination. That is one thing. Secondly, if you see Curatio, Curatio has a Syndet Bar which it is 98% and we introduced with 99%. That is also like 1% has created lot of difference in the doctor's mind. That is how we have launched the differentiated products in the market and that is where we are getting that acceptance also from our customers.

Gurjot Ahluwalia: Sir, the differentiation is not only from the product side, the differentiation is from every side, right from the top till we sell the product?

Ashutosh Shukla: So, for an example, Luliconazole, it is a big market. Luliconazole market size is almost about 1,000 Cr. When we introduced our Luliconazole, we introduced in the nano form, so that is how for every product we are trying to create some or the other differentiation so that we get into the niche segment.

Gurjot Ahluwalia: So, when you are so positive on this particular segment, when you talked about the EBITDA margin, right, you mentioned 15% to 17%, is it something that will raise substantially as we get some scale because I mean if you look at the oncology branch the margins are 30% plus or 35% plus and this is one of the lowest margin businesses for Beta, the Cosmetology Dermatology, so I am just curious after all of this why does this market….

Rahul Batra: I will give the answer for this, have you seen the deal which happened between Curatio and Torrent, what EBITDA margins Curatio used to run? So, it was close to around 30% to 32% EBITDA margins, so eventually the margins will be same in line with the oncology only. The only reason why we are saying 15% to 17% we are trying to be very conservative on the margin side. Till date, we dont have our own production which will come in2 to 3 years down the line. We cannot actually give you how much EBITDA margins will be coming, but after the production is in place, 100% the margins will be in line with the oncology only.

Gurjot Ahluwalia: And then just lastly you also wave some high-level guidance for the next 3-4 years right of 25% to 30% growth, so in the slide presentation again this talked about till FY24 one year forward, so are you confident that this growth will be maintained into FY25 and FY26 as well?

Rahul Batra: See, we are entering into lot of virgin market which are virgin for us right now. So, those markets are Asia market, those markets are LATAM markets, CIS markets, so we are entering these market. So, each and every market has a lot of potential. We talk about the export side, in formulation exports we talk about, so the Latin American market will be our primary focus which is Colombia, Mexico and Brazil. So, these markets only will contribute towards a lot of revenue growth in the coming 2 to 3 years down the line. So, this growth whatever we have mentioned about 25% to 30% in the coming next 3 to 4 years down the line is 100% achievable and we are very confident to have this growth in the coming next 3 to 4 years.

Moderator: Thank you. Our next question is from the line of Ashish Rampuria, Individual Investor. Please go ahead.

Ashish Rampuria: Three four questions from my side, on the cash flow I was just seeing sort of the 6 months cash flow will be Rs. 8.8 crores from the operating side vis-a-vis the entire year FY22 was 29.6, any reason for the decrease on the operating cash flow?

Rahul Batra: Nipun, you please answer.

Nipun Arora: Ashish ji, the major reason was, there was a lot of CAPEX addition done in the year 31st March 22 and lot of creditors were increased in that, so that increase of creditors which we have paid now, so that has the dues that operate in cash flow. So, basically that was CAPEX creditors which were classified in trade payable, so that was coming in schedule of working capital.

Ashish Rampuria: So, these are not your procurement for the drugs, these are sort of procurement for the CAPEX that we will be….

Nipun Arora: Exactly.

Ashish Rampuria: The other thing, I am assuming this 25%-30% growth that you are talking over the next 3-4 years that base is on onco portfolio, right, that doesn't include the derma projection?

Rahul Batra: No, that is only onco we are talking about, 25% to 30% is only onco focus.

Ashish Rampuria: Now, before I go to the derma business, on this I think you spoke about this licensing thing that we are doing, right and where we are supplying API and they will give us some royalty, can you dwell a bit more on that where we are, how many arrangements we have?

Rahul Batra: Till now, those things have not been finalized, so that is better we should not highlight more on this, but the only thing is we have got an opportunity from three countries where they have asked us to share the technical know-how for manufacturing of oncology products, so there our agreements states that the API will be supplied by Beta only to them, the technology will be transferred to them free of cost, but whatever sales they will be doing, they will be paying some royalty on that sales to Beta Drugs Limited.

Ashish Rampuria: So, you are saying still under discussion, fair point, but if you see.

Rahul Batra: It is under discussion, yes.

Ashish Rampuria: In 3 countries, okay, fair point noted, on the Derma side, sir, just wanted to check what size of sales team do we have right now and may be in the next 3-4 years what size do we see or envisage?

Rahul Batra: Ashutosh ji, can you please answer?

Ashutosh Shukla: Yes, we have 80 TMs who are the frontline managers, 14 RBMs and 2 Sales managers and two years down the line we will make it 150 TMs.

Moderator: Thank you very much. Our next question is from the line of Mahesh Dhonde, Individual Investor. Please go ahead.

Mahesh Dhonde: Best wishes to Rahul sir and others. Sir, during last call you had mentioned that you have started supplies in Georgia, so are you seeing sales force in Georgia and whether Georgia and other CIS countries we are targeting are in any way affected by the war with respect to future sales and approvals?

Rahul Batra: Georgia we did some sales in the early 2, but after that we saw decline in those sales. We didn't get further orders, but partner came to India also to visit us, to see our plant, but after that the sales has not happened. This is basically this area which is called Georgia, Belarus, Ukraine, this has been affected by the war, so our concentration, our focus is not this area right now. Our focus is mainly the LATAM and the African and Asian market.

Mahesh Dhonde: So, currently the exporting area is mainly for the LATAM region, right if I understand it correctly?

Rahul Batra: LATAM, African and Asian market and even CIS also. CIS, this region, Kazakhstan, Russia, then Uzbekistan and Kyrgyzstan.

Moderator: Thank you. Our next question is from the line of Aditi Kasbekar, Individual Investor. Please go ahead.

Aditi Kasbekar: Congratulations on great set of numbers.

Rahul Batra: Thank you.

Aditi Kasbekar: So, I have got 2-3 questions, the first is with respect to, what is our current capacity for API Beta standalone and Adley formulations and what is the capacity utilization?

Rahul Batra: So, the Beta standalone capacity for orals is we still have leverage for 60-70% for orals. For injectables, we had a constraint in the Lyophilized one, but in April 2022 only we have installed one big Lyo whereby we have increased the capacity three folds now, so we still have Lyo leverage to 30 to 40%, liquid injectable again 30 to 40%, so this is in terms of Beta and if we talk about Adley Lab Limited, so in Adley Lab, in the current scenario we still have, from the first line, we have a leverage of 30-40% plus the new line which we are adding upon which will commence by December this year, so that is totally vacant for the export.

Aditi Kasbekar: And for Adley Formulation?

Rahul Batra: Adley Formulation, to be very honest, it is pretty unutilized, so we have lot of leverage available in Adley Formulation because in Adley we are just focusing on the domestic front, so we are just exporting to Nepal and Sri Lanka from there or even Myanmar.So, still we have around 60-70% leverage in Adley Formulations.

Aditi Kasbekar: So, basically what that means is that at least for the next year or year and a half of sales on the onco front like whatever growth we are talking about, we don't see any major CAPEX requirement, is that the right understanding?

Rahul Batra: Exactly, so next 2 to 3 years, we don't see any major CAPEX required till the time we achieve a turnover of Rs. 400-Rs. 450 crores.

Aditi Kasbekar: And I think we have done some about Rs. 8.8 crores of CAPEX in the first 6 months, what does that pertain to?

Rahul Batra: So, that was mainly for Lyophilizer in which we invested Rs 1.5 crores and the capacity increased by 3-4 times as compared to the old one in BDL. Further we invested Rs 2.5 crores for up gradation of injectable (HVAC System & Filter Validations) and now we are focusing mainly on injectable part. We got the approval from Colombia for orals, therefore major CAPEX have gone in the up gradation of injectable facility.

Aditi Kasbekar: My second question is with respect to sir, the margin and I can see that the EBITDA margins despite investment on the Derma side has actually increased which is a great thing, however, I had a question on the gross margin front, so what it seems like is that compared to the H1 last year, our gross margins has moderated a little bit, but that also accompanied by a decrease in the days of inventory, so is it because we have been using some high cost inventory that was there on the books and sort of lowering the inventory levels down and if that is the case, then how do we see sort of the raw material pricing scenario evolve over the coming period, do we see that it stabilize compared to the volatility that we have seen in the last few months?

Rahul Batra: Nipun, can you answer this?

Nipun Arora: Aditi, our consolidated gross margins in the H1 of last year was 37% and in this year this is 41.86% rather 42%, so I think maybe.

Aditi Kasbekar: I think you are looking at gross margin, what I meant actually is the material margin because I mean outside of the manufacturing expenses, so just the sales minus the cost of goods provide is what I would say. That I think is down to 50.7%, right?

Nipun Arora: No, I think you are looking at something wrong, because GP margin or sales minus COGS is GP only, either you have to see EBITDA margin, either you have see GP margin, or you can see material consumed margin, all those are perfectly okay.

Aditi Kasbekar: Sorry, what is your material consumed margin then and how has it moved between the last year and the current year?

Nipun Arora: It I reduce this, this is 73% was the material consumed last year and now it is 68%.

Aditi Kasbekar: This is material consumed as a percentage of sales, is it?

Nipun Arora: This is our cost of sales%.

Aditi Kasbekar: Understood, then maybe I will take this offline with you because then maybe there is some difference in understanding here, so then the last question I had was with respect to your receivable days, I think FY22 the receivable date has come down to somewhere around 90 days and in the first half, it is slightly north of 100 days and the way I am calculating is effectively receivables divided by the sales of the last 12 months ending September, if that is because of the new division that we have started or if there is some other reason?

Nipun Arora: Aditi, I could see the receivable days have moved marginally by 6 or 7 days, I would be very precise, it was 89.9 something in the first half of last year and now this is 96.

Aditi Kasbekar: No, I am comparing with the full year last year, full year last year was 90 days for March 22?

Nipun Arora: That was 90 days, even half year got 90 days and even full year was 90 days.

Aditi Kasbekar: And now they moved up is that because of sort of the new way the new division has been started?

Nipun Arora: Yes, the new division also and the sales have increased and there is some 4 or 5 days gap, so it is not a very big gap and after September there were lot of payments coming in, so you will not see any major change in, when you are seeing March 23 results.

Rahul Batra: Aditi, actually there are 2-3 customers of past in OEMs, they are very big company, so their payment was halted for some time, but now in October month, they have traders handsomely and they had tend to clear all the dues by January this year. So, a lot of realization has happened in the month of October from their side.

Aditi Kasbekar: So, basically 90 days is what we see as a steady state receivable on an ongoing basis, that is safe to assume, right?

Rahul Batra: Yes.

Aditi Kasbekar: This is all I had and on the gross margin front, I think I will sort of write team offline to just to understand how you calculate.

Nipun Arora: Yes, Aditi, I think there were some confusion because even I could not understand what you are saying, you were saying material consumed or cost of production or cost of sales that you can come offline.

Aditi Kasbekar: Yes, I will send you an email with my working.

Moderator: Thank you very much. Our question is from the line of Chirag Fialoke from Ratna Traya Capital. Please go ahead.

Chirag Fialoke: Congratulations on the great set of numbers, just two questions, one is on the contract manufacturing side, could you just talk a little bit more about that business, I know you mentioned that we have added customer, but what is the trajectory looking like right now, is it the kind of growth rate that you would expect, is that something like that happening and I think you briefly right now mentioned that there is some payments that were halted, also where they related to this business, could you just detail out a little bit more the contract manufacturing business?

Rahul Batra: First of all, there is no payment which is halted to be very honest and the contract manufacturing business is going as steady as we were expecting. The growth in contract manufacturing will not be into the line with what we are expecting from the exports and the own brands because there the control is not ours, there the control is as per their wish, as per that company, so we have added 3 to 4 customers this year and we tend to increase another 3 to 4 customers in the coming years, in the next year also. So, we have clear order for some good clients and we expect that their agreements to be finalized by December this year, so the commercial will start by January or February, so overall CRAMs growth from there and the only thing which CRAMs look out for is that we are giving them the best quality medicines.

Our medicines have been well accepted across the industry. All the hospitals they go, we go, so it is about the doctors who prescribe the medicines, so they are well aware of the medicines being produced by Beta Drugs or Adley. So, on these, CRAMs business, we are on a perfect line and we expect the same growth what we are doing in the last 2 to 3 years down the line.

Chirag Fialoke: And from an existing customer point of view, there are no major orders or something that would?

Rahul Batra: No, not at all, we have seen that there has been an increase in the sales of the CRAMs business as compared to last year, so the increase itself shows that the confidence has further enhanced by them and moreover the CRAM side, the company, they look forward for some new product every time, so whatever product pipeline we have promoted to them, they are also excited like, we are excited like our sales team is excited, in the same way they are also excited to launch those products in the market, the first one to launch those product in the market, so we never strain ourselves that the product will be launched only by Beta, no. If we have lot of leverage, we have lot of capacity, we produce lot of API, so whatever product we intent to launch, we intent to launch through our CRAM partners also and through our own brands also. So, that is an excitement which makes a relationship.

Chirag Fialoke: Could you share how many products are there in the CRAMs approximately and how many customers at this point in time?

Rahul Batra: How many products means, sorry?

Chirag Fialoke: How many molecules of products do you manufacture in our CRAMs verticles?

Rahul Batra: Whatever product those we have shared in the presentation, all the products we are manufacturing for the CRAMs partners as well.

Chirag Fialoke: And number of customers in totality in that division?

Rahul Batra: We have total about 28 to 30 customers now as on today.

Chirag Fialoke: Last one question on the new Cosmetology/Dermatology division, congratulations on your foray could you talk a little bit more about what sub segments would you want to get into and what kind of molecules are you looking at, if there is any detail that you can share with us at this point in time?

Rahul Batra: That will be very detailed discussion actually. We have out plant layout for next 2-3 years in Dermatology and Cosmetology. We have prepared our P&L for worst, better and the good ones also, so that will be a very detailed discussion, so that will take time to discuss further.

Chirag Fialoke: Congratulations once again.

Rahul Batra: Thank you.

Moderator: Thank you. Our next question is from the line of Raghav from Ace Capital Services. Please go ahead.

Raghav: Sir, my question is related to the revenue growth projections, sir you are saying full year we will achieve around Rs. 230 crores of revenue, right, do you expect that to be even better, is it like conservative estimate or is it like something that you think is the right number to guide at this point in time?

Rahul Batra: To be very honest, there is no word called conservative, this is what we had anticipated, of course, if we can deliver more we will definitely try to deliver more. There are few conversions which we are expecting in the month of January, February. After those conversions, this figure can, we can even surpass 230 figure also, but at the current moment of time, I can say that this is at least the figure which we are going to achieve.

Raghav: And my next question will be about the revenue breakup, so I can see overall we have grown this half year 28% and we have fantastic growth in our own brand, international and API, but only 5% growth in contract manufacturing, so if I just add up the number, it looks like and you may correct if I am wrong that we are a little bit slow in expanding contract manufacturing and that is why our overall average is stuck at 28% while there is like triple digit growth in API, 58% internationally, 42 in domestic, it will actually help if you can give us the numbers for these segments instead of just the percentages, so we can visualize which way the business is moving like more growth in contract or somewhere else?

Rahul Batra: Nipun, can you share the absolute numbers for all the divisions separately?

Nipun Arora: Yes, Rahul, so our exports have been Rs. 40.5 Cr and CRAM business have been Rs. 54 Cr, our own brand business have been Rs. 34.15 Cr, our API was Rs. 8.76 Cr and the balance was Derma.

Moderator: Thank you. We will move onto the next question which is from the line of Rajat Sethia from ithought PMS. Please go ahead.

Rajat Sethia: Sir, if we look at our slide 14, the new launches that we are talking about seem to be lower than on an annual basis, they seem to be lower than what we have done historically like in FY20 and FY22, so we are now talking about probably 5 to 6 launches every year, so is that how we expect it to be or what is the reason we have slowed down here?

Rahul Batra: No, it is not slowdown, so this year we have launched one product, but there are four products which will be launched this financial year, so two products will be launched by December and then one product will be launched by January or February. Then, coming on to the next 4-5 years, next 4 years or 5 years down the line which we have identified. Out of those 23, we have started working on the 12 products, but it doesn't mean that we are going to launch only 23 products. As I said that we are working on many new product launch which will count to around 7 to 8 products every year and there are some other products also in oncology which we are looking into, those products will also be launched. So, we will not restrict ourselves towards only these molecules which we have just mentioned on the slides.

Rajat Sethia: And in the revenue mix, did we say CMO we did around Rs. 50-Rs. 55 crores in H1?

Rahul Batra: Yes, it was somewhere around Rs. 54 Cr.

Rajat Sethia: In terms of the revenue mix, do you expect the revenue mix of CMO to remain the same, I think it will go down because you mentioned other segments are going faster, right?

Rahul Batra: Yes, because there you have to see, the only simple logic is that in CRAM business, you don't have a control down the line, but in your export, in your API where you have your own sales force, own demanding force where you can create pressure where you can just navigate them where you can guide them to get the sales, so there the command is yours only. So, the track will be totally like, there are two different tracks, the CRAM business will go as per its own pace, it will not degrow, it will grow only, but as compared to our own brands exports in API, those will grow on a much higher scale.

Rajat Sethia: And how is the margin profile compared to the other segments for CMO?

Rahul Batra: CMO average EBITDA margin is close to 15% to 18%.

Moderator: Thank you. Our next question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.

Ashish Rathi: Nipun ji, can you just call out the cost that has been incurred in the Derma division, so that we can understand what is the kind of like to like margins that we have seen, but I can see there is a 100 basis points expansion on the margins Y-o-Y, despite the possible Derma business losses which you would have incurred?

Nipun Arora: Ashish ji, the revenue of Derma division is somewhere around Rs. 1.4 Cr and the cost is somewhere around Rs. 2.5 Cr, the total cost.

Ashish Rathi: Around Rs. 1.1 crore Derma division has incurred an EBITDA loss, correct?

Nipun Arora: Yes.

Ashish Rathi: And can you call out the CAPEX which is related to the trade payable, the CAPEX part, can you call out that also, so that we know how much is actually the working capital?

Nipun Arora: Sir, it was somewhere around Rs. 3.5 to Rs. 4 Cr.

Ashish Rathi: Rahul ji, wanted to understand on export market, right now, we have around 10-12% of the business coming from the export market, 3 years out, with all these big approvals coming in from Brazil, Mexico and the likes in your dossier plant, what kind of contribution do you see from export markets in general as a contribution of total topline?

Rahul Batra: See, next 3 years, Ashish ji this will be close to, the contribution from export will be around 35%, close to 35%.

Ashish Rathi: 35% of the company?

Rahul Batra: For the company, yes, for the oncology business, the export contribution will be close to around 30 to 35%.

Ashish Rathi: So, in a way you are implying that we will see export business going 4x to 5x in the next 3-4 years?

Rahul Batra: 100%, yes.

Ashish Rathi: And what is the inspection timeline you said for ANVISA which is the Brazil one you said is in March, is that what you said?

Rahul Batra: Brazil is in March and Mexico is in this year, November.

Ashish Rathi: Mexico is sooner.

Rahul Batra: And Mexico, one good thing has happened is that there is one word called homologation, so that if you have a Colombia approval, the same approval goes to the Mexico, so we have already given our certificate for that and we might get oral approval for Mexico in next 10 to 15 days down the line. So, the only line which we will go to be inspected by Mexico will be injectable only.

Ashish Rathi: And Colombia, we have applied both injectables and orals, am I correct?

Rahul Batra: No, Colombia, we applied only for orals because that time we were not prepared for injectables, but now we are, since I mentioned that lot of CAPEX has gone in the injectable upgradation and now we are ready for COFEPRIS injectables also. Now, the only line which will be expected is COFEPRIS injectable line, so COFEPRIS is part of PIC/S countries, so entire Asia, South Africa, entire LATAM is open after COFEPRIS approval..

Ashish Rathi: And the API exports you are talking about that should be counted separately or that also comes in the export numbers in general?

Rahul Batra: No, if you talk about 4 years down the line, then the API export will be a part of the total export there.

Ashish Rathi: And what are these products, APIs, these are all oncology APIs which we have?

Rahul Batra: Only oncology, we are only talking about oncology and these products will be only for oncology.

Ashish Rathi: And Nipun ji, any sense on the kind of growth that Rahul ji is mentioning will we need further debt because now we are a debt free company, will we have to raise debt in the short-term or any plans of any fund raising, anything on that line? We would be needing anything or we can do balance with the internal accrual?

Nipun Arora: As Rahul ji has said earlier only that until Rs. 400 Cr we don't require any further CAPEX addition and if required Rs. 2-Rs. 3 Cr for wear and tears that is okay, that we can do.

Rahul Batra: Ashish ji, one thing is there that in case anything require for huge expansion, we already have the fixed deposits for this time only, like in case some good opportunity come, so we have in hand around Rs. 12-Rs. 13 crores fixed deposits in hand, so we can do, anytime we can just convert them into cash and we can just go all out for that particular thing.

Nipun Arora: We have kept our strategy clear, you can see our outside liability is lesser than our cash and cash equivalent, so that strategy is very clear and that will remain.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Rahul Batra: Thank you so much everyone for attending this call. The talk which we do in the initial stages is just about how we are going to perform in the next coming years, coming months, the only thing is the only confidence we have is that we have a very good excellent team in line, right from production to sales, to finance. We have all the excellent people who are running this organization. It is not about an individual who is carrying out this. It is about the team. Entire team of Beta is motivated and the vision we are seeing, we are seeing altogether. So, we all are in line for that path which we have shown in the slides for achieving the growth of 25% to 30% for next 3 to 4 years. Thereby, I conclude here and thank you all for the conference.

Moderator: Thank you very much members of the management team and Mr. Shah. Ladies and gentlemen, on behalf of Phillip Capital India Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.