"Caplin Point Laboratories Limited
Q1FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1FY21 Earnings Conference Call of Caplin Point Laboratories, hosted by Ashika Stock Broking. Please note that this conference is being recorded. I now hand the conference over to Mr. Shrikant Akolkar from Ashika Stock Broking. Thank you, and over to you, sir.

Srikant Akolkar: Thanks, Margaret. Good afternoon, everyone. This is Shrikant from Ashika Institutional Equities team. I thank the Caplin Point Laboratories management for giving us an opportunity to host this call today. From the management side, we have Mr. C. C. Paarthipan, Chairman; Mr. Vivek Partheeban, Chief Operating Officer; Dr. Sridhar Ganesan, Managing Director; Mr. D. Muralidharan, CFO; and Mr. M. Sathya Narayanan, Deputy CFO. Along with them, Mr. Vinod Kumar has joined as the Company Secretary.

Thank you, and over to you, Vivek.

Vivek Partheeban: Thank you, Shrikant. Hello, and good evening, everyone. I'm pleased to welcome you this evening to our Q1FY21 earnings call. Please note that a copy of our disclosures are available on the Investors section of our website as well as on the stock exchanges website. Please note that anything said on this call, which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunctions with the risks that the company faces.

Now let me please hand over the floor to our Chairman, Mr. C. C. Paarthipan, to talk about the major developments, key initiatives and overall business strategies. Over to you, Mr. Chairman.

C. C. Parthipan: Good evening, ladies and gentlemen. I welcome you to our earnings call to discuss the financial results of our Q1FY21. At the outset, let me thank the COVID-19 warriors, the mainstream health care professionals and others, who have been fighting this evil genius called COVID-19. Further, you are aware of the lockdowns and severe lockdowns in various parts of our country. Although this has not affected our exports to Latin America, we had some issues in our U.S. FDA injectable facility, which our COO will narrate after my speech.

First, a few significant features of our Q1. When the climate for cash flow is cloudy for most of the companies of our size, you could see the shining of our cash flow in our first quarter, an increase of INR 127 crores in 120 days since March 31, 2020. As a whole, cash and cash surplus stand at INR 375 crores as on August 10. Cash flow from operation crosses INR 100 crores in the first quarter, and it's not a one-off. We are sure that it will be sustainable in future. This consistent cash flow, I'm sure, will take care of various projects and operations in the next 2 to 3 years.

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Now the dip in EBITDA and PAT. This is a one-off. And this has happened mainly because of the increase in manpower cost due to the acquisition of our channel partners. Hence, I would like to highlight the major advantage that we have in the form of a talent pool, which is around 450 people, and they'll be useful for our expansion in the various geographies of Latin America. That too without much of an additional cost. The skill set and characters of 80% of these people are very well-known to us, as they've been working with the channel partners for the last 10 to 15 years.

Now let me highlight the future expansions in the pharma, products and facilities. First, products. So far, we have registered around 500 products in various parts of Latin America. Another 130 to 140 products are in the pipeline in this part of the world. Now recently, we have identified 150 important formulations of 3 different major therapeutic areas for registration in Latin America, out of which one is general injectables for the hospital division, the second one is psychiatric and neuropsychiatric products for our brand marketing. The third one is anticancer products for private and institutional business.

Now facilities for future. First one is the API. We are set to start the construction of our API facility to manufacture APIs for U.S. market. Second, we have finalized 10 top products of our Latin American business that constitutes 30% to 35% of our formulation business currently. We already started the API for these top 10 products in a CMO at Vizag. These 10 products put together will create a very healthy bottom line for Caplin in future. Further, we also have plans to go for an API plant for oncology for the regulated markets.

Now the formulation facilities - We are planning to either acquire or start a greenfield project for liquid oral suspensions, ointments, suppositories in Mexico as there is no clinical trials needed for these types of products in Mexico. Further, the liquid and suspension products are bulky. Hence, it's not competitive to export from India to our current markets in Latin America. The facility of Mexico will be ideal option to cater to our Central American markets, which are very close by. We also have plans to start an OSD facility near Chennai to handle our increased sales in future.

Markets - Our core area of business, as you know well, is Latin America, and we will continue to focus actually in major parts of Latin America in future, especially the bigger geographies where the opportunity for institutional and private market are also big. In addition to this, we'll also be consolidating our existing business. Further, we will also expand to various other bigger markets, such as Europe, Australia and Canada as we have necessary infrastructure and R&D.

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Finally, the model - A few words about the business model of our Latin American operation. Our business model in LATAM is a protective and potential moat for our company. For example, the best company in India exports $150 million worth of goods to LATAM, mainly to the bigger geographies, whereas we have exported close to $100 million worth of products in the last commercial year, mainly to the smaller markets, and we are planning to get into the bigger markets now only. And we are sure our Latin American markets and business will take care of our future CapEx and OpEx from the internal accruals.

Thank you very much. Now I will invite COO to give his speech.

Vivek Partheeban: Thank you, Chairman. I will give a little input about our operations in the U.S. and also a short insight into the months and years going forward. Our performance in the U.S. was satisfactory in the last quarter. But as Chairman had also suggested, during the early part of the lockdown, specifically in April, we were working with reduced manpower because of the lockdowns, which impacted our productivity slightly. We were able to slowly get back to normal in May and June, and we finished the quarter on a decently strong footing.

Our business in the U.S. is not yet mature enough for us to compare it on a quarter-to-quarter basis. So, until next year, when we should be mature enough to compare on a quarterly basis, we will continue to look at it on a half yearly or a full year basis. On the ANDAs filing, we have totally filed 19 products so far, of which 9 have been approved. 5 have been launched by the end of June. The next 4 will be launched before October; in fact, the sixth one has been launched in July. But since it was not part of that quarter, I didn't mention it earlier. And the seventh one is about to get launched in August.

We are also working closely with our partners to expedite the approval for a couple of products that are being used for hospitalizations of COVID patients in the U.S. In fact, for one of those products, we've already got the purchase orders, and we are hoping that the approval comes through soon. Of all the products that we've launched, both our ANDAs and partner ANDAs, we are having a market share of anywhere between 8% to 12%. And we are putting in efforts to increase that number, even though 8% to 10% on an average is a good number for a generic product.

Going forward, our vial Line 2 is going to be very important for us. We are waiting for the final qualifications to be completed. This has been slightly delayed by a few weeks because of the manpower not being able to move between states because we are reliant on external vendors to complete the qualification. But we feel that this will

happen before September. We'll be able to fast track some of the products that are kept pending for exhibit batches for Line 2 and Line 3.

Going forward, there are 4 to 5 very specific areas that we are focusing on when it comes to the U.S. business, and I will just relate them like this. Number one is expansion of capacity. As already mentioned, Line 2, which is a new vial line, and Line 3, which is just revamping of our ophthalmic line, when they become operational by middle to end of September, it gives the company a massive boost when it comes to balancing both commercial and exhibit batches. We won't have to choose one over the other, and we'll have ample capacity when all 3 lines are available.

Number two, so far, of the 19 products that we have filed, I would say, a large majority of it is the simple injectable products. But going forward, almost 60-70% of the products that we are working on are either complex to develop or complex to manufacture. These could be anywhere in the categories of suspensions, emulsions and solutions that require very less head space oxygen level. So, the advantages with these products are that there is lesser competition and the prices also tend to remain stable over time.

And number three is expanding capabilities. Now so far, we've been able to do only injectables and vials and ophthalmic products. But we have just placed the order for all capex instruments for getting into premix bag solution. Now in the U.S., in terms of the latest trend, the number of steps that a health care worker takes while administering the product to a patient needs to be reduced as much as possible. So, we see a growing trend in terms of usage of premix bag formulations, and we should be probably the fourth or fifth company in India to get into this field, and we are quite bullish about that.

The next point I would say is backward integration. As already mentioned by Chairman, our entry into API for a backward integrated route will be a critically important step for us because when 2 generic manufacturers are able to offer their products in the U.S., the one thing that will make a meaningful differentiation between the both is to ensure that the backward integrated APIs will ensure continuity of supplies. This is a much bigger paint point for people in the U.S. rather than just low prices. So, we are hoping to complete construction within the next 12 months and start taking exhibit batches from the site. And it will be primarily used for captive consumption for regulated markets. And we also have adequate land to expand on that also.

Our pipeline for the U.S. remains quite robust. We are continuously looking at opportunities to add to our pipeline with niche molecules. As you can see from the last couple of years' numbers, you will see that Caplin has been very steadily investing quite a big amount of our profits into R&D. Today, as we stand, we have over 350-plus R&D scientists. And about 5 years ago, we had 1 doctorate. We have close to 20 doctorates in the company right now. So, we have taken R&D as one of the critical pillars of our company in the years going forward. Most importantly, the other expansion area is for us to launch our own label in the U.S. by having our front-end presence over there. This should happen by end of 2022 by which time we are hopeful that at least 20 products will be approved or very close to getting approval.

We also plan to extend our U.S. portfolio into other regulated markets, such as Australia and Canada. Some of our existing partners are already available and present in these markets, so we are in advanced discussions with them. We plan to file at least 9 products in Canada in the next 12 months and 3 products in Australia. We continue to strongly believe that the U.S. will provide the next level of growth to our business. We've been very patient and we continue to remain more and more bullish in the years going forward. That's about what we have on the U.S. expansion front. Thank you!

I'll now request our MD to say a few words on the quarter results.

Sridhar Ganesan: Let me share with you some of the recent activities in Q1. High Value Softgel capsules have been introduced for cold, allergy, pain management, erectile dysfunction, etc. The bioavailability of these projects are much better, and they give much more profits compared to their equivalent in tablet or capsule forms. Moreover, not many companies have the facility to manufacture Softgel. Therefore, we have an edge.

Our injectable facility in Pondicherry has gone full throttle. We have successfully launched lyophilized injectables; liquid injectables in vials and in ampoules; difficult to manufacture anaesthetic injectable, propofol; injectable in prefilled syringes, and the market offtake is positive. We received large orders for COVID-related products, such as Azithromycin tablets, Vitamin C tablets, Zinc tablets, Hydroxychloroquine tablets, Ivermectin tablets, etc, which have been manufactured and dispatched on top priority. We have also exported decent volumes of latex gloves and face masks from partner companies, which are in high demand at the market.

In our workplace, we have controlled COVID spread to a large extent and adhered to all the regulations. We provided immunity boosters, masks, sanitizers, etc, not only to our staff and workers, but also for their whole family members and neighbouring

villages in sufficient quantities. This had dual effect. One, hardly any person was affected by COVID. And two, because of so much support to workers and their families, the attendance was very good. This is visibly reflected in the Q1 results, despite being COVID period.

Also, converting threats into opportunity, we improved efficiency, resulting in improved productivity. Now that we have introduced and continue to introduce most of the WHO Essential List of drugs in LATAM and West African markets, we are in a position to pick, choose and emphasize the marketing of more profitable products from the large bandwidth, hence increasing the overall profit of the company. Details of future markets, models, manufacturing factories, products and people have been elaborated by our Chairman. And details about our U.S. facility, its plans and prospects have been presented by our COO. Thank you.

Vivek Partheeban: Thank you, I request our CFO to talk on the numbers for the quarter, please.

D. Muralidharan: Yes. Good evening all of you, and welcome to the earning call. As already explained by our Chairman, there are lot of positives in the quarter, which ended in June 2020. But the most significant milestone I would call is the company crossing the net worth of INR 1,000 crores. In any company's journey, that's one of the significant milestones, which we could cross during the last quarter, apart from addressing the working capital management, which has resulted in positive cash flow from operations of INR 100 crores and then the free cash flow of INR 86 crores.

Regarding expenses has also been already discussed. And as we have mentioned in the press release, with major channel partners coming into our fold by end of March, these expenses are likely to stabilize at this level, with the caveat that research and development expenses are periodically monitored and then being moved by the requirements. And then the ANDA filing fees will vary from quarter-to-quarter. Barring that, we expect that opex to rationalize and no spikes are expected. And our contribution margins have also improved over the preceding quarter.

And any specific questions, we would be glad to take them.

Vivek Partheeban: Thank you, sir! Shrikant, over to you. I think we can open the floor for questions now.

Moderator: The first question is from the line of Hardik Shah from Prabhudas Lilladher.

Hardik Shah: Sir, the press release is mentioning that you have started API manufacturing for the CMO business. Sir if you could please spend some time in explaining the CMO business in terms of what is the overall mix in total revenue? And who are our clients?

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C. C. Paarthipan: As I told you in course of my speech, it's mainly for the captive consumption. We have identified some 10 products, which constitutes around 30% to 35% of our current business. On top of it, what we do is, since we have our own warehouses in Latin America, there is an opportunity for us to sell this API in our own warehouses in the various countries where we are currently into. And we do not do anything in the form of domestic presence so I will not be in a position to give you actually the exact details of the customers, too. Thank you.

Hardik Shah: Understood, sir. Sir, my second question is with respect to the distribution deal which we have signed with Xellia Pharmaceuticals for the marketing of products in U.S. So sir, the profit sharing is similar to that of Baxter? Or we have a different arrangement over here?

Vivek Partheeban: No. So, what we've done recently is, as I was explaining through my talk, was our bigger plan is to launch our own label in the U.S. in the next 2 to 3 years. So having that in mind, we are signing only distribution deals where we take majority of the profit, and then we give minority profit to the distribution partner who in this case is Xellia. Whereas when we were talking about Baxter's partnership, that was a different kind where the profit is equally split between the 2 companies.

Hardik Shah: So sir, right now, what will be the percentage profit for them?

Vivek Partheeban: Majority, meaning, it is anywhere between 70% to 75% to us.

Hardik Shah: Understood. And sir, in the U.S. business, have we witnessed any sort of price erosion for our products?

Vivek Partheeban: Yes. So, there is a little bit of price erosion in some products. It's a bit of a mixed bag, to be honest. But I would say that, largely, when you compare it to oral solid dosages, injectables are still faring much better. Having said that, I think, the minute we get into slightly more complex products, which we are planning to register for launch in the coming months, I think, these prices have been largely stable due to the limited amount of competition and also the complexities involved with manufacturing them.

Hardik Shah: Understood. And sir, our receivable days are around 93. Do you see this number going down to 70 or maybe below that in future?

C. C. Paarthipan: We will try and maintain this at this juncture. Difficult to say anything in the form of that we will be able to make it as 70 or 80. As you know well, that this is all unprecedented pandemic time. So, as I told you before, also, I would focus on cash flow, which is the most important one at this juncture. We'll try and conserve much

cash. That will definitely help the companies. In the process, we will definitely maintain what has been given to you in the press release.

Moderator: The next question is from the line of Chirag Singhal from First Water Capital.

Chirag Singhal: Sir, 2 set of questions. One is on the industry so I just wanted to know that what kind of market share we enjoy in the LATAM region? I have two connected questions. First, out of the total LATAM pharma market size, how much would be generics? And if you can give me in the percentage imports that happen in the LATAM - the generic imports? And what kind of percentage of that imports are we hoping to capture?

C. C. Paarthipan: Yes. The data for brand products and the institutional business is available with IMS. Generic business, very rarely they cover. For example, recently, they went for a generic survey in Guatemala. That's where they have found we stand at number two. And there are multinational companies, which are below us also. And the rest of the markets, we don't have any data to be very honest with you. And it's not only us. Most of the companies who are into generic business, they may not have any data because generic goes mostly to the independent pharmacies. When IMS go for data, they only contact, the chains. And the business that they get, the information that they get from the chains is partial. It is not holistic. So, there is nothing in such a way that I can give you what exactly is the share of generics in Latin America. Some of the details, some of the data that we get in terms of export from India. Based on that, I've told you, the #1 company from India exports to the tune of $150 million, whereas Caplin Point actually has almost completed $100 million in the last year.

Chirag Singhal: Okay All right, sir. Now coming to the revenue mix. So, we see that 10% of the total top line comes from the tender business. So, can you please give the breakup region-wise for the tender business? Which regions are constituting? From where are we generating these sales?

C. C. Paarthipan: Now, we don't have the exact breakup. Now the tender business in most of the places is slightly on the increase because of the COVID disruption. As you know well, the governments are also very keen to buy products, which are needed to handle this COVID crisis. So instead of 10%, it must be in the region of maybe 15% to 16% in the last 3 to 4 months.

Chirag Singhal: Okay. All right. Okay. Now my third question is on the channel partners. So now we have acquired all the channel partners, right, if I am correct in the LATAM region in FY '20?

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C. C. Paarthipan: 90% of the channel partners we have already acquired. Still there are 1 or 2, which, of course, we haven't taken any decision. Going forward, we'll have to take a decision.

Chirag Singhal: So is it possible to give what amount, in total we have paid for the acquisition of the channel partners in LATAM, the total amount?

D. Muralidharan: Just to clarify the modus operandi, what we did. We have bought the shares of the majority shareholder who was currently holding the share. So to say, we have acquired is a misnomer. We have become a majority shareholder in all of them, which we have taken over. We have paid them, on the basis of the net worth whatever the individual channel partners are carrying on the date of acquisition. We compensated them, on the basis of the net worth they carry in their books.

Chirag Singhal: Okay. So is it possible to quantify that, sir?

D. Muralidharan: Maybe we wouldn't like to.

Chirag Singhal: Okay. And if you can share that, what does it bring to the table, namely in context to logistics, infrastructure, fleets? Or if you can throw some light on that?

C. C. Paarthipan: See, this business, I would like to put it this way. If you look at companies, which are in the limelight today, most of the companies have become successful either because of technology because they are basically technocrats who got into business. Or people are experts in brand marketing and that kind of a stuff. 90% - 99% of the companies have become successful that way. Probably 1 or 2 companies like us, we are the one, we went for a generic business and created a front-end presence in countries like Africa and South America. And we also did the same in East Africa. We have not been that successful. The access of being from destruction, it moved to the survival. Then we moved to South America. That's where we have found we didn't see much of competition from India and China. Then, of course, we told you we partnered with some people and we took the exclusivity from them. The entire registration, all the other things, IP belongs to Caplin Point. This is how we have been doing business. And now some of the things, as the CFO said, I hope you would agree with me that disclosing everything, especially the strategies of the company, will be self-victimization. So, we will give you the information which is legally, morally needed, 100% yes. But some of the things, very minute details, we may be able to give you because of business reasons.

Chirag Singhal: Okay. Understood. Sir, out of total registrations, which we have, I think it's around 2,300.

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C. C. Paarthipan: No, it's more than that.

Chirag Singhal: More than 2,300, right.

Vivek Partheeban: We're currently at almost 4,000 registrations across the globe.

Chirag Singhal: Okay. All right. So out of those 4,000 registrations, how many have we been currently actively exploiting in terms of sales point of view?

C. C. Paarthipan: Okay. Now see, in any company, there is a saying, that Pareto Principle, 80-20. 20% of actually are products, 20% of your people. They have been effective 80% of the time, and 80% of the output. So when such is the case, why you'll have to go for so much of registration? When the customer comes to you, the customer if you can get all the products, suppose you'll have 4 different buckets in the form of life-saving drugs, general medicines, anti-emetic, anti infective and all kinds of stuff, it becomes easy for him to buy. One, he may buy for $1,000. One, he may buy for $20. If you're in the position to give him everything, then you're creating a customer experience. Then he will not even feel like going to another supplier. That's one of the main reasons we are going for volumes. In any business, especially in generics, you have to give the volume. You have to give the variety. You have to give the novelty. That's one of the reasons the portfolio of products are bigger. There are 2 products, I don't want to mention the name of products, that gives 20% of our business. 2 gives us actually 20%. Another 8 gives us 10% to 15% of our volume. That's the reason we have identified 10 products, which would constitute between 30% to 45% of our current business and decided to go for API actually, manufacturing, in a CMO facility in Vizag, which, of course, I have told you over in course of my speech.

Vivek Partheeban: Just to add to that. These 10 to 15 products that we are targeting, both in terms of our own captive consumption and also for import substitution, basically, what we are trying to do is quite simple. If we are buying them at INR 1,000 today, we want to make sure that using a CMO outside, doing our own manufacturing, we can get up to around INR 850 to INR 900, because even if we save around 10% to 15%, this would be a substantial add to our bottom line. And we are very confident because we've done large scale batches of these, and we are very confident of improving the costing compared to what we are buying from outside.

Sridhar Ganesan: Just one more point on the registrations. When we say 4,000, it is not 4,000 line items. It is 4,000 registration across countries. Line items may be 450 to 500.

Moderator: The next question is from the line of Ujwal Shah from Quest Investment Advisors.

Ujwal Shah: Sir, I just wanted to understand your strategy of moving into larger geographies in LATAM market. So how do you plan to enter this market? Which product line items? And how do you plan to manage working capital cycles over there? Because other Indian companies used to face challenges in terms of getting product approvals, working capital management, especially in larger geographies of LATAM markets.

C. C. Paarthipan: Yes. I would like to actually narrate the whole thing like this. It's true when we get into the larger markets, the lead time for registration is in the region of, say, 18 months to 24 months. That's one thing, which is true. The second issue is working capital, as I told you before, in course of my speech, we are having enough cash at this juncture. We'll continue to generate more and more cash, which will take care of the working capital cycles as well. The third important thing, why we are planning to go for larger markets is because of the fact that we've developed the facilities, R&Ds, R&D for formulation, R&D for API, CRO, all these things have happened only in the last 3 years. Earlier, we never had this type of infrastructure. That was the reason we went for an asset-light model. We used to outsource products. Even today, we source product from China, 40% of it and 20% we source from India. The most important product, critical products which are being developed by our R&D is manufactured in our factory. So the third important issue is, we have the exposure of selling medicine in South America. Whether it is Central America or other parts of South America, right, from culture to portfolio of products will be the same. And I personally have been to many times to countries like Mexico in the last 10 years. We didn't launch our products in Mexico because we never had the facility. Now that we have the facility and R&D. On top of it, when everybody is thinking of institutional market, our forte is always private market. We know how to sell our products in private market, which, of course, you will also see in the years to come.

Vivek Partheeban: I would just like to add a couple more points to that question. See, the registrations could potentially be faster recently as long as you have regulatory approvals, like EU-GMP or U.S. and some of the countries, number one. Number two, if you look at all of our $100 million business in Latin America, this business comes from a population of about 65 million to 70 million people. Now if you took only Mexico alone out, that is about more than twice the size of all of that other countries put together. So as Chairman was saying, the portfolio of products, the lifestyle, the demography and everything in countries like Mexico and Colombia are quite similar to the rest of Latin America. And finally, I think, in a lighter vein, many people have complained about Latin America as a whole. And very few have been successful. In all humility, we are also one of them. So we are quietly confident about our expansion in Latin America.

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C. C. Paarthipan: I would like to add one more thing. It reminds me like, Mexico is just one hour by flight from Guatemala. And today, we do around $36 million business in Guatemala, where the population is 14 million to 15 million. And Mexico is roughly 9x to 10x of the population. So, although it takes time to complete the registration, the opportunity is something phenomenal.

Ujwal Shah: Sure. And on the US, sir, at what size we were in FY '20? Can you give your long-term guidance in terms of next 3 years, which this scale of U.S. business would be for Caplin Point and in terms of margins as well?

Vivek Partheeban: Yes. We finished last year with around INR 65 crore of revenue. That was, of course, on a smaller base. We grew by almost 4x, 5x the previous year. In terms of guidance, I think, 3 years is too short a period. We would like to make it as a 4 to 5-year kind of horizon, which is what we've given in public earlier also. We can expect this to be a $100 million business in the next 5 years. And we have already seen signs that it's a very profitable business. I think it's safe for everyone to see pretty much the top 20 companies that we have in India, almost 15, 16 of them have made significant revenues and inroads from the U.S. only. And at around INR 125 crore to INR 140 crore in revenue, we feel that it will be a point where we will do a cash flow breakeven from this facility. So, once that happens, I think, you will see a significant improvement in our bottom line, not only for Caplin Steriles, but also for the parent company because today it is a loss-making entity, if you look at purely the Caplin Steriles part of it. So that also sort of drags Caplin Point's numbers down. But I think we're not very far away from cash flow breakeven. I think once that happens, there should be a good boost for both the subsidiary and the parent company.

Ujwal Shah: Great, sir. Can we expect it to be cash flow breakeven this year?

Vivek Partheeban: Not this year, but hopefully soon, very soon. Hopefully, next year, let's see.

Moderator: The next question is from the line of Shrikant Akolkar from Ashika Stock Broking.

Srikant Akolkar: My question is on those two COVID-19 treatment products. So, if you can describe what is the size? And when should we expect approval for those products?

Vivek Partheeban: Yes. Okay. So, on the 2 products, I will say one of them is very close because we have received the final queries. We've also responded to them. In fact, this is with the partner. And the fact that the partner has already given us purchase orders sort of shows us that this is going to be quite close. On the market size, I think this might not be the right time to guess the market size because this product has seen a huge increase in usage at the hospital, usage and also stockpiling at the hospital. I think it might not be

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the right time to look at the market size now. I think 6 months down the line, once the dust has settled around the whole COVID issue, I think might be a good time to see if this product will continue being stockpiled at this rate. The other product is our own filing. Typically, we usually see about 10 to 13 months as a review cycle for all the queries to come back from the FDA on that particular ANDA filing. But on this, we have seen that almost 75% of the queries have come within the first month. So we think that, even though it is not explicitly stated out, we think that this is getting fast tracked also. We remain hopeful, yes.

Srikant Akolkar: Okay. Second question on the APIs. I will break that question in 2 parts. One is how do you read the API prices right now? And second is, now you are going in backward integration with API facility and CMO? So if you can also explain about the CapEx you are incurring? And when should we expect this backward integration to start showing in your numbers?

C. C. Paarthipan: There are 2 parts of it. One is the API facility that we are planning to construct near Chennai is for the U.S. market. That will be in the region of INR 15 crores to INR 20 crores. It's not big. The second one which we are doing, is a CMO. So there is nothing in the form of CapEx. And in these products, which we are doing now, we're also on the lookout for an acquisition of a facility. In the next 1 year, we will know the exact wherewithal about these things, what exactly is needed in terms of people. We've already appointed some people. Do we need more people, everything? And there is an opportunity for us to acquire some facilities. They have come forward also. But during COVID period, we are not interested to acquire a facility unless we go and see everything. So currently, other than this INR 20 crores, which I told you, we haven't finalized any facility other than doing CMO in the Vizag facility.

Srikant Akolkar: Okay. And API prices?

Vivek Partheeban: Yes. On API prices, we saw that there was a little bit of a spike in the early part of the lockdowns, but they have stabilized. I was, in fact, in discussions with a couple of other people as well yesterday and today. The prices have certainly stabilized from the days of April and May.

C. C. Paarthipan: Yes. And I would like to add one more thing. What is important in the API space is, are you going to manufacture API for sales? Are you going to use the API for your own captive consumption? We have 2 advantages. As I told you before, one, the product that we are manufacturing, the APIs, will be used for our own business, one. Two, we have currently 8 to 9 warehouses in various parts of Latin America, where we will also keep this API, along with the formulation, and sell it to the local factories.

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So this is going to create a value addition to our current business. And that too, where you can take this API in the smaller geography, you may not sell huge quantities, but your profitability will be multifold.

Moderator: The next question is from the line of Sachin Kasera from Svan Investments.

Sachin Kasera: Sir you mentioned in your opening remarks that you are looking at either a greenfield or maybe an inorganic acquisition for a manufacturing facility in Mexico. So if you could give us an idea as to what is the type of Capex that would involve, either greenfield or acquisition?

C. C. Paarthipan: There are 2 ways to do business in Mexico. As I told you before, if I can get into liquid oral suspensions and then ointments, creams and suppositories and ovules, for which there is nothing in the form of clinical trials needed. When you go for clinical trials, it will not only increase your cost, but also timelines. So initially, we will go for products which does not require BA/BE studies. The other advantage that we have is, we are currently selling a lot of liquid and suspensions and ointments in Central America and other parts of Caribbean. Once we complete this facility either in the form of a greenfield or acquiring a facility, which has got all these segments of formulation, we will be in a position to export the products from Mexico to the other parts of the world, especially in Latin America, which is definitely conducive because we don't have to transport liquid from India to the third continent. So that's one part of it.

Second, if you look at companies, which are concentrating on Mexican business, most of them are concentrating on the institutional business. And if you see the data in terms of export from India to Mexico is very meagre. It's not that easy to sell, to be very honest with you. Especially, it's not that easy to sell in the institution because the local lobby is very strong. That's one of the reasons we don't want to get into the institutional business, government tenders initially. We'll go for private market because we are used to it. We have the exposure. We have made it in the smaller geographies of Latin America. We are very confident that we will do it also in the adjacent countries.

Sachin Kasera: Yes. Sir, but can you quantify the amount that we'll need to spend for either this greenfield or acquisition?

C. C. Paarthipan: Yes. See, this should be like in the form of like INR 100 crores to INR 150 crores. Cannot be more than that. Maximum, maximum. It will not be more than that. And we don't require external funding also for this one, as I told you. The entire projects for

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future in the next 2 to 3 years, both Capex and Opex, we are confident that we'll be in a position to manage it through the internal accruals. We're very confident. God forbid something, if it happens through COVID or something, then that is 1%. 99%, we are very confident, we'll be able to manage it.

Sachin Kasera: And if you go for a greenfield, by when do you think you'll be able to commission this project in Mexico?

C. C. Paarthipan: Yes. For Mexico, we would rather prefer to go for an acquisition. In fact, my son lives closer to that place. Guatemala is 1 hour from Mexico. The moment actually this COVID curve flattens, he will be able to travel. Second, if that doesn't happen, then we have to start maybe after COVID disruption is completely stopped or over. That we know very well, it's very difficult to comprehend. Nobody knows the intensity, duration of COVID, neither of it, nor actually a vaccine when it would come. So it's very difficult for me to commit that one.

Sachin Kasera: Sure, sir. Secondly, you gave an outline about how do you see the U.S. business in the next 4 to 5 years. Can you give us a similar idea as to what is the potential of revenue from the larger Latin American markets that you referred to in the initial comments over 4 to 5-year period?

C. C. Paarthipan: We will do extremely well. If you tell me 4, 5 years, we will do extremely well. I can quantify, if you want me to quantify, it will double and it will be more than that also. That much I can assure you. Since you mentioned 4 to 5 years, it will be more than double because we are getting into the bigger geography where we will not only get into countries like Chile, the private market is 30%, but that 30% is equivalent to half of the markets that we control in Latin America. And if you get into countries like, Colombia, this is another highly populous country. So these are the markets. Of course, the difference in Colombia, the prices are slightly low because it's totally controlled by insurance. Then if you get into Peru, this is again a bigger market where there's an opportunity for institutional business. We have also completed registration, like 70 to 80 products, in Bolivia. We are just waiting for COVID to be over. After that, we'll start our warehouse there. And we already registered actually like 50 to 60 products in Chile. We are waiting for our own operations to start shortly. So we're very, very confident that our business in Latin America is going to grow. It will definitely grow big. That is for sure

Sachin Kasera: Sure. And sir, on this API thing that you mentioned about. So what will be the type of savings we could get? Because you mentioned almost 10 products, which are very high

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volume and contribute almost 30% of the revenues, will be manufacturing our own API.

C. C. Paarthipan: Okay. I hope you would agree with me. If you look at all the big companies, they not only have facilities. They have formulations. They have APIs. They have CROs. They also have the best of the best market. Probably every company, including us, will have to think in that direction. So far, the success whatever you see in Caplin Point, is not because of technology or brand marketing. It's because of the differentiation in the business model. Like any other company, we also have to think of all of the things which we have told you now. Why we'll have to go for API? A) that will increase the profit by 10% to 15%. B) there will be a continuous supply because this is your own product, which means you have effective control. C) by the design of our business, we have opportunity to sell this APIs through our own formulation warehouses in South America. Again, if you look at API supply in South America, it's only 70% of API. Again, like India, they depend on China. The other stuff with actually specialty APIs go from India. So when we get into API, we will get into the smaller geographies where the profitability will be high. Our focus will not be volumes. Focus will be value.

Vivek Partheeban: And also, I think, one more point on this emerging markets API that we are doing is there are many tenders that we actually stay away from because our profitability level should not come below a certain point. But once we have our own API, when we know the 10%, 15% of our cost can be reduced by our own API, we can more confidently get into some of these tenders that we typically stay away from.

C. C. Paarthipan: Very, very correct. Okay. Most of the big companies that are into markets like Chile and other places, they enter the tender. They have an advantage. They have a CRO to do the BA/BE studies. They also have APIs so that they are in the position to compete with other companies. Now that we have CRO, we are getting into API. We have enough formulations. It's a question of time that we will be able to compete with the bigger companies because of one reason. Their overheads will be higher compared to ours.

Moderator The next question is from the line of Gaurav Shah from Kotak Mahindra Bank.

Gaurav Shah: I'm a long-term shareholder with you. And just wanted to understand, since you've mentioned you're getting into geographies, mostly in Latin America and South America, the larger ones, now this is from a long-term shareholders perspective. The so-called as the corruption index associated with these geographies is very high. So whenever we do modeling, we also consider that as an aspect. Now you as an

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entrepreneur, do you face situations where there are certain frictions and you have to do things which you don't want to do? And do you refrain from it?

C. C. Paarthipan: I would like to talk on this subject. If you look at sales of generics, generics invariably goes to the poor and then the lower middle class, am I right, except in U.S. market. And when you go and cater to the bottom of the pyramid, that's the job the politician is supposed to do. He's not doing it. That means he's not against you. When he can't do it and if you can really take care of that particular segment, he's happy because the people are happy, one. Number two, when you get into institutional business in a smaller geography, yes, that creates problem because sometimes if the politician is not straightforward, he somehow conspires with some people. I don't want to name the country and other things. They do it. And since our own family is present in this part of the world, I made it a point in the beginning, that we don't want to get into the institutional business. That's the reason I always say, we are in the private market, 90%; 10% is institutional business. That 10% has increased to 16% because of the COVID presence. Okay. That's one thing.

And then when we get into markets like, even Mexico, I never told that I would be a big force to reckon with in Mexico. I said private market. And where we'll have an opportunity to sell our products in the institution, especially in Chile is, in the whole of Latin America, the #1 clean country, I would say, is Uruguay, followed by Chile, Costa Rica. So, the rest of the countries, of course, we are not very keen at this juncture. And at a later date, we'll get into Brazil. Brazil is a mixed bag. I don't want to talk anything about it. That will be our last priority because that takes a long time. Now we have our hands full with the kind of countries and the number of countries which we want to register and cater to those markets.

Gaurav Shah: Yes, sir. That helps. But another question. So somewhere down the line you have always dominated the unregulated space. Now your foray into the regulated space by virtue of the Caplin Steriles business, well, going forward from the next 3, 4 year perspective, how much would regulatory markets contribute to your overall top line?

C. C. Paarthipan: Eventually, the regulated market will overtake the nonregulated market in terms of top line. But to me, the bottom line will continue to flourish, actually, in the smaller geographies, too. The reason is, what we do is, as we increase the number of APIs, as we increase actually more and more bioequivalence and bioavailability studies, there are hardly few companies which have got this wherewithal in the smaller geographies. Then the opportunity, as I told you in course of my speech. I will not only be in the generic generics, that is the plain vanilla generics. I'll also get into specialties in the smaller geography, which means I can get into the private market. I can get into the

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institution which are private. I'm not talking of the institution, which are government. Then, of course, when you go to a psychiatry and neuropsychiatry area, this is not like a general physician. It's very limited. That means, you don't have to go for 100 or 50 representatives. If you keep your 5, 6 representatives, they can cover the entire country, which is very small in nature. Then comes to oncology, which is increasing. If you can go for a regulated market plant, then you can sell in the regulated market and also in the ROW market. If you have a ROW facility, then you can't sell to the regulated market. So what is important is the models, markets, people, products, that's it at the end of the day.

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

Vivek Partheeban: Yes. Thank you very much. Thanks to Shrikant and Ashika team for organizing the call. Thanks to Margaret as well. I think the participation was very good and very interesting questions were asked. We hope that our answers were satisfactory. And also, we look forward to having some interactions with some people who have extra questions to ask us. So thank you once again. And I hope everyone is safe wherever you are. Thank you so much.

C. C. Paarthipan: Thanks to all of you. Stay positive. Stay safe. Thank you very much.

Moderator: Thank you. On behalf of Ashika Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.