“Beta Drugs Limited Q4 & Full Year Earnings Conference Call”

May 06, 2021

MANAGEMENT: **MR. RAHUL BATRA – CHAIRMAN AND MANAGING DIRECTOR, BETA DRUGS LIMITED**
MR. NIPUN ARORA – CFO, BETA DRUGS LIMITED
MR. ASHUTOSH SHUKLA – VICE PRESIDENT, BETA DRUGS LIMITED
MS. RAJNI BRAR – COMPANY SECRETARY, BETA DRUGS LIMITED
MR. GURVINDER BHULLAR – STRATEGIC ADVISOR, BETA DRUGS LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Q4 and full-year earnings conference call of Beta Drugs Limited hosted by PhillipCapital 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 PhillipCapital (India) Private Limited. Thank you and over to you sir.

Apurva Shah: Thank you Faizan. Good morning everyone. On behalf of PhillipCapital, I welcome all of you to the post earnings conference call of Beta Drugs Limited. From the management we have Mr. Rahul Batra – Chairman and Managing Director, Mr. Nipun Arora – CFO, Mr. Ashutosh Shukla – Vice President, Mr. Gurvinder Bhullar – Strategic Advisor of the company. I now hand over the line to Mr. Rahul Batra for his opening remarks and then we will open the floor for the question-and-answer session. Over to you, Rahul sir.

Rahul Batra: Thank you Apurva. Good morning everyone. We hope that you, along with your family are doing well in these tough times. This pandemic has really put each one of us on the back foot, but we wish you all to stay safe.

We thank you all for joining us on a call in these tough times. Myself, Rahul Batra, heading the company have a privilege to introduce you to my team who has joined us in the call. We have Ashutosh Shukla, who is VP Sales and Marketing and have an oncology experience of more than 20 years. He launched Fulford Oncology and worked with Dr. Reddy's Oncology and headed Torrent Oncology as well. Then we have Mr. Nipun Arora, who is the CFO and is a CA and Cost Accountant by qualification and has an experience of more than 12 years. We also have Rajni, who is the Company Secretary and has an experience of more than 8 years. We also have Mr. Gurvinder Bhullar along with us as a consultant. Je has worked in JP Morgan as a Director and is guiding us on the strategic front.

Now, let me introduce you to Beta Drugs. We are a 30-year-old pharma company started by our Chairman, late Sri Vijay Batra. Then in 2008, when me and my brother joined, then we thought to come into a specialty line, there we got introduced with some innovative technology people who got us into oncology segment. It was actually a very challenging time as we had to establish our brand in the market in front of the doctors, in front of all the companies who were selling oncology products at that time. It took us four years to establish ourselves as a serious oncology player. Then, once we were established and we got the confidence in the doctors and in 2014 we took over one company in the name of Beta Drugs Limited and built a state-of-the-art facility for oncology manufacturing with an enhanced capacity in both injectables, liquid lifelines, and orals. Today we stand up as one of the fastest growing oncology company in India. We are one of the very few backwardly integrated companies.

I'll just take you to the milestones how the years and how we have taken it forward. In 1983, the company foundation was laid down by Sri Vijay Batra ji in the form of Adley. Then we entered into oncology in 2007-2008. In 2008, we came up with a first oncology manufacturing unit. In 2011, after we got some little success in the domestic market, we tried to put our foray into the international market. In 2014, we acquired Beta Drugs and started a new facility for cytotoxic drugs. 2015 again, then we developed a molecule which was only manufactured by two companies in India that was human albumin with paclitaxel. Then in 2017, we listed Beta Drugs in SME stock exchange and NSE. Then in the same year we came up with a backwardly integrated plant for API for off-oncology products. Then 2018 was a bit of revolution here where we stepped into an international market with a manufacturing facility in Uzbekistan. We took that facility on lease and then we gradually took batches for oral cytotoxic drugs and put it on the approval for the government. We will come back to all these things on a detailed manner ahead. Then in 2020 last year, we set up a facility for PFS (prefilled syringes). In 2020 only we launched five new molecules, some were related to the new technology and some have become the off patents. Then in 2020 only we launched the first Indian brand of Dasatinib. This particular drug is used in CML. Then in 2021, this particular year, we have launched a drug called Sunitinib as the brand name of Adsunib.

I'll take you to the different verticals of the company:

The company right now works on 4-5 verticals. The main is the research and development. We are totally a research and development-based company. We focus ourselves towards developing new molecules to be the first one to come up with the molecules which are becoming off-patent both in API and formulations. So, we are not based on the raw material being procured from outside parties. The strategy is very simple and clear. If the molecule is getting off-patent, the API needs to be developed first, the batches need to be taken for formulations first and then when they are becoming off-patent, it should be launched as the first one to be launched to Indian market.

The second is domestic market where I'll take you to a short brief about how we have reached and what our plans are. Then we have the third vertical as our CRAM business which we have our major Indian partners. We are covering almost all Indian MNCs plus 3-4 new Indian players going to join us for the production in coming 2-3 months. Then we have our international market which is our prime focus area, and we are putting a lot of our efforts towards this particular vertical. Then the main one and the last one is the API. We are one of the few backwardly integrated companies in India. Our focus is equally distributed among API business also.

Let's start with the domestic market.

Today we as a standalone have a team of more than 45 people across India. We have a good marketing base, good sales base in each and every headquarters. Some states we are doing pretty well, like we are in top 1 to 10 and some states we are picking up very nicely. Last year, the total oncology business had a de-growth of around 10% to 15%, but with our team efforts, we have got a growth of around 20% to 25%. Before last year, we hardly had any patents like around 40 to 50% of the corporate hospitals. But with our efforts last year, we have made our presence in almost all the corporate hospitals. This year, the remaining hospitals will also be covered, already got connected with those hospitals and we have been invited and we have been accepted by those major hospitals.

Then coming on to the sales part:

In 2018-19, we had a domestic, our own branding for around 20 crores. Then in 2019-2020 we had a good growth we took it to 28 crores. Last year in spite of this pandemic where the sales were lost for four months, where we hardly had any patients in the hospital because of the lockdowns, because of many other reasons, but still we managed to have a growth of 20%-25%. We did a top line of 33 crores in our own brands. We have certain brands which have become number one position in India. The number one brand is Adcumin, which is being promoted as a supportive care product in oncology. Then the second brand is Dasatinib where we are the number one generic company product in India. Then we have six novel molecules, which we have launched in 2021. The molecules are Lenvatinib, Sorafenib, Enzalutamide, Lapatinib and Dasatinib. Then we are set to launch one of the protein shot, the protein is a requirement for all the onco cancer patients. So, we are all set to launch one protein. Right now, the market availability of protein is in the form of powder. So, we have made an innovative technology and we have tied up with a Singapore company where we have got this product and we will be launching it in another two months down the line. So, this particular product will be a mass product, will not be carrying a huge MRP, but it will be a mass product so that it can be approachable and being consumed by almost all the patients. So, this has come as a shot. So, all these things have put us on a scale where we consider ourselves as one of the most innovative oncology company.

Now coming on to the CRAM business:

The CRAM business we right now have established ourselves very well in the Indian market. Any company who wants to launch oncology, supposing tomorrow mankind wants to launch oncology. They will approach us. They have already approached us and now we have a base in clients as Intas, Zydus, Cadila, RPG, Alchem, Torrent, Panacea, Hetero, Reliance and Caplin Point. We are having further audits of Lupin, Cipla, and Fresenius Kabi in the coming 2-3 months.

If we talk about the international business:

The international business is shaping up really well. Last year, we had a good growth of the international business. In 2019-20, we did exports of around 7.5 crores which increased up to 17 crores last year. We have cleared the audits of many countries. Last year we just registered ourselves in Tanzania, Rwanda, Ethiopia, Syria, and we have got a pre-audit done for PICs and Invima Colombia. We are all set to file our applications in Thailand, Malaysia, and Columbia to go ahead with the PICs. The future of export is very good, but since export is a time-consuming thing, once we are going to trigger the audits and right now because of this pandemic situation, the auditors are not willing to come to India, so we might expect the audit to be delayed. Once we get the audit through which we have already taken one of the clients as a consultant, they have an experience of getting many plants audited and EU approvals. Those clients only are taking this Invima and PICs forward. We expect like by 2022 end all our major plant will be PICs and Invima approved, and we will be entering these markets by 2022-2023. We have filed our dossiers in Ethiopia, we have filed more dossiers in Myanmar, we have filed our one dossier in Vietnam, and we have filed one dossier in Thailand and now we are continuously filing dossiers in Latin America.

Now we come onto the API trend:

API is one thing which is like our major prime focus. This plant we came up in 2017 and gradually we are increasing the capacity of this plant from two reactors, we have increased the capacity to five reactors. We got a very good jump last year. If we talk about the standalone revenues of Adley Labs, the revenue has been doubled and the loss-making company has given EBIDTA of 19% last year. If we see the vertical procurement by subsidiary companies, in 2019-20 only 30%- 40% was the procurement done by Beta Drugs in Adley Formulation from Adley Lab Limited and 70% procurement was done by outside, like from Shilpa, from Medchem, from other suppliers, from Sun. But now in 2020-2021 we have increased our CAPEX and the requirement from Adley Lab has increased from 30% to 60%. So, this was the idea behind the API. Now in API, we are also planning to file the first DMF by October 2022 in Europe. We have already started the process to take up to the level of EU GMP the API plant as well. In API, we have further strengths where earlier product trend was only 12 to 15 products, but now it has gradually increased to around 24 products. Another 10 to 12 molecules are under development and are in the pipeline. We want to be 70%-80% self-reliant on the API front from our backwardly integrated company, so that it can support formulation business on a much more higher scale. The only idea of coming onto the API was that especially in oncology, most of the RM (Raw Material) was at shortage. That brings us an idea of coming out with our own facility.

Then we talk about our R&D:

Our R&D is the main key success towards our growth. What intend us is that we keep on developing continuously new molecules. Today we have strong R&D capabilities which have

been demonstrated by our complex oncology formulations. The new product pipeline is, in 2021 we are planning to launch 3 to 4 products in Solid Tumor and two products in Hematology. Similarly in 2022, we have a plan to launch two products in Solid Tumor and two products in Hematology. Then this will increase on till 2026 our plan is totally laid out with the products identified after the patent verification and we have already started working on these molecules. The R&D expense has also increased, and which has added on a good EBITDA margins to the company.

S, this was a particular foray, which I just wanted to brief and have more confidence in our team. We have a team of scientists who is taking care of the R&D and our R&D expenditure has also increased. Whatever products we intend to launch in the market, being studied at the very minute level, it is being thoroughed with the innovator at our own facilities. Once the direction of going through is given ahead by the R&D team, then only it is taken into commercial batches.

Now I'll take you to the financial performance of the company as per the last year:

The company's track record of consistent growth has given us a value creation. In 2019-2020 if we talk about, our EBITDA was 18.32 crores which has increased up to 25.24 crores. The EBIDTA margin grew by 38% from 18.32 to 25.24 crores. The net profit margin has also increased from 9.42 crores to 11.76 crores. The only reason net margin profits were less because of the new plant, new block which has been put on use in the year 2020-2021. Because of that the depreciation cost was very high. The net cash flow from operating activities shot up by 121% that is from 8.4 crores to 18.6 crores. Today we are almost a debt-free company. The company has reserves in the form of FDs close to around 11.5 crores. Our debtor days have reduced to 106 days as compared to 129 days. The net debt of the company stood at 4.25 crores from Rs. 14.5 crores.

Now I'll just give you an outlay for financial year 2022.

We expect to grow our revenues between 30% to 35%, while the EBITDA margins, we expect it will grow up to 23% to 24% from 22%. But there can be a slight change, if this pandemic situation will continue, there might be some slight grim on these numbers. But with my team, we are very confident that we will achieve these numbers. In the company the growth driven particular in oncology is our major focus towards TKIs and our own API expansion.

This was a brief about company, and I would like to have some questions along with my team.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Soham Das, individual investor.

Soham Das: Mr. Batra, many congratulations for achieving such stellar numbers in your quarterly. My first question was to Mr. Nipun Arora, CFO of the company that how are we accounting for Uzbekistan plant, are we consolidating it or how is it treated really?

Nipun Arora: Uzbekistan plant is not consolidated in this. This will be consolidated from the current financial year. Only the investment part is coming over there. Since the approvals were in the later part of the financial year, so the commercial production started in the later part only. Now, since our financial years are also different, from this year we will be consolidating this company with Beta group.

Soham Das: And one more question to Mr. Batra, that what would be your ramp up schedule for the same and the turnover that we are expecting in the next 2-3 years, now that we are operationalizing Uzbekistan plant?

Rahul Batra: See, the thing is we expect a growth of around 30% to 35% every year right till 2024-2025. And Uzbekistan plant has become live, and we expect a very good revenue from this particular CIS country.

Soham Das: There is no chance of trapped cash in those countries, is it? So, Beta Drugs will not have any cash trapped over there?

Rahul Batra: Overall idea was, we have two segments of business in Uzbekistan. One is injectables and one is orals. Injectables being registered from Beta Drugs Limited India in Uzbekistan. So injectables are supplied from here at a high value price and those payments are being remitted to Beta Drugs Limited between 90 days' time and only the oral business is being consolidated and manufactured in Uzbekistan. So, there is no problem of any cash or any repatriation from Uzbekistan as of now.

Soham Das: One last a strategic question from a perspective that we are building the small molecule TKIs. Is there any effect of any manufacturer or any other company coming up with their own large molecule TKIs in the line of biological and things like that? And because you mentioned that R&D is one of the main fortes of your company and your people pride in, 6-7 years down the line do you have ambition of also going into large molecule TKIs?

Rahul Batra: Yes, we do have an ambition and we do have a plan to go into biosimilar line also, but actually the only monoclonal antibody in this biosimilar, it requires a huge CAPEX. The minimum CAPEX is around 300 crores. So, for that we need to strengthen our base in the domestic market and these molecules first. And once we are done with these and have a good presence in the international market, then we will put our cash into the biosimilar segment as well.

Moderator: The next question is from the line of Ankit from Bamboo Capital.

Ankit: If we look at our sales, it is close to 116 crores of sales in FY21, and 33 crores were our own branded sales. So, if you can just give us the breakup of the entire sale, how much was the remaining set of sales breakup?

Nipun Arora: As you have already told that our own brand sale was 33 crores, our exports were 19 crores, precisely 18.57. Our outside API sale was 6.60. Although the standalone sales of API was 21 crores and the balance was contract manufacturing which is 57.8 crores.

Ankit: We have been coming up with lot of new products on oncology side and we are competing head on with, some of the largest companies in onco like Natcos and BRLs of the world. So, if you can tell us how do we identify which product launch and something about R&D team and the development process from identification right to launch in the market?

Rahul Batra: Basically, the products are identified as per the market size. Then we identify which segment like which cancer is on the higher rise, like product focus, we generally focus mainly on the hematology products on lung cancer and on liver cancer plus on breast cancer. This is how we identify the products. And once we identify, we make a target for like 1 year, 2 years, 3 years down the line, how much topline we can achieve per product. And then from there we give it to our R&D department. R&D department what they do is, they distribute in two parts. They start developing the API simultaneously. And after the API is finished, they start developing the finished formulations. So, the total in all process is around 8 to 10 months to develop a new product. Sometimes it takes around 2 years also. Like for albumin paclitaxel we took two years to develop, but we now having an own expertise and a good R&D team based at the plant, so the time taken now is around 8 to 10 months. This is how the identification of the product is done and being given to the R&D department.

Ankit: Something on the R&D team, how many scientists work with us, what are your plans to expand?

Rahul Batra: As of now, we have total 4 to 6 members in R&D team and out of which 2 are scientists and 4 are into formulation segments. These have an experience of more than around 20 to 25 years of developing new products. Some have come from Panacea, some have come from Natco, one has come from Sun Pharma. All these put together, this team has consolidated the development of new products. And taking it forward, we do have a plan of increasing our R&D capabilities and taking this current count to 20-25.

Ankit: What is the CAPEX plan over next 2-3 years?

Rahul Batra: As of today, we don't require any CAPEX. We have a leverage till now and we can do a turnover of more than around 250 crores at the current scenario. We don't need any CAPEX. There might be some renovation required in terms of going towards the regulated markets, but

that is a very small investment, around 1 or 2 crores, that's it? Otherwise, there is no immediate CAPEX required to increase the capacity or to meet the market requirements.

Ankit: This 250 crores is including the Uzbekistan plant or on standalone basis the Indian plant itself can do?

Rahul Batra: Indian plant itself can do a sale of 250 crores.

Ankit: How much can Uzbekistan do?

Rahul Batra: See, Uzbekistan actually the thing is, right now the focus is only Uzbekistan market. Along with that only three countries which are having free trade passes along with each other. The total population size of these power countries are very less, so the sales we can expect from that particular plant only in orals is not more than 40-50 crores. But that will have very good EBITDA margins.

Moderator: The next question is from the line of Ashish Rampuria, individual investor.

Ashish Rampuria: A couple of questions. I think, just a simple math 116 crores on a base of 250. You are talking about capacity utilization of about 44%-45% today. Now going forward and I think you also indicated that we plan to grow to 30-35% up till FY25. Now, with this operating leverage, kicking in going forward, would we expect EBITDA margin guidance to be near more than 25%- 26%, or will it still be 22-23% like you are indicating for next year?

Nipun Arora: Ashish ji, for this year 2021-2022, we have taken a target of 153 crores. At that level we are expecting what we have done the projections we are expecting an EBITDA of 23% to 24%. So, at the level of 153 crores I am telling you that we are expecting an EBITDA of 23% to 24%.

Ashish Rampuria: Which means that once operating leverage kicks in, anyway it has started and we sort of able to utilize our capacity even better and reached nearer to the 250 crores number, should we expect a better EBITDA margin than what you are even forecasting for next year?

Nipun Arora: Definitely. That's why I have given you an example of one 153 crores.

Ashish Rampuria: Going forward what is our focus? We do contact manufacturing, we do APIs, we do our own brand and obviously there is Uzbekistan that is coming up. So, is our focus multi-dimensional that you want to grow each of these businesses or given maybe its function of profitability and maybe competition is the focus one or two of these segments, what's the focus for us?

Rahul Batra: The focus actually is that we intend to grow in all the segments. The number one focus is that we need to establish a domestic market and we need to be in the top three players where our

own branding is concerned. Then the second aspect we look forward and the growth look forward is in the API business. We intend to get an EU approval by next year end, and we need to increase our margin, increase our revenues by exporting API to other countries. Then the third thing we are planning is that we need to establish ourselves well in the international market. So, as I discussed in my slide and in my presentation that we are filing dossiers in many countries. So, our main foray is that we should cover the entire South East Asia market and the Latin America market, with keeping all the professionals in place, hiring a team who will particularly taking care of the CAI for Africa and for Asian market.

Moderator: The next question is from the line of Keshav Garg from CCIPL.

Keshav Garg: Are you planning to start paying some kind of even token dividend?

Rahul Batra: I'll be very honest to you, we have not thought on that line, but certainly we will plan it out and we will get back to you on this.

Keshav Garg: And what I am going to say that we did Rs. 12 EPS so even if Rs. 1 we can give, so that we can basically come into dividend paying company list because many investors are very specific that they only invest in dividend paying companies. Please consider that. And also wanted to understand that whatever guidance that you are giving, what can go wrong with this. I mean, what are the threats to this guidance, from where the threats are coming, can you elaborate?

Rahul Batra: For the dividend thing, actually, why we are containing this cash is that we want to enter the international market and in international market a lot of expenditure is required. Once we are triggering any audits, we need to file the fees. And Columbia if we take an example, the official fees is $30,000 and per product registrations is costing too much. We have to enter around 8-10 markets, we need to have a cash liquidity with us, number one. Number two is, if you talk about the threats which are in the company, which we see that it can foresee, the number one threat we can see is only the COVID, if the situation becomes worse then the domestic market will suffer. As we have seen in the last year, sales of entire companies in India we have evaluated, there was de-growth over 10% to 15%, but since our team is young, out of 350 people, only 18 people are 45 plus otherwise all are young. We are just driving this business as fast as we can and in spite of this pandemic, we gave a good growth last year and we expect that the growth will continue. The threat is only one pandemic and rest everything is in place and we don't see a threat in any case.

Keshav Garg: Are we planning to increase our customer base as far as the B2B business is concerned? Are we in talks with any other major players?

Rahul Batra: Yes. This year we have just added Reliance and now we are in talks with Fresenius Kabi and Lupin. So, they both have planned audits maybe in June.

Keshav Garg: So, with all these companies like Reliance, etc., what is basically our pricing formula? Is the input prices pass through or are they fixed?

Rahul Batra: No in oncology, we don't share any cost sheets with our B2B business model. We just tell this is our basic price. What attracts them is that we are continuously developing new molecules, which attracts them. If they are coming for one generic, one old molecule, so they know that the company will be giving us two new molecules this year, so that is the only major advantage we have.

Moderator: The next question is from the line of Keval Ashir, individual investor.

Keval Ashir: I have a few questions to ask. First is what is the potential that we see in Sunitinib and what is the competition in the same for us in the domestic market?

Ashutosh Shukla: Thanks for your question, sir. Sunitinib definitely as of now it's a mainstay treatment in the treatment of renal cell carcinoma and this molecule is going to stay for long. As far as our own brand is concerned, Adsunib, we are growing at a good pace now and we have got entry in many of the hospitals. I don't see any saturation point for Sunitinib as of now. The market will expand exponentially in next three years minimum. The only limitation will be the customer preference when the Pazopanib will be launched in the month of December, when it will be going off patent, then the customer preference will be 50:50. Pazopanib as well as Sunitinib.

Rahul Batra: I will just add up. In Pazopanib we will be launching at the same time in December so we will be having Sunitinib and Pazopanib both in our basket for renal cell carcinoma.

Ashutosh Shukla: As far as our own market share is concerned definitely, we will continue with our market share.

Keval Ashir: Second is, coming to the R&D how much percentage of total turnover are we going to spend on R&D?

Rahul Batra: See the percentage actually, we have not calculated how much we were doing the expense on R&D front. We have given a budget on the per product-wise basis. But in my thing Nipun, if I am not wrong, gradually in coming forward years, it will be around 2% to 3% we will be spending on the R&D front, right?

Nipun Arora: Definitely, Rahul.

Keval Ashir: And the last question is, to get the bigger picture, which segment do we see as the major focus for Beta Drugs in the coming five years? And where do we see our topline and bottom line in the coming five years?

Rahul Batra: See, the major segment is, as I discussed earlier, that will be our own domestic market which we see that it should touch around 75 to 80 crores in the coming 4-5 years. Then we see the export part which will increase gradually. And we also see that it will reach up to the level of 60 to 70 crores in the next 4-5 years. And then we will intend to increase our API business, both domestic and international with launch of new molecules every time. So, that business will also scale up to 40 to 50 crores, maybe more.

Moderator: The next question is from the line of Alisha Mahawla from Avendus Services.

Alisha Mahawla: Just one clarification. This 30%-35% growth in topline that you are targeting. Is this because of the API that you have doubled or is there any other capacity also that has been added which will drive this growth?

Rahul Batra: Sorry, I didn't get your question. Can you please speak a bit louder?

Alisha Mahawla: I was just trying to understand that this 30%-35% topline growth that you are targeting for the next few years, is this on the back of the API capacity that you have recently added or is there any other capacity also that has been added?

Rahul Batra: We still have leverage in the formulations plat and the 30%-35% growth will come from all the segments, right from the domestic business in formulations, right from the international market in formulations and exports both. And in API, domestic and export board. So, this, 30%-35% revenue is from each and every division.

Alisha Mahawla: It is not because capacity has been added in one segment?

Rahul Batra: That was just a small capacity added. We just added three reactors and just wanted to scale it up so that we can have all the products, maximum products we want to have in-house.

Alisha Mahawla: And what was the CAPEX you did in FY21?

Rahul Batra: The CAPEX is not more than 70-80 lakhs we have done.

Alisha Mahawla: And you are not looking at doing anything significant in the next couple of years.

Rahul Batra: It's not too significant, but still I said in my previous slides also that the CAPEX will be there in terms we going to regulatory, so there will be a very small expenditure to the tune of 2-3 crores. That's it.

Moderator: The next question is from the line of Krati Rathi from Perpetuity Ventures.

Krati Rathi: I wanted to understand a bit more about this CMO business. Right now, it is contributing roughly 50% and it's around 58 crores of revenue. Can you tell me how that business has moved over the last three years?

Nipun Arora: See, that number, this is 57.84 crores in this year. Last year it was somewhere around 50 crores. And prior to that I have to check. So, this number is increasing. Although this is that division which is not contributing much to the EBITDA percentage because the maximum EBITDA percentage is with the own brands and then exports. But Yes, this is half of the total revenue and it is increasing.

Krati Rathi: So, the margins are fine in the CMO business, how much that would be?

Nipun Arora: It is somewhere around 16% EBITDA margin.

Krati Rathi: And for the own brands which we are selling in the domestic market, do we have any of our brands which are under price control

Rahul Batra: I'll explain you. Actually, on oncology there are only 2-3 products which are under price control, rest government has fixed up the trade margins. We can't sell the product with like the price margin. Supposing the MRP is 10,000, we can't sell it at 2,000. So, they have just fixed up the price. In case you are selling at 10,000, then your billing price should be at least not more than 7,000. So, it can't be less than 7,000. There is a certain formula on that. So, there is no price capping as such in oncology drugs. There's a certain formula on which we launch the products, but there is no price capping as such.

Moderator: The next question is from the line of from Mukul Garg from Private Equity.

Mukul Garg: I'll just ask two questions. One is, what are your plans to enter the semi-regulated markets in oncology? Because as per the data requirements, they are not very much different from India and South Asia. And also, entry in CIS countries like Russia and Kazakhstan and Ukraine, you are in Uzbek but in Russia, Kazakhstan and Ukraine what are your plans in that?

Rahul Batra: Right now, we are in talking terms in Kazakhstan. We have already identified one party. We have filed two doses there in Kazakhstan. In Georgia also we are in talking terms with one party and we will be filing doses in another two months in Georgia. So CIS, we are taking it forward. In rest of the CIS countries like Kyrgyzstan, Turkmenistan, the orals we'll be doing from Uzbekistan itself since it's a free trade agreement between them. And about the semi-regulated countries, we have already got a pre-audit done for N-visa. That was a desktop audit. And now we are doing our API also in the EVU front. So, taking forward by 2023, we'll be getting all the major approvals and we'll be filing our doses in almost all the Asian and Latin American countries.

Mukul Garg: Anything on the PICs approval front?

Rahul Batra: PICs, actually we were supposed to file an application in January this year, but since this pandemic is there and the audit has been delayed now, so we are expecting the audit will be happening now next year between March and June. So, PICs the readiness of the plant is there, people are there, documentation is there, and we are ready to file the doses also in Malaysia. We are triggering PICs through Malaysia, most probably to Malaysia. But simultaneously we have also filed or dozer in Thailand and Vietnam as well for PICs.

Moderator: The next question is from the line of Pandurang Pandit, individual investor.

Pandurang Pandit: I have just 1-2 questions. One is, I find that dermatology has some relation in treatment of oncology because you require some skin treatment from dermatological products. Are you looking into introducing some dermatology products at least for the oncology doctors?

Rahul Batra: Currently we have one dermatology product that is a skin anti-radiation cream, and it is used in even foot and hand syndrome as well. So, we are promoting that drug, but since our focus is only on cytotoxic, so we don't want to shift our direction from a cytotoxic company to a dermatology or these kinds of products. Our main focus is towards developing…

Pandurang Pandit: Promoting to oncology doctors, so that it will go hand in hand, only from that point of view.

Rahul Batra: We are doing one product. We are promoting one product already and that product is in the market since last 3-4 years. But as per the doctor's recommendation, since we are a cytotoxic company, they just want us to come up with cytotoxic molecules only. So, these they want to leave it to some other companies who are just getting their product manufactured and all the local players actually. So, this is the feedback we have got from the doctors.

Pandurang Pandit: Are you considering consolidating your subsidiaries to rationalize the cost because you have 2-3 subsidiaries, maybe it will help to reduce costs?

Rahul Batra: Yes, we are thinking on that line. And, we will be consolidating soon, but I cannot commit you the year when we will be consolidating. But we are thinking on that line.

Pandurang Pandit: And even your batch sizes and size of the reactors for this API you are manufacturing could also substantially reduce the cost, whether the market requirements, whether it matches with the size of the reactors I can't comment on that, but I just wanted to have your feedback on that.

Rahul Batra: See, the batch sizes are predefined as per the validations and that is in the formulations. If we talk about API, the reactor size, I don't think so has any relation with the market cost or something. The reactor size is basically based on the output. It only depends on the product price. Suppose there is a product requirement for 500 or 1 ton kg every month so for that we will be taking in the high reactor and the product, which is required like in grams, because in oncology there are products which are required in grams also. So, those are manufactured in the class assembly lines. The cost is basically almost the same and oncology is oncology. So, it's totally a different ballgame altogether.

Moderator: The next question is from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: When we look at the other players in this industry like Natco and Shilpa, what we see is that all of them have been talking about a big drop in the patients for the cancer, and they have reported big drop in sales. While interestingly, for your case, you have been able to grow. Can you share why this has been happening for you? One. Second, we are also seeing that there's a huge amount of price reduction which keeps happening in some of the key cancer products because they were very expensive to start with. And now there is sort of competition coming in. So, how are we able to be cost competitive? How are we taking lead to manage these things?

Rahul Batra: So, the price competitive answer, I will give you and the patients answer Mr. Ashutosh will take it over. So, the price competition is like we are a backwardly integrated company and one of the largest manufacturers for chemotherapy formulations and APIs as well. So, as of today, we are maintaining a good high DC margins in almost all the products which we are promoting. The price does come into reduction because once a product is launched by an innovator so that has a huge price structure, but once it come to a generic, then it comes out like one-tenth of the price. But even we coming at one 10th of the price, but still, we maintain around 80%-85% GC on those products. And regarding, the patient how we have increased our sales last year as compared to other companies, Mr. Ashutosh, please take it over.

Ashutosh Shukla: Thanks for your question. There were multiple strategies which we implemented in the field. One strategy was the oral business because patients were diverted from injectables to orals because hospitals were not admitting the patients. So, the business got diverted to orals. So, we were proactive in generating demand for orals from the market. That was one strategy.

Second strategy was like from the smaller towns, patients were getting the treatment from metro cities. That got stopped because of the conveyance issues. So, what we have done is we have made small headquarters, like for example, we have made a small headquarter in Punjab, we have made a small headquarter in AP. Likewise we have made multiple small headquarters and thereby we have increased our focus.

The third strategy was the hospital entries. So, we have been trying to get an entry for our brands in many of the corporate big chains of hospitals. For example, HCG. Today HCG is the biggest cancer hospital in India having more than 28 centers. So, what we have done, we have negotiated very hard with HCG and we have got almost 10 products approved in their formulary. Out of which three products are on the exclusive basis. So now we expect a major growth from this particular hospital. On similar lines, we have secured entry in many other corporate hospitals. For example, American Oncology. So, we have completely replaced top companies of India. Likewise, we are targeting other corporate hospitals as well as the private hospitals.

Then the fourth one is the doctor acquisition. As of now we have around 600 doctors which consists of regular as well as occasional prescribers. This we are increasing on regular basis headquarter-wise. So, there are multiple strategies how we have increased our base. Now we have consolidated our base, we have a presence in almost like 70% of the corporate and private hospitals, even in government institutes also we have a good presence. So, considering the present base if same thing continuous, we expect very-very decent growth now onwards.

Ayush Mittal: Second question is that when I look at the fixed assets for the company and I compare it to Natco, Shilpa, I see that the investments required are very huge to do these APIs on a backward integrated basis. Can you share as to how we have been able to do these numbers and we expect to double our revenue without investing much?

Rahul Batra: We are investing, and the current plant size is good for current oncology production. Actually, Natco and Shilpa, what they do is because they have certain lines, they have antiretrovirals also, they have certain critical lines Cephalosporin lines also. So, we are one company who is just dealing with the oncology products. So, Oncology some products are demanded in grams. The other products are demanded in 2 kgs, 3 kgs, 4 kgs. Even if you think of a demand in international market also the demand, the quantity, the size, the volume is very less, but the revenue is very high, but the quantity is very less. Actually, we are totally oncology-based company, so we don't require such big infrastructure in that. If we compare to Natco, Shipla, then they have antiretrovirals also, then they have Cephalosporins also, they have other multiple lines.

Moderator: The next question is from the line of Raghav from Ace Capital.

Raghav: What is the current capacity utilization if you can inform us?

Rahul Batra: So, the API current utilization was close to around 70%-80% but since we have increased the number of reactors, three reactors we have increased, so how the capacity utilization is around 40%-50% by increase of those reactors. And in formulation, the current scenario in oral the

capacity utilization is around 30%-40% and in liquid injectable right now the capacity utilization is around 60% and in lyophilized it is around 90%.

Raghav: So, I guess we don't need much capacity expansion at the moment.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Star Capital.

Dhwanil Desai: Two questions. The first one is, if I look at our R&D expenses which is around 1.8 CR and size of the R&D team which is 4 to 6 people. The kind of area and the kind of molecules that you are working on they are pretty complex. S, can you throw some more light that with such a low R&D expense and such a small team, how are we able to do this kind of product development and also launch just after molecule being off patent?

Rahul Batra: See the thing is, actually the team we have right now, they are the most advanced team, and they have onco experience in manufacturing and R&D for more than 15-20 years now. So, almost all the product complexes are same. So, they just have to change the molecular structure in terms of API. And in formulations they just have to take a batch and then they have to do the comparative study with the innovators. Both the things they are quite competent enough and with least amount of expense, we can do all these things. Plus, we have per product budget also which we allocate at the time of shortlisted product. So, the same amount of budget being allotted to the API team and the finished formulation team. So, there R&D team will take up the API one and then the R&D team will take up the formulation one. And we try to consolidate it at a very less expense that this is the total amount of budget is there, and we have to develop in this particular thing.

Dhwanil Desai: I am asking this context in one of the responses that you gave where you say that R&D team can expand from current 5-6 guys to 25 guys. So, will it also mean that a significant scale up in R&D expenses and also does it mean that we will be getting into much higher growth in terms of new products, etc.?

Rahul Batra: Yes. The thing is actually there are a lot of orphan drugs in the market. The orphan drugs are those drugs which are not being applied for the patent in Indian market. We have identified lot many orphan drugs. So, till now we have not started working on the orphan drugs, although the indication is very less, the usage is less, but the GC margins are high. So, for those particular drugs, we need more team to develop those side-by-side so that by the time we are coming up with the off-patent product or the other product which we have in the pipeline, we can start working on these orphan drugs as well. So, for this particular thing, we need certain R&D expenditure to be added and some more team.

Dhwanil Desai: So, this can go multifold, our R&D expenses can go multifold, or it will be more in line with 700 crores.

Rahul Batra: No, it will not go multifold, but it will be on the same lines as we are doing right now.

Dhwanil Desai: Second question is, if I look at the four areas that we are working on, and our future plans for next three to five years, our focus will be mostly the domestic market and on regulated markets. We are not targeting regulated market as of now, is that a right way to look at it?

Rahul Batra: Our focus is domestic market and semi-regular and regulated market as well. Once we will file PICs 1.00.16, then we come in the process of regulated markets, almost semi regulated and regulated markets. So, our focus is going towards a regulated market. Firstly, PICs then capturing the Latin American market which is also semi-regulated market. Then regulated market we are mainly focusing only on the API front, and then the facility we have right now, it's a state-of-the-art facility. I'll suggest whenever you guys have time whosoever in the call, you come and see the facility first. And this facility is very good. Even we have a consultant hired. So, they have told us that the oral line can even clear you as FDA audit also. But we are not focusing on those lines right now. For 3-4 years down the line, we have a set plan to be rolled out and we do have an intent to go to the regulated markets as well. We will go in the API first and then in the formulations.

Moderator: The next question is from the line of from Santosh Kumar Yadav from Sky Research.

Santosh Kumar Yadav: I would like to know if there is any plan or if the stock will be moving to NSE main board from the SME board in the near future?

Rahul Batra: Yes. We certainly have plans for this and we will be intending to do it probably this year itself. But we are just deciding internally and that has to be a board decision. But the plans are obviously there, and we might move it this year itself.

Moderator: The next question is from the line of Ashish Rampuria, individual investor.

Ashish Rampuria: I wanted to check in our domestic formulation business, whom do we compete? Do we end up competing with the innovator companies where the molecule has gone off patent? Or do we end up competing with branded generics. I am asking this question because we also do contract manufacturing for some of these branded generic companies, right? So, does it lead to some sort of uncomfortable situations or discussions around that?

Rahul Batra: I will give you a very brief answer on this. Actually, every company does their benchmarking once they are going for sales and marketing. So, the company which we have benchmarked in oncology in Indian market is Intas. So, we have done our benchmarking with them and we want to be at a level and rather supersede them in every line.

Ashish Rampuria: Intas I understand that is where how you want to be positioned in the eyes of the consumer and so on and so forth. But in terms of when we launch any particular product in the domestic market, we end up competing with the innovator molecule or we end up competing with the branded generic.

Rahul Batra: See the thing is, if we are the first one to launch, then we are not competing with the innovator molecule because the innovator cost and the cost of a generic molecule, there's a huge difference. And the if we are not launching an off-patent drug and it's a regular product, then we keep on targeting. Our target audience is the same, but we compete with all this Dr. Reddy's, Intas, Sun, Cipla and Natco.

Ashish Rampuria: And then we also do contract manufacturing for some of them?

Rahul Batra: Yes, we do for Intas. But Dr. Reddy's have their facility. Cipla has their own facility. And Natco has their own facility.

Ashish Rampuria: In terms of DSO days, if I remember I heard it, it came down from 120 to about 108-109 days. Is there a way to further reduce this going forward?

Rahul Batra: 100%. Our prime focus is towards the collection part and whatever sales we do, we are putting our prime focus so that the days should come down further. As the volume will grow, it might remain same because pharma market actually, you have to give a credit and then you get from the companies.

Ashish Rampuria: So, you are saying it will still remain around 100 or 110 days.

Rahul Batra: See, it's a continuous effort and we are reducing a chain. Maybe it will reduce further 4-5 days and then further 4-5 days in the coming years.

Ashish Rampuria: I think if I remember correctly and what I heard, initially we used to do investor concalls and we stopped before 2-3 years and again you started. So, any reason why you stopped in between and what are the plans for future?

Rahul Batra: See, the investor call we did only once. That was in the year 2017 when we came up with the IPO. And then after that we didn't do any investor call. And this year we came up with an investor call because were having a call from the market that everyone wants to have a look into Beta Drugs so that's the reason we came up. We will be coming up with these certain calls in future as well.

Moderator: The next question is from the line of Keval Ashir, individual investor.

Keval Ashir: Last question of mine was not completely done. Sir, I wanted to know that what is our bottom line and topline target in the next 5 years, if you can give the guidance? And what will be the sustainable margins for the same?

Nipun Arora: We make our targets in the month of March. Every time we make the targets for the next financial year in the month of March. Like I have already explained that for this thing for 2021-2022 we have made a target of 153 CR and we are expecting the EBITDA margins to be 23% to 24%. Last year also we took a very big target, but later on we had to reduce it because of the pandemic situation. So, this year considering the pandemic situation to still continue, so we have not taken very big target. We have taken only the targets to 153 crores only. And we are expecting the margins as I have already told to 23% to 24%.

Rahul Batra: I will add up on this. Basically, coming to 4-5 years down the line, we are expecting the same growth between 30% to 35% and increasing our EBITDA margin with the leverage come in play, so it will be increasing up 1% to 1.5% every year. 30% to 35% depending on the pandemic situation.

Keval Ashir: One more question I had was, can you please throw some light on our business with Reliance Life Sciences.

Rahul Batra: So, we have just started doing business with Reliance Life Sciences. We are manufacturing three products for them. Those three products, one is in the brain tumor. And the other two are the hematology products. Plus, we are sourcing one product from them, that is a pegylated filgrastim. That's a drug which is being given to all the cancer patients. So, we are procuring one product from them and giving 3 products to them. So, gradually these three products have been added by them this year only. And now they have planned to introduce another 7 or 8 products with us.

Moderator: The next question is from the line of from Ankit from Bamboo Capital.

Ankit: If you can broadly give us, for oncology we do understand that most of sales are generated through hospitals itself. And as you were saying, we have been empaneled with some of the new hospitals including large ones like HCG. So, how much of our sales are generated through hospitals directly and how much through prescription?

Ashutosh Shukla: If you see the injectables sales it is roughly around 55% that contributes to overall oncology market and oral contributes around 45%. So, it is both. The sales happen through both the channels. One is through the hospitals as well as directly from the distributors also.

Ankit: So, injectables sales will be entirely hospitals?

Ashutosh Shukla: It will be entirely hospitals; 100% it will be driven through hospitals.

Ankit: So, 55% will be driven through hospitals and 45% will be through…

Ashutosh Shukla: Yes, driven through our authorized distributors.

Ankit: Ashutosh ji, you were talking about we are getting entry into marquee hospitals like HCG and one more name that you gave. Now for a company of our size with branded sales of this 35-37 crores, how easy or difficult it is to penetrate such large institutions?

Ashutosh Shukla: See, earlier I have worked for Torrent, I have worked for DRL, I have also worked Ford. So, we were the only company who started their business right from scratch. So, we know the nitty-gritties of the market and how we can capture those hospitals. However, the strategy for different-different hospitals is different. So, our market intelligence is good. The team which we have recruited in last couple of years those are all experienced people, and they are having very good association with the chief pharmacist of those hospitals. We have a target list of hospitals. We have the market intelligence, what exactly is happening in those set of hospitals, and then we are targeting it accordingly.

Ankit: If you can also tell us something about your marketing team and how many MRs and all we have and what are our plans for future over the coming years?

Ashutosh Shukla: As of now, we have 36 people on board as far as sales is concerned. In marketing team, we have a couple of people. The GM marketing is there, Mr. Prashant Agarwal. He is having roughly around 15 years of experience. And he has also joined us from Torrent. Earlier Prashant was working for Torrent Pharma. He was there in Torrent for 10 years. So, he is a very experienced guy.

Ankit: And how do we plan to expand this marketing team?

Ashutosh Shukla: We have taken interviews of couple of more people. So, we are expanding, we will be making it to four people in marketing. Beyond that it is not required at this point of time.

Moderator: The next question is from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: Can you throw some light on your margins. You said your CMO business which is around 60 crores does around 16% margin. So, what kind of margins you make in exports, if you could tell us?

Rahul Batra: Our last year margin, the own brand gave an EBITDA margin of 36%. The export sale gave a margin of 26%. OEM gave the margin of 15% and our EPI gave the margin of 18.5%.

Darshit Shah: Looking at what you are saying of around 30%-35% CAGR over the next two years and given your repeat capacity somewhere around 250 odd crores, so probably by next year we will be reaching 80%-90% of your capacities. Don't you think we probably would need to expand somewhere down the line maybe a year after or so?

Rahul Batra: Yes. After we will be reaching that point where we will be finding that the capacity has come into utilization of around 80%-90%, then certainly we will be adding up further lines into this category. So, the major line which we intend is to increase the injectable line and we have a plan for that. We have already acquired land for that. So, for coming 2-3 years down the line, we might be adding after we achieve this target of ours, and we will be adding injectable line in that.

Darshit Shah: How much would that probably cost and how much time would you take since you already have the land?

Rahul Batra: See, the time will be around one year, or 14 months and the cost will actually depend on that time because we will be having much more bigger lyophilized on that. So, the total cost will be not less than 40-45 crores CAPEX in that time.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Apurva Shah for closing comments.

Apurva Shah: On behalf of PhillipCapital, we thank all the participants and especially the entire management team of Beta Drugs Limited for your valuable time. Rahul ji, before we close would you like to make any closing remarks?

Rahul Batra: Thank you Apurva ji. I would like to thank PhillipCapital who got us on this platform where we have come across and met, had a conversation with many people across. So, Beta Drugs Limited has a great future ahead. And we along with our team, our team is very-very experienced, and we are very committed people, and we will take it forward as nicely as we can. We have a lot of high hopes and we have a lot of assumptions that, yes, this can be achieved. We have a roadmap designed for next 4-5 years. So, believe in us and let's see where the things take. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.