



“Caplin Point Q2 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Caplin Point Laboratories Q2 FY20 Earnings Conference Call. 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 ‘*’ and then ‘0’ on your touchtone telephone. I would now like to hand the conference over to Mr. Vivek Siddharth Partheeban – Chief Operating Officer of Caplin Point Laboratories. Thank you and over to you sir.

Vivek Partheeban: Very good afternoon to all of you and thank you for joining us today for Caplin’s earnings conference call for the second quarter of financial year 2020. I am Vivek, COO of Caplin and on behalf of all of us present here, I welcome you to the earnings conference call of our company. So, from an investor relation standpoint, this earnings call is a great platform for us to interact with you all and we will ensure that we will inform you periodically. First, I request our CFO, Mr. Muralidharan to touch upon financials followed by our Chairman giving you a brief insight into the present and future of the company. Thank you. Over to you, sir.

D. Muralidharan: Very good afternoon. This is Muralidharan CFO of Caplin Point. Once again, welcome you all to this conference call. The numbers are already there with you for the last couple of hours. Anyhow, I will just repeat them for your sake. Topline of Q2 stood at 254 crores as against 152.9 crores in the Q2 of FY19 which is 44% growth and EBITDA grew from 62.8 crores to 78 crores which is about 24% growth from the previous quarter. PAT grew 32% i.e. from 43.5 to 57.3 crores as compared to the last year. The EPS also stood at 7.58 as against 6.21 in the previous year. We have not annualized it. It will be more than 30% growth annualized.

Coming to the H1 performance since the half year is over, we have crossed 400 crores mark, we are at 431 crores for the half year ended September as against 311 crores which is about 120 crores in terms of absolute numbers and 39% growth on a consolidated company level basis. The EBITDA grew at 28% from 117 crores to 148 crores and for H1FY20 it showed a growth of 33% from 81 crores to 107 crores as against last year’s H1. Despite increase in OPEX of 31 crores which we will deliberate as we go along, the company’s profitability and EBITDA growth are in a good level and then we remained strong. EPS also grew by about 27% and again on an annualized basis on a consolidated level compared to the last year. So, on the balance sheet side, the flip point is that we are still debt free company and the cash and cash equivalents are more than 200 plus crores. Then we are going on expanding in terms of both vertical and horizontal, the Greenfield projects are on, then we will deliberate them as we go along. Thank you.

Vivek Partheeban: Now, over to our Chairman.

CC Paarthipan: Good afternoon. At the outset, let me start with the significant changes that are happening in our company.

First, Technology and People: We started two R&D division two years ago, one for the US market and the other one for the existing market. Today, we have 4 R&D divisions for formulations and 3 for API, one more CRO for the regulated and semi-regulated markets. The

number of scientists has increased to 210. We just had two PhDs before which is 22 now. All this really helps us to increase the filing for complex and unique formulations for both regulated and semi-regulated markets. We are developing APIs for captive consumption mainly for the US and the other US regulated markets. API business will create the control and consistency for our future exports.

Then Model and Market: Our model is creating better, cheaper and faster alternative to our customers. We developed these 3 ideas into a workable business model for the existing market, better stands for the quality of the products and the generics are cheaper compared to the existing products as we have eliminated the intermediaries in the market. The concept of faster denotes creation of stock and sale model unlike other Indian and Chinese companies in Latin America, hence the increase in the inventory too. Currently, as you are aware that we are in the process of acquiring our channel partners in Latin America which will create an effective control and increase in sales and profits. This will also increase the inventory due to the stocks and transit. Now the proof of the pudding in the form of increase in sales by 39% and the increase of PAT by 33% without any debt. We are confident of increasing our business by 39% to 40% for the current financial year with strong fundamentals.

Coming to market, while we are expanding our business in the larger markets of the world such as US, China, Brazil and Mexico and we are also expanding our present business of Latin America and West Africa by increasing the number of registration of hi-tech products with the help of new R&Ds and CRO. Further, we are also aware that our current business has come from the smaller geographies except a small portion that is generated from the US market. With the expansions in the larger markets and horizontal and vertical integrations like any other big company, we are bound to grow by leaps and bounds in the years to come. Of course, we are also aware of the entry barrier in the bigger geographies like US and China; however, the journey has already started, and we are sure to achieve our goals in the future. Thank you. Thank you very much.

Vivek Partheeban:

Thank you Chairman and we would like to open the floor to questions if there is any please.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain:

Sir, I just wanted to understand more about the company, so one clarification first, what Mr. Chairman was saying that we would increase from 31% to 40%, is he talking about the EBITDA margin?

CC Paarthipan:

In fact, I mentioned about the increase in revenue madam, 39% to 40% for the current year.

Runjhun Jain:

39% to 40% for the current year, sir, I just wanted to understand more about the revenue and about the business mix, sir from where this revenue is earned, which segment is driving this revenue sir and which geography?

- CC Paarthipan:** No, this is a generic company and 85% of our business comes from South America and our business model in South America is an end-to-end and we have been doing business here from last 12 to 15 years and we have a basket of 200-300 products which consist of all kinds of injectable, liquid oral suspension, tablets, capsules, ointments and others.
- Runjhun Jain:** Sir, this revenue growth is coming mainly from South America only?
- CC Paarthipan:** Yes.
- Runjhun Jain:** And the Greenfield expansion what you have talked about that is also we are doing in South America?
- Vivek Partheeban:** No, the expansion plan that we have predominantly is in India.
- Runjhun Jain:** So, what is the CAPEX sir we are doing and by when facility would start and this would be specific to orals or injectables? Can you just give little details about this?
- CC Paarthipan:** That we repeat again. We are not getting into any manufacturing of actual tablet or injectables currently. We are more into APIs, what I mentioned in course of my speech are all R&D, R&D for formulations both in terms of injectables and OSD. Further, we are also getting into API for the formulation which we are filing in US and the other markets. We are also getting into a CRO where we will do the biostudies for our own products.
- Runjhun Jain:** So, what is the CAPEX for this Greenfield expansion sir?
- CC Paarthipan:** It is all completed, there is nothing much, except may be 5 to 10% of completion.
- D. Muralidharan:** There are certain projects which are nearing completion. Actually, coming to the Greenfield project, we have completed the injectable for ROW market in our Puducherry facility that is up and running, so future orders will come. We are expanding the second line of activities in our US FDA facility, which is in Gummidipoondi. Then we have already completed the CRO facility which is up and running and the API and R&D are in work in progress.
- Runjhun Jain:** And this is also you have done from our internal accruals?
- D. Muralidharan:** Yes.
- Runjhun Jain:** Sir, is it possible to get in touch with you for more details because this can be very basic for the other?
- CC Paarthipan:** You are most welcome.
- Runjhun Jain:** Can I get some details about the IR team or?
- Vivek Paarthipan:** You may check with the IR team on how to get in touch with us madam.

- Moderator:** Thank you. We take the next question from the line of Shekhar Singh from Excelsior Advisors. Please go ahead.
- Shekhar Singh:** Just want to know is any part of the expense being capitalized and if so, how much was capitalized in this quarter?
- D. Muralidharan:** We have not capitalized any of the expenses in the quarter. We have not done in the past, and when it is there it will be published in the annual accounts.
- Shekhar Singh:** So, all the expenses have been basically expensed out in the current quarter itself?
- D. Muralidharan:** Yes.
- Shekhar Singh:** And this CAPEX that you have done in the Greenfield facility, what is the percentage utilization currently?
- CC Paarthipan:** US FDA facility, utilization is hardly 15 to 20% now. As we increase, the number of registration is going to go up and coming to the injectable facility which we have created for the ROW market that is running in full swing.
- Moderator:** Thank you. We take the next question from the line of Ashish Agarwal from Navis Capital. Please go ahead.
- Ashish Agarwal:** Just had a question around the performance of the US business in the first half, the Caplin sterile business. What was the revenue achieved for that business?
- Vivek Partheeban:** We have revenue of around 38 crores in the first half of this year. As you might have known from our previous annual report, our last year's revenue was around \$2.5 million, so there is certainly a good jump and we intend to close the year quite strongly. The revenue is from a mix of both milestone and product exports through the US. As informed already in our press release, out of the 5 ANDAs that were approved through our facility, 4 have been commercialized and we are in the process of planning to launch the last product in the coming month.
- Moderator:** Thank you. We take the next question from the line of C Srihari from PCS Securities. Please go ahead.
- C Srihari:** Firstly, it will be helpful if you can give the breakup of the OPEX of 31.5 crores and secondly, if you could please give the breakdown, you have the cumulative filings of 12 ANDAs, how much are on your own and how much are partnered ? 31.5 crores OPEX, can you break it down for the three projects?
- Vivek Partheeban:** Is it for the profit you are asking or the breakup of the OPEX?
- C Srihari:** You had mentioned that there was some incremental OPEX of 31.5 crores.

- Vivek Partheeban:** The incremental OPEX of course is spread over all of the facility, so we haven't exactly given a breakup of which unit has incurred an exit in the OPEX. On your second question, you said how many ANDAs have been partnered out and how many ANDAs are our own, right?
- C Srihari:** Of the cumulative, the 12 ANDAs?
- Vivek Partheeban:** Out of the 12, 5 have been partnered out and the other 7 are in Caplin Steriles name. Out of the 5 that has been partnered out, 3 have already been approved and commercialized and 2 are likely to be commercialized by the next three quarters from now.
- C Srihari:** And what is the status of your filings, the 7 filings?
- Vivek Partheeban:** Out of the 7, we have 2 approvals already. We have launched the first one, we are about to launch the next one soon.
- C Srihari:** Can you give some colour regarding the addressable market size of the pending files?
- Vivek Partheeban:** As we said in our press release, out of the two products that Caplin Steriles has under our own name, the addressable market size is around 142 million and out of the other ANDAs under approval under Caplin's name itself is 255 million.
- C Srihari:** So, that is for 5 pending files.
- Vivek Partheeban:** Yes, correct.
- C Srihari:** And I have slight confusion, do you have your own API unit right now?
- Vivek Partheeban:** No, what we are doing right now is we have API R&D and we are using contract manufacturing companies to scale them up and file our DMF but once we have our own API plant up and running, we will be transferring the DMF over to our side.
- C Srihari:** Is that under commissioning right now?
- CC Paarthipan:** We are planning to go for a Kilo lab to start with and then we will think of full-fledged API unit at a later date.
- C Srihari:** Is that likely to be an FY21 project?
- CC Paarthipan:** Kilo lab, it will take one year for us to complete it because the investments are not going to be high for a Kilo lab; however we will be able to actually manufacture low volume and high value products to the extent of 35 to 40 in a Kilo lab.
- C Srihari:** I am talking about the commercial, if you intent to set up a commercial plant by FY22?

- CC Paarthipan:** The one which I mentioned is for the commercial for the Kilo lab in the later stages which is going to happen one year from now.
- C Srihari:** So, that will be totally sufficient to meet your formulation requirement?
- Vivek Partheeban:** This is like this, so whatever API that we manufacture will be captive, but not to say that whatever products we will file will only be captive API, we will be using API from outside as well as and when it warrants but you can expect quite decent sized percentage of our products to contain our own API from here onwards.
- C Srihari:** Yes, the only clarification I wanted is this Kilo lab, will it be sufficient to meet your overall API requirement?
- Vivek Partheeban:** Let me explain, I am not sure if this has been mentioned before, so many of the injectables that we are filing, the requirement of API is less than a kilogram for the entire year. So, nowadays literally one or two campaigns itself, so our plan is once our API Kilo lab is up and running it should be sufficient to handle almost 35 to 40 different APIs for our own consumption.
- C Srihari:** So, basically, the right potency products?
- Vivek Partheeban:** Yes, high value product, high value as well.
- Moderator:** Thank you. We take the next question from the line of Sudhanshu Mehta from Marcellus Investments. Please go ahead.
- Sudhanshu Mehta:** Sir, this is Sudhanshu here, just one small query regarding the financial highlight shared in your results. In standalone basis, you have mentioned that numbers of FY20 and FY19 are not comparable because there was slump sale, so if you can just give us a quantum how much of the FY19 revenues, half yearly and quarterly Q2 were pertaining to that business which was transferred to Caplin Steriles?
- D. Muralidharan:** Actually as Mr. Vivek has already put it, the transition happened in January, for the first half of Steriles which was a standalone its a consumable anywhere between 29 and 30 crores as OPEX in the last year.
- Sudhanshu Mehta:** So, whatever numbers which were published in Q2 FY19, so basically some sale as it happened in January this year?
- D. Muralidharan:** This does not contain this expenditure, this has gone to consolidated, that has got substituted, these are newer divisions which we have talked about injectables or ROWs or API, CRO, injectable, R&D, all those things have incurred expenses on a standalone basis. All this are under Caplin standalone basis.

- Sudhanshu Mehta:** Basically the concern is, is there any difference in revenue growth, consolidated number, and are your subsidiaries doing better than the Indian company, the Holdco, is it the case and if this is the case can just help us understand why is it so?
- Vivek Partheeban:** There is no difference in the way that Indian whole company is working, so basically the company is doing as it was from the last year as well. The only thing is you will start to see revenue growth a little bit more pronounced in the subsidiaries because that is the overall vision that we have a wholesome business model where we are in control of the distribution also at the last mile, so we have subsidiaries in Hong Kong, we have subsidiary which is Caplin Sterile, we also are in the process of taking our couple of subsidiaries, basically our channel partners in Latin America, so the standalone sales is definitely going to contribute in a bigger way than the standalone sales in terms of revenue growth.
- Moderator:** Thank you. We take the next question from the line of Devendra Chawla from Prasun Associate. Please go ahead.
- Devendra Chawla:** I just wanted to know a little bit more about your channel partner strategy that you mentioned earlier?
- CC Paarthipan:** our priority from China is exporting the goods actually which has been happening and currently we are focusing more on exporting to start with some of the hi-tech products to South American market, so you must have found actually an increase in the consolidated because the increase in exports which we have already started and we are also working out the methodology to register our products in China which of course is like any other regulated market which of course it takes minimum of two years. Are you talking of channel partner or China partner?
- Devendra Chawla:** Channel partner.
- CC Paarthipan:** Let me put it this way. The business that we do is something differentiated compared to actually most of our companies of our size. This is more of an end-to-end business model where we not only manufacture and export, we have an effective control over import's distribution also and we have already acquired some of our channel partners. The idea of doing this is to create an effective model in the form of ensuring better profits and cash flows in future.
- Devendra Chawla:** Will this increase the working capital cycle in the business?
- D. Muralidharan:** Let me explain supplement to what our Chairman has just now mentioned on strategy, yes it would increase the working capital for two reasons. One, the goods in transit will be the inventory, hitherto whatever was sent to the channel partners was considered sales in the books of Caplin which is not going to be the scenario going forward. Once the goods reach here and get sold only, it will be account of sales. Number two, another strategy why we want to have channel partners for ANDA is that they will not be able to sustain holding levels of inventory which is secured for expanding our business into the new market in the new avenues, so their financial ability to hold down to receivables when we hold in the government sector and then

tender business is less as compared to Caplin as a corporate entity. There is another reason why you want to bring them under our umbrella so that the overall strength of the Caplin Point is realized in going into the newer revenues in terms of market and also holding more inventory in the shares, so that when an opportunity arises, we don't miss any.

Devendra Chawla:

And what would be the margin the channel partner is currently taking?

D. Muralidharan:

That we are assessing it, varies from market to market, we will have to assess it if we are in the process of just acquiring

CC Paarthipan:

The most important issue here is the business advantage that we create for our company. If you look at our performance for the last 10 years, for a company of our size has been actually consistent mainly because of our end-to-end business model where the channel partner also played a very effective role in the business. Now that we are interested in acquiring the channel partner like any other company, some of the companies like Cipla which acquired the South African channel partner in a big way and we are trying to acquire our own channel partner as I told you, we are going to create an efficient business model in Latin America.

Devendra Chawla:

Could you also throw some light on what is going on with your China business?

CC Paarthipan:

The business that we have currently in China is an asset like model. As you agree with me any business, either you have to create a low-cost alternative or an asset like business model to increase the revenue. Now, half this year we have been actually exporting me-too generics from India and China, now you are getting into hi-tech products because of the R&D strength. We use our R&D here in India and use the same R&D formula and all these things in the Chinese companies and we started exporting our products from China to South America and West Africa. That is how actually the business at the consolidation level you must have noticed an increase. That is one thing which is happening. Second, there is a straight forward rule which clearly says that products which are registered in US can be straight away registered in China. That of course we have also started and that takes of course 2 to 3 years before we complete the registration in China and there are other models. For business reason, I am not in a position to disclose because disclose everything will lead to self-victimization. This is what I would like to convey at this juncture.

Moderator:

Thank you. The next question is from the line of Manish Podar from Nippon India. Please go ahead.

Manish Podar:

Sir, can you probably give us the sales number, for the larger LATAM markets, how much would that be in the first half versus last year?

Vivek Partheeban:

Around 83% to 85% of our revenues today come from Latin America.

Manish Podar:

Sir, that is in larger markets, let us say, Brazil, Mexico and you are catering to a lot of this?

CC Paarthipan:

We are currently in smaller geographies, now only we are getting into the larger markets.

- Manish Podar:** And could you explain the increase in debtors which has happened during, the number which is reported in the first half?
- D. Muralidharan:** The debtors as we see in two perspectives, one number of days is around 98, if I may say on a consolidated level. As I was explaining the other gentleman like inventories, receivables also will go up because when the business grows by 39%, we are necessarily going to newer revenues. We can't do the same business and gain 39%. Cash and carry business will not give me 39% growth, so we have to go into credit business and supply to tender, participate in the tenders and government organizations. There is a reason the receivables will go and therefore risk assets.
- CC Paarthipan:** I will add actually a few things to you here, whether it is delay or default in terms of receivables can be effectively handled by our people who are managing the stock and sale actually in this part of the world.
- Manish Podar:** Why I am not able to understand this thing is because I believe?
- CC Paarthipan:** There is a difference between other companies of our size and our company in terms of doing business, here I would like to mention this one this way, most of companies export their products to the importer whereas we have effective control over import and distribution and we control the last mile too, in the sense we are distributing and importing everything through our own channel partners who don't deal with any other company other than Caplin Point. Currently, you are aware that we are in the process of acquiring actually the channel partners too. When we do this one, then it becomes as I told you this one becomes very easy to monitor the stock position and also take care of actually the receivables without any delay or default.
- Manish Podar:** Because where I am finding a disconnect primarily because if I believe the tender market was roughly 10% of your sales if I am not wrong and the incline to larger LATAM markets would have actually led to stretching your working capital to from where it was earlier, let us say, last year?
- CC Paarthipan:** The markets as you rightly said as we enter into the larger markets and some of the markets are actually driven by the tender and again, we will agree with you the tender driven markets sometimes, the credit times is quite elongated, but I think we have an opportunity to go for a distributor who will pay us by taking actually some margins from us and we will identify the products where the margins are high and we will use those parts of products and sell it to the distributors who would pay us to take care of our cash flow and wherever actually the profits we feel that has to be actually concerned the route, actually directly supply to the tender business and do the business on that way. We have to balance like different stocks for different folks.
- Manish Podar:** Let us say these days which is at 100 days odd, it is the new normal or do you expect this to go to let us say expand further?
- Vivek Partheeban:** We expect the number of days to be around the same position. We will strive to bring it down lower than in a few quarters in the future, but as per industry average, we believe it is around 80

to 120 days and we think to be well within the limits, but as you can see despite an increase in the number of receivables, we have not gone for any fund being or we have not gone for any borrowers. So, we remain very self-sufficient on this.

CC Paarthipan: Let me once again reiterate there would not be anything in the form of inventory loss. As I have told you we will have an effective control because our people presence in these markets.

Manish Podar: Just final one For the US business, you expected a breakeven in FY20, is that right?

Vivek Partheeban: No.

Manish Podar: 75 crores was the breakeven run-rate for the full year, now you are at 38 you said?

Vivek Partheeban: 75 crores is the expense that we incur every year. It is not the breakeven point. Our bottomline has to be at 75 crores for us to breakeven. Like I said earlier in the call, we are seeing decent amount of traction if you look at last year compared to this year, I think if we go at the same rate, we might end up at about 5x scale in terms of revenue. But we continue investing into R&D and expansion. Internally, we have a target to hopefully look at breakeven sometime around FY22.

Moderator: Thank you. The next question is from the line of Atul Agarwal, individual investor. Please go ahead.

Atul Agarwal: Actually, it is a much-debated topic already. This is with respect to the days of debtor and inventory. So, together the company plans to keep at around 100 days if I am correct in the understanding of previous discussion?

CC Paarthipan: That is what we told and we will continue to maintain the same stand.

Atul Agarwal: And anything about the acquisition cost of the channel partners that we are investing into if company can disclose any details on that?

Vivek Partheeban: So, actually we are evaluating. As we said to the other gentleman, each market will have a different cost. What we do is we assess the net worth and then we acquired them on cost whatever is the cost, nothing more, nothing less. So, basically, with these channel partners, all of the IP, registration and product information knowledge comes from Caplin Point. So, when we started having discussions with them it was a slightly more easy conversation in terms of valuation because if we pull the plug on these guys, then they are less with stocks and receivables. So, that is why I think we have an advantage over our partners, but we will continue working with them.

Atul Agarwal: So, is there any financial numbers you would like to disclose or they will be coming up in the annual reports and all?

Vivek Partheeban: We would not share at the moment; probably something will be there in the annual report once we complete the transaction.

- Atul Agarwal:** Is there any budgeted number that you have in mind with respect to these channel partner acquisition over the next 6 months or so?
- Vivek Partheeban:** As we mentioned, there would not be any significant cash outflow for this thing. As with the channel partners, they also owe us money its more from the adjustment of the payables to us, then in terms of cash outflow, it will be very minimal which I would not be able to quantify right now.
- Atul Agarwal:** Another question is like the sales growth of the company has been 44% for this current quarter wherein the PAT growth has been 32%. So, normally we see that the growth in the net profit is much higher than the growth in the sales. So, is there any specific reason wherein the company is not able to achieve the same growth number in the PAT or increased PAT number versus the sales growth?
- D. Muralidharan:** The same growth number can't be seen in profit as we are into various activities right now which will bear fruits after 2 years be it expansion in the current facility, be it investment in API, CRO, all these are today cost centres. They will bear fruit 2 years hence. So, we will have to wait for 2 years to happen.
- Vivek Partheeban:** There is also an increase in other cost structures, group of fees and facility fees because now we started owning our own ANDAs also. So, compared to a year ago when we were in CMO, our fees were 187,000 compared to close to 600,000 for both as combined and we continue to file more ANDAs now than in the past. So, all of these are expenses which will start fructify in the future.
- Atul Agarwal:** Last but not least question is with respect to the standalone numbers, the company has been investing lot of money into expanding the local standalone unit with respect to capacity expansion and the product expansion so on and so forth, but if you look at the growth rates, probably it has been answered before, but the growth rate in the standalone numbers are not that significant. So, as I understand company has been investing a lot of money with respect to high margin products from the Indian standalone business. So, how we are progressing out there and is there any specific reason that we have not seen that kind of traction from the business for a standalone business?
- Vivek Partheeban:** So, today if you see, the mix of products that are manufactured inhouse versus outside is 40-60. So, 40% of the products are manufactured on our own and 60% from outside. While we are a company headquartered in India, it will not be correct to look at us a purely Indian based company because close to 35%-40% of our exports go out of our Hong Kong subsidiary, number one. We have started acquiring subsidiaries in Latin America as well. So, that contributes to our topline and Caplin Steriles with revenue of close to 40 crores this quarter is quickly becoming almost a 10% contributor to our topline. So, even though standalone sales continuing to show progress, it will be better to look at Caplin Point as a consolidated wholesome company rather than just standalone entity per se.

- CC Paarthipan:** I would like to add one more thing. There are India centric and China centric products which are being exported to the whole world. If you go for a product which is China centric, the cost of actually the product is always lower. If you try the same product in India by importing to API, then the cost is not going to be competitive while competing with our customers. So, we always prefer to export formulations if it is cheaper from China. We always prefer to do that way as we are controlling the front end. That has been happening for the last few years which I am sure you are aware. So, there is no point in increasing the business. It is not competitive in India and as we go forward, there is some opportunity for us to increase our India business when our Caplin Steriles start fructifying in a big way.
- Vivek Partheeban:** Now that will also be consolidated only because we have made it every subsidiary from now.
- Atul Agarwal:** Probably I will rephrase the same question, is it fair to assume that now the standalone business is supplying to the global subsidiaries of the company and they in turn are supplying to the markets, so that is why we are not able to see that kind of growth in the standalone numbers vis-à-vis the consolidated numbers?
- CC Paarthipan:** Yes, you are very correct.
- Moderator:** Thank you. We take the next question from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.
- Debanjana Chatterjee:** What are the components of your purchases of project business because it has gone up by 54% on a consolidated basis, YoY. I know it is not comparable year-on-year.
- D. Muralidharan:** The CAPEX has consumed that amount actually. The injectable for ROW market, CRO and then API, R&D facility, injectable, expansion into Sterile second line, all these contribute to the CAPEX what we have incurred.
- Debanjana Chatterjee:** So, that is included in your purchases of project business, right?
- D. Muralidharan:** Yes, purchases and also payments for the opening creditor. When you are looking into the cash flow, there was opening creditors of 15 crores incurred CAPEX creditors in the past few years which has also been discharged plus few additional purchases on advance for work in progress, all those will come into that category.
- Moderator:** Thank you. We take the next question from the line of C Srihari from PCS Securities. Please go ahead.
- C Srihari:** I had a few questions on the US business. Do the 7 pending files have a TAD firstly and secondly, you had mentioned an expenditure of 75 crores, is this the overall expenditure or only the OPEX?
- Vivek Partheeban:** OPEX is 75 crores on the plant and we have TADs for all the 7 products, TAD basically is target action date for people that are on the call. We have target action date for all the 7 products that are filed.

- C Srihari:** And is that for by FY21, are they in the near future?
- Vivek Partheeban:** We have target action dates starting from November to December, February and March and the final one in June.
- C Srihari:** So, by Q1 FY21, they are likely to get approved?
- Vivek Partheeban:** Most likely, we are hopeful. Of course, it is not in our hands. We are confident, but most likely.
- C Srihari:** Fine, that is helpful. And secondly on the China side, has that business kickstarted already?
- CC Paarthipan:** As I told you before, the exports from China to Latin America and West Africa has already started. It has been happening. There is an increase also in exports. But coming to business in China, it will take time because this market is something similar to US and other regulated markets.
- C Srihari:** So, can you please give some idea about the timelines and what is the kind of revenue you might expect down the line?
- CC Paarthipan:** Timelines maybe 2 to 3 years. Nobody is in a position to predict the timeline especially in China because there is a transition and lot of policy issues in the form of a bit of complex. So, this is a regulated market. There is a huge opportunity as well as challenges. So, nobody will be in a position to give you the exact timelines piece.
- C Srihari:** At least in terms of the products that you have identified, what could be the addressable market size?
- CC Paarthipan:** Of course, the products, I will not be able to disclose because if I disclose the product, it becomes actually again a disclosure which is not good for the company.
- C Srihari:** No, I meant number of products and the addressable market size?
- CC Paarthipan:** Number of products, that is what I said, now is happening. What is happening like products there are few stages in filing in China. The important chase in China is translation from English to Chinese that takes a very long time. That is why new company whether it is a big company or small company, they will be in a position to file 4 or 5 products initial. That is what we are also planning.
- C Srihari:** So, it will be a gradual uptick you meant to say?
- CC Paarthipan:** Exactly, you are very correct.
- Moderator:** Thank you. We take the next question from the line of Purvi Shah from Kotak Securities. Please go ahead.

- Purvi Shah:** Sir I would like to know what is the tax rate that we are looking for FY20 and FY21 and do we plan to move to the new tax regime?
- D. Muralidharan:** Just to answer that question, madam, we are deliberating it. We have not made up our mind yet. We are an R&D centric company and there are weighted reductions under 35-2(a) (b) FY20. We will have to await this union budget which is due in February. If the sunset was to get extended, we will evaluate the benefit which are getting the weighted reduction or migrating to the newer. We will take a call at the appropriate time. The government itself has given us an opportunity to choose when we want and till sunset, it is allowed to be old date it can always migrate. We are yet to make up our mind.
- Purvi Shah:** In that case, if you could just help us with the tax rate that we are looking currently?
- D. Muralidharan:** So, actually, if you see our effective tax rates, in the past also we have been hovering on MAT +/- 1%. We are around the same level as of now.
- Purvi Shah:** And do we have any MAT credits
- D. Muralidharan:** MAT credit is fully utilized. There is nothing as of now as MAT credit. We had utilized 2 yrs back and we do not carry any MAT credit.
- Moderator:** Thank you. The next question is from the line of Varun Dodhia, Individual Investor. Please go ahead.
- Varun Dodhia:** Actually I wanted to know your strategy related to the channel partners, how like it will benefit us in terms of increasing our margins because what I am looking at is our inventories are increasing because of that?
- CC Paarthipan:** Increase in inventories is definitely an advanced stage to us because our business model is totally different from any other company which is exporting from India especially the companies of our size. As I told, most of the companies, export to the importer and whereas we not only manufacture and export, we control that distribution and importing and we also supply to the last mile. In the process, this is more of a stock and sale business model which means we need to keep at least 2 to 2.5 months stock in warehouses so that there would not be anything in the form of short supply. No stock-outs that really helps the customer. There are two-three reasons the customers come to us. One of the reasons is this one. Second, we also have a basket of products. Most of these places where we are today, we have registered 200 to 300 products of generics and currently with the help of the R&Ds, we are increasing hi-tech products in this market. On one side, we are acquiring actually the channel partners which means even the stocks in transit also will increase the inventory. Second, when you increase the number of new products that will also increase the inventory. So, all these is going to help the bottomline and cash flow. This is what I would like to convey.
- Varun Dodhia:** And my another question was regard to the US market like by when we can expect the like revenue started to see in the topline significantly from FY22, 23 like any kind of rough idea?

- Vivek Partheeban:** We are targeting about 8% to 10% contribution to the topline for this year, which is only a growth, last year where it was about 2%. But taken for granted that by FY22, it should be a significant number.
- Varun Dodhia:** By FY22, okay. And another thing I wanted to ask that we have issued capital led preference shares to 8 ventures or something like I forgot the name exactly. So, how likely we are structuring that they will convert at a later date and what is the structure of the deal?
- CC Paarthipan:** The structure of the deal is that there is conversion, there is what we have currently issued is a cumulative convertible preference share. On exit, that will be converted into equity shares of the company. So, it is a timeline.
- Varun Dodhia:** So, they have to exit and then after CSL, Caplin Sterile get listed on a future date, after they will exit or how they will take that exit?
- Vivek Partheeban:** So, exit is an obligation from Caplin side. So, it could be any one of three methods. It could be a secondary sale, it could be another IPO or it could be possibly a buyback as well into Caplin. So, all the three options are on the table, but Fidelity are known to be very long-term partners and will cross the bridge when we get to it. It is premature right now.
- Moderator:** Thank you. The next question is from the line of Subbu Muruges, Individual Investor. Please go ahead.
- Subbu Muruges:** Can you tell me what your medium-term targets are like previously you had given like by 2021 you have to topline your bottomline, those targets.
- CC Paarthipan:** I would like to reiterate that we still stand by that one.
- Subbu Muruges:** You have not updated it for like recent events or updates, it is still the same target?
- CC Paarthipan:** Yes.
- Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Vivek Partheeban:** Thank you very much for all your participation and we welcome people to get in touch with us if they have further queries and thanks for all your support as usual. Thank you.
- CC Paarthipan:** Thank you so much.
- Moderator:** Thank you, gentlemen. Ladies and gentlemen, on behalf of Caplin Point Laboratories, that concludes this conference. Thank you for joining us and you may now disconnect your lines.