"Caplin Point Laboratories Q3 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Caplin Point Laboratories Q3 FY19 Earnings Conference Call. As a reminder, all participants' 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Dikshita Jain from Christensen IR. Thank you and over to you.

Dikshita Jain: A very good afternoon to all of you and thank you for joining us today for the Caplin Point Laboratories Earning Conference Call for the Third Quarter and Nine Months of the Financial Year 2019. Today, we have with us Mr. CC Paarthipan – Chairman; Mr. Vivek Partheeban – COO; Dr. Sridhar Ganesan -- Managing Director and Mr. D. Muralidharan -- CFO of Caplin Point Laboratories.

Caplin's M.D., Dr. Sridhar Ganesan will initiate the introduction of the company and throw some light on the operations. He will be followed by Mr. CC Paarthipan -- Chairman of the company who will briefly talk about the company's history, its current position and where he envisions the company's progress for the short, medium and long term. Vivek Partheeban, COO of the company will explain the company's regulated market operations, especially the progress for the US; he will also speak about the latest development with Caplin's Steriles Limited and investment from Fidelity, USA. Finally, CFO, Muralidharan will give a quick snapshot of this quarter's number.

I would like to remind you that everything that is said in this call which reflects any outlook for the future or which may be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties faced.

Now I would like to hand the call over to Dr. Sridhar Ganesan. Thank you. Over to you, sir.

Dr. Sridhar Ganesan: Thank you. Good afternoon. After about 35-years of Indian and international pharma exposure, I have now been associated with Caplin Point as Executive Director for about a year and as Managing Director for the past four years. I must add that these five years have been progressive, enjoyable and meaningful. I am a professional managing director, not belonging to the promoter's family. In fact, the uniqueness of Caplin is that there are no family members as directors on the board apart from the chairman.

How have we progressed? Five years back, our total annual revenue was Rs.175 crores. Now for this nine month period alone, the total revenue is Rs.470 crores, almost 3x. Net profit was Rs.26 crores, now it is at Rs.127 crores in the past 9-months over 5x. Number of products registration were 1,600, now it is close to 3,000, almost double. We now have USFDA approval of our injectable facility and are selling three products in the USA. We have 5 ANDAs filed for approval, and are working on a pipeline of 30 ANDAs over the next four-years. We have our own CRO and Bioequivalence Studies will be starting up in three months.

Now, to compare with some of the top performers of similar or slightly bigger pharma companies, here is one. A very progressive company with today's market cap of about Rs.8,100 crores, when the annual revenue was Rs.677 crores, the net profit was Rs.77 crores. On revenue of Rs.526 crores, Caplin's net profit is Rs.145 crores, which is double. Incidentally, for the same company for the Q3 '18-19, revenue of Rs.484 crores, the net profit is Rs.67 crores and for Q3 revenue of Caplin Point is Rs.162 crores, the net profit is Rs.47 crores.

I would like to give one more example: Another very progressive company with today's market cap of Rs.2,135 crores, when the annual revenue was Rs.625 crores, the net profit was Rs.124 crores. For a revenue of Rs.526 crores, Caplin's net profit is higher at Rs.145 crores. The above comparison shows that Caplin is a highly profitable company but we realize and appreciate the requirement of scaling up. How we are going to do that? It will be elaborated by our beloved Chairman Mr. CC Paarthipan. Thank you.

CC Paarthipan: Good afternoon to you all. I thank you for joining us today for our company's first earnings call for the third quarter of the financial year 2019.

With your permission, I would like to say a few words about the Pharma industry and also a detailed presentation of our company. As you know well, Pharma is an industry where the gestation period is quite high. Hence, we need to tread cautiously as the regulatory landscape, competition, channel consolidation, emerging patients' needs and technological breakthroughs, demand differentiated business essentials.

Now let me brief you about our current business model in Latin America, West Africa and China. You are aware that we have an end-to-end business model in the smaller geographies of Latam without any intermediaries. Here we not only manufacture and export, we also control and manage the import, distribution and supply to the last mile unlike other companies of our size. Caplin has also created a cost-effective alternative in the form of best-in-class quality generics at affordable prices which created a value monopoly for us with comfortable cash flows and reasonable profits. We also have a brand presence in Francophone West Africa which has been showing promising growth in the recent years.

Further, our business in China too, is a differentiated one. When most of the Indian companies import API from China, Caplin has been exporting formulations from China to Latin America and West Africa, from some of the largest Chinese manufacturers. We also have a QC lab that tests the products before it is shipped from China to various other markets. This "asset light" outsourcing from China has created "asset right" in the form of the US FDA facility in India. I am sure you are also aware that there are hardly any FDA approved injectable facilities for a company of our size.

I feel that it would not be out of place to mention some of the yesteryear important events which you may or may not remember. Caplin is a turnaround story - when the Rs.10 share was quoting as 0.50 paise, and also the company which became an NPA in the early part of 2000, that is when the promoter had to go to countries where most people fear to go for the turnaround. The purpose

of reminding this is to convey the following two things – One, the promoter took the physical risk for the turnaround. Two, once the company reached a turnover of Rs.170 crores, we appointed a board without any family members in addition to a professional M.D., who does not belong to the promoters' family. This is to ensure good corporate governance, which has become the order of the day.

Further I also request you to ponder on one more thing. Is there any company of our size that's managed by a professional M.D. and a board where there are no family members. Of course, I also know the fact that there are multinationals and top Indian companies such as Tatas that follow this model. Here I humbly submit that my Grandfather's name is not Jamsetji.

Again, coming back to the business, I would like to elaborate the various developments of the company. Caplin is in the process of creating a business model which is in line with the top pharma companies of our country, which is vertical integration. Further, we are also entering into various geographies of regulated markets such as the US, China, Brazil and Mexico. We are also creating three more R&D facilities for complex injectables, oral solid dosages and API. We are now in the process of establishing a CRO for our captive clinical studies mainly for a differentiation to our existing and new businesses.

As inorganic measure, we have already started the path of channel consolidation in the present markets and we will continue to do the same to create an effective control in our business which will guarantee not only increase in profits but also cash flow. Acquiring the channel partners and introducing the internet of things will ensure the concept of zero distance to customer in the form of online and offline sales.

Now it is time for me to elaborate a bit on our Chinese opportunity. You are aware that we have been present in China for over a decade and we have signed an agreement recently with the 4th largest distribution company by name Jointown in China. The urgent and important requirement of our Chinese partner is technologically superior products through R&D, the right CRO talent and also the regulatory expertise. I would like to convey that our partner has formulations and API facility but not the above mentioned talents which we will supplement. We will use the best API and oral solid dosages facilities of Jointown for manufacturing and registering the products in China and also in other regulated markets. This is in line with most of the big companies that are going for registration and creating their own facilities with Chinese partners as a medium and long-term strategy.

In the process of filing the dossier, we also conveyed to our partner that we will be the market authorization holder for the dossiers with the profit-sharing ratio of 51:49 for the product. As a short term, we also formulated a strategy to export some products where there is no license needed for importing and distribute the products in China.

Finally, the origins of the promoters are nothing but we have created something out of nothing. Now with the help of the professionals, we will also aim for a wide economic moat that will make Caplin a great entity. It is also said that "Good is not good enough when great is the

requirement". Our company today is a metaphoric butterfly, and every metamorphosis needs time to evolve. And I am sure this metaphoric butterfly will fly with the big boys of Indian pharma with greater longevity. This is not a verbal promise, I assure that you will see the tangible evidences in the near future. Thank you.

Vivek Partheeban: Good afternoon, everyone. This is Vivek. I will take this opportunity to give you a quick update on the US, specifically why we are there, where we stand, what we intend to achieve over the next 12 to 18 months. For every $100 spent in the world on healthcare, 47 of it is spent in the US. So you will agree with me that any company that is looking for a quantum leap in growth cannot ignore a market that constitutes almost half of the healthcare spend of the world. Staying true to our principles, we decided once again to take the path less travel and venture into injectables, which is an area of high criticality, requires high capital and operational spend and is usually considered as the domain of the big boys. But on the plus side, Injectables is an area that has seen the maximum number of drug shortages, mainly due to the supply issues and also seen the least erosion in terms of pricing. All these things combined together presents an exciting opportunity for us.

From Caplin's side, we have made a lot of progress in the last year and a half in terms of ANDA approvals and filings. We currently have three product approvals in the US. Ketorolac injectable which used to be owned by a company named Cyclepharma has subsequently been sold to an MNC. This is a positive development for us because the MNC that is currently owning the asset has revised the annual target for Ketorolac from 2.5 million units to 6.3 million units for the same year. There are two other product approvals that we have which are Methocarbamol which has already been commercialized and Dicyclomine which will be commercialized in the next few weeks. These two products are with our other multinational partner with Fresenius-Kabi. There is one more product pending approval with FDA which we have developed for **Fresenius** .

In 2017 we made a conscious decision that we will be developing and filing our own ANDAs and holding on to the IP and assets. We have so far filed four ANDAs of our own and we are about to file three more before the end of this financial year which will take the tally to 11 ANDAs filed from Caplin for ourselves and our partners. We hope to have at least three approvals for Caplin before the end of the year. Overall we are also working on a pipeline of 30 to 35 ANDAs to be filed over the next four years.

Let me also give you a quick insight into Caplin's plan for the next 12 to 18-months for the US business: Out of the larger pipeline, we hope to file at least 9 to 10 ANDAs every financial year. We are glad to inform you that we are getting into Complex Injectables and Ophthalmics and we have already started assembling a dedicated team of R&D scientists who have come with a wealth of experience in this area. Once again, this area of Complex Injectables and Ophthalmics is known to be a space filled only by the large companies. So for a company of our size, you would also agree that this is a significant step.

One more area where recently we found a lot of interest was contract manufacturing opportunities for the larger MNCs. Now, especially after crossing after second FDA inspection with zero 483, a feat that is commended and well appreciated by industry peers, we notice that there has been quite a lot of interest in this area. Taking this opportunity into account we embarked on an initiative to expand our capacity in the current facility to almost double what it is right now, while also adding capabilities to scale and manufacture Complex Injectables in-house. We intend to complete capacity expansion within the next 6 to 7-months. Now all of this progress did not go unnoticed. We were approached by one of the world's leading financial institutions, Fidelity, who were interested in partnering with us for the US business. As you would know, we already have reserves of over Rs.110 crores in Caplin and this is in addition to Rs.380 crores that we have spent on CAPEX and OPEX in the Injectable facility over the last four to five years. You would also know that we do not have any debt on our books, no working capital in spite of the heavy future facing investments. So capital alone was not one of our requirements, but the partnership with Fidelity offered us something more which we call as Capital Plus. Fidelity's investment arm has over 50% of their investments into healthcare worldwide and is known to be a genuine long-term knowledge partner. We also had more comfort after discussing with the companies where they have invested into earlier. All these things considered, we decided that Fidelity is a good partner that would add knowledge and value to our endeavors in US and other regulated markets.

Side bonus of this is that we will have substantial extra cash flow freed-up from our current business that we can invest into R&D, clinical research and CAPEX for our non-US businesses. We are entering into exciting stage of growth in our regulated market journey with revenues starting to come in, huge interests being generated from front-end company that are interested to partner with us and ramping up on filing a mix of simple and complex ANDAs in the US. And also with the sound knowledge partner onboard, we are optimistic about this endeavor that we have taken on and we are confident of showing meaningful benefits within the next 18-months. Thank you.

D. Muralidharan: Good afternoon, everybody. Once again thank you for joining us. This is first ever earnings call of Caplin Point Laboratories. Since this is the first ever earnings call, I thought we will just dwell upon the past before going into the Q3 of current year. Actually, our Managing Director and Chairman have already briefed about the journey thus far and the following numbers would vouch for and augment the status.

Our revenue has grown 10x in the last 10 years and the CAGR for revenue is about 27% in the last 10-years and more so the reserves and surplus have grown 72x. We are standing at reserves and surplus of Rs.468 crores as on December and the networth has grown 27x which is Rs.483 crores today.

In the last five years, we have been on expansion mode which has taken us to this level and we have invested consciously on fixed assets to create facilities which will add more and more complex products. we have invested about Rs.240 crores on fixed assets in the last five years out of our own cash accrual. Whatever has been earned in the company has been ploughed back

into the company and the dividend is 18% to 20% of the PAT. So we have been ploughing back, keeping the future prospects in mind. . The asset turnover if you ask is about 3x which is one of the best in terms of industry average. CAGR of 27% of revenue is coupled with EBITDA growth of 47%, which is more than the sales growth because our COGS was about 82% 10-years ago and it is about 45% now which is due to our conscious effort in productivity improvement and then the sourcing efficiency and what not in last 10 years. That has improved the EBITDA with growth of 47%,CAGR and PBT growth at 57% is even better and PAT is 60% CAGR over the last 10-years. And as Mr. Vivek has put, we have cash balance of about Rs.118 crores as on December which we want to use for our future requirements judiciously either for organic or inorganic growth.

Then as we also mentioned, we are debt-free company. There have been banks which have come to us and asked us to take facilities, even it on reserves and surplus but we have consciously avoided and said, borrowing will happen only when there is be a big inorganic growth that will warrant borrowing from the market.

The Fidelity what Mr. Vivek has said the investment is infused by them we have not raised funds, there is a misnomer in the industry that people have asked whether we have raised funds, we have not raised funds; somebody has infused funds into our company. The partnership will be on knowledge more than the funds aspect.

Now coming to the current quarter, which is already there with you, year-on-year we have grown about 18% in terms of revenue, 17.5% in terms of EBITDA and then PAT has grown by 16%, EPS is also therefore grown by 16% and we hope to have 20% growth on all these parameters when we end the year on 31st March 2019.

Thank you. So that concludes the presentation from the four of us. It is time for us to take questions if there is any.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: My first question is in a nine month the growth has slowed down to about 16%. So if you could give some comments there, what would be your assessment on the markets that you are operating and how much would be the Injectables business in the nine months number, some comments there in terms of what was the Injectable growth, some breakups?

Management: The maximum business we get is from south America . We register maximum of product in all this geography starting from 250 to 400 products. Hence it's very difficult to highlight the portion of injectables which contributes to our business in LATAM. Now coming to South America, you are aware that we have been concentrating in the smaller geographies. Currently we are expanding to the bigger geographies in the form of Columbia, Chile, also Mexico and Brazil in the long run. In addition to concentrating on the OSD, we are now starting an injectable facility for ROW market. We will not be using our CP4. And the business that you expect from

this facility is going to be substantial, but it is very difficult to quantify it at this moment. We will do good business, hopefully, the real business actually increase you will see only in the next year.

Pritesh Chheda: So, in the nine months bulk of revenue of Rs.477 crores is all emerging markets business which is Latam and Africa where we operate?

Vivek Partheeban: Correct, so right now our geographical break up is 84-85% of our revenues even today come from Latin America. About 12-13% from Francophone Africa, Angola, and in absolute numbers there is about Rs.15 crores of sales we have from our US Injectable business which includes both revenue and the milestone payments

Pritesh Chheda: We were at about 14 countries, I do not know the count now, but assuming that you stay in the same countries, what kind of growth opportunities possible in the same countries for you?

Management: The growth happens based on the new registrations. Because these countries which are smaller, but again, there is a consistent business that gives us the profit and cash flow. In addition to these countries, we are expanding to the new countries. So we expect actually 15% to 20% growth on the top line. Our company currently focuses on the cash flow and the profits. That will continue in the form of 20% to 25%.

Pritesh Chheda: Any reason why the growth has slowed down to 17% in nine months when you are growing at plus 25% for all these years?

Management: It is not actually that the growth has slowed down. What is happening today is we are getting into new geographies where the entry barriers are quite high which you are aware. And what is happening in the current market is in the region of 17% which you said which is fairly good actually growth compared to companies of our size. And the real growth in the way in which we expect, may be 25% to 30% we expect that to happen maybe after two years.

Pritesh Chheda: I just have two more questions. Last year we used a bit of our cash in our balance sheet to fund our receivable. So what is the status there and what would be our strategy? And second Mr. Paarthipan had given an interview in Forbes where you had forecasted about $140 million revenue for your company. So where are we on that journey?

Management: Coming to this $140 million business which as a public company we are not supposed to give the exact number, we intend to reach actually maybe two years from now. That is what I would like to assure you. Now that we are not only doing business in US, we are very sure that we will be able to create big inroads in China and that is where I have been travelling for the last four, five months, the opportunity is big, not only in terms of medium and long-term, also in short-term.

D. Muralidharan: To your first question, cash position in the beginning of the year was Rs.125 crores, which is almost intact. Rs.118 crores as of December. After funding about Rs.45 crores of capital investment, as we have mentioned in the last quarter, we have invested in acquiring some

channel partners, we have funded about 5 million in infusing capital into the new channel partner and we have also invested about $250,000 in our Jointown partnership as the first tranche of capital infusion. Despite all these, the cash position almost remains intact.

Pritesh Chheda: So there was a debtor increase, so you had a certain policy on…?.

D. Muralidharan: Debtor is about 90-days is what we have contained and we are continuously monitoring them. As our chairman has put it, the credit sales, it is not credit risk, every rupee has been realized and then we are monitoring closely on a day-to-day basis and we will amplify that.

CC Paarthipan: Now I would like to add some more things with regard to the credit risk which is being perceived by one section of people. There are two major risks while managing the credit -- One is the currency risk, other one actually, the credit mismanagement of the risk because of the business model. Most of the countries where we are present today, there is nothing in the form of a currency risk. Coming to the business model, unlike other companies of our size, we are not into exporting our products to the importer. We have a business model where we not only manufacture and export, as I told you, we also control and manage our operations, which means the whole spectrum of business is controlled by us. Hence there is nothing in the form of bad debts actually which would happen. You also can look at our old balance sheets and see whether there is anything in the form of bad debts write off. Second issue is as I told you before we have maximum registrations in all these countries, from where we get that 84% of the business. Hence the customer has to come back to us for his major requirement because of the large portfolio of products registered in this part of the world. The third issue is we are also automating the customers especially the pharmacies and clinics. That is how only we always say that we are creating a zero distance to our customers. Once we automate the clinics and pharmacies, and then we will get into a kind of online and offline business and also we are in the process of creating shop in shop which will definitely take us to the next level and these things which we create that will also increase the cash flow and profits. On top of it, why we will have to entertain credit because of the act that we enter into the new markets where the market dynamics cannot be changed. We have to work in the present market dynamics over a period of time, we will be in a position to enforce our dominance and endurance in this market. Thank you.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Batlivala & Karani Securities. Please go ahead.

Abdul Puranwala: Sir, just on the Rs.218 crores, what you have raised from Fidelity, so can you give a breakup of how we plan to spend that?

Management: In terms of the investments, yes it is Rs.218 crores, now we will be using this predominantly for the operational expenses that we incur on a regular basis in addition to our research and development. Now there is also a chance that we may use these funds for incremental CAPEX in phase-I and over a period of time we will be drawing up plans for phase-II as well. Now the entire investment from Fidelity will be used specifically for our US injectable business. We have always been investing quite a lot of our funds into R&D. I think as a matter of fact it is close to

25, 26% of PAT. And now with the latest plans of getting into complex injectables and ophthalmics, this comes at a good time for us to speed up our investments there.

Abdul Puranwala: We have issued preferential equity to Fidelity. So can you also tell me what would be the terms of this conversion and what would be the timeline?

D. Muralidharan: Actually, we are issuing CCPS and not equity right now. It will get converted at the time of scheduled exit.

Abdul Puranwala: Just some clarity on the price point, if that has been fixed for the tenure?

D. Muralidharan: Price point, yes, it has been fixed, but I do not know whether I would be able to share with right now.

Abdul Puranwala: You talk about filing ANDAs on our own name. So have we finalized the front end partner in the US through which would we channelizing that?

Vivek Partheeban: Out of the four ANDAs that have already been filed, for two of them we have already finalized the partner, in fact, couple of the milestones that we have received in the last quarter was from this partner. And as we go, we have to try and look at some sort of differentiated model in which we try and give only semi-exclusivity potentially to partners and then try and retain one of the licenses for ourselves because once we have a portfolio of products in our basket, we may even look at a hybrid model where we could potentially have our presence in the US directly. But of course, we do not have a fixed timeline for this. As you know it is a very dynamic situation in the US. So, we need to formalize our strategies as and when we get ANDA approvals from the FDA.

Management: Just to amplify to what Vivek said, despite the dilution, Caplin Point would still be the majority holder.

Moderator: Thank you. The next question is from the line of Siddhant Maheshwari from Multi Act Equity. Please go ahead.

Siddhant Maheshwari: Can you please give us some idea how big is the US opportunity for the company in terms of revenue?

Vivek Partheeban: We have been asked this question multiple times but we do not really specifically get into numbers but it is a huge opportunity for our company without a doubt and like what we have described in our earlier press releases also, we intend to make the top line our bottom line in six years and for this to happen we fully envision US to play a large part in that. And as I said at the beginning of my speech, for every $100 spent in the world on healthcare $47 of it is spent in the US. So you will agree with me that it does represent a large part of our interest today.

Siddhant Maheshwari: Do you plan any more US facility currently or not really?

Management: Of late, I have been traveling to China and I found there are a lot of facilities which can be used in the form of CMO. Hence what we are doing in India is to go for R&D and then use this to scale up at a facility available in China to register products in China as well as US. Hence, we may not go for a facility for US in the immediate future and we will do it in such a way that we will file some dossiers from the Chinese facility especially the facilities of our partners Jointown and then maybe at a later stage, when we reach economies of scale, we can think of going for our own facility.

Siddhant Maheshwari: Sir, in your beginning remarks, you said that you will be selling injectables in other countries also, Brazil, Latin America. So will that injectables sale be from US facility only?

Management: There are two facilities currently we have. One is actually the US FDA approved facility which can only be used to cater to the market such as Brazil and Mexico since it is part of the regulated markets. At the same time, the facility that we are creating in CP1, this is a semi-regulated facility and we will be getting approvals from Colombia and other countries. So we can use this facility to cater to the markets such as Columbia and Chile.

Siddhant Maheshwari: So you mean to say Injectables business in non-regulated countries cannot be catered from US facility, is that correct?

Management: Yes, you are correct because it will not be cost-effective.

Siddhant Maheshwari: Sir, do you plan any other investment in future in channel partners going forward either in China or Latin America?

Management: Yes, I hope you would agree with me inorganic growth is in the form of actually acquiring known and unknown business. To us we prefer to acquire a channel partner which is a known entity that way we will be able to establish effective control starting from manufacturing to the last mile. That will create the zero distance to our customers. Definitely, we will go for more and more acquisition of channel partners in future depending upon the priorities.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the arrangement in China. Who is your partner in China?

CC Paarthipan: Our partner is Jointown which is the fourth largest distribution company in China. Even if you get into Bloomberg or Wallstreet Journal, you would be in a position to understand the details of this company. Last year they did a business of $13 billion.

Charulata Gaidhani: So you intend to file from their facility?

CC Paarthipan: Yes, I would like to once again repeat what I have told you in course of my speech, this is the company which is very predominant in distribution and they also have facility but major issue in this facility that they themselves have accepted is absence of R&D, CRO and Regulatory

talent.We will be in a position to contribute and bridge these gaps. So, we will create the R&D, we will go for a Tech-Pack and then we will do the scale up and exhibit batches in that facility and file dossiers in China and also in other markets.

Charulata Gaidhani: How long will this take?

CC Paarthipan: Any regulated market as I told you before it is not going to be like in six months or nine months, actually over a period of time, it can take one year from now.

Charulata Gaidhani: Maybe around two years?

CC Paarthipan: Finally, the product approval of course it comes after two years.

Charulata Gaidhani: How much is the milestone payment that you have received in nine months?

Management: There is no such milestone payment here in Chinese business. On the contrary, we have actually signed an agreement with them as a partner …

Murlidharan: Let me take you through the arrangement, Charulata, the point is Jointown which is a holding company, it is $13 billion company as the Chairman explained, this is purely a trading company, we have formed a subsidiary of Jointown, we are 39% partner with that company, we will primarily start with the trading and all our products will get routed through that. Going forward, during his recent visit, Chairman has seen that there are opportunities for engaging into manufacturing and R&D as well. This is in the drawing board right now. As you rightly said, it will take two years to evolve.

CC Paarthipan: One more thing I would like to add here, for any product there are two, three stages of filing – first stage is R&D. Once the tech pack is ready, then of course we will have to go for scale up and exhibit batches. That also involves some money. This will be handled by actually our partner there. R&D aspects has to be handled from our side. Hence there is nothing in the form of milestone payments, it is more of actually some areas to be handled by Indian partner and some areas have to be handled by the Chinese partner. Eventually, we will file the dossier. We will be the MA holder with the profit margin of +51% to us and 49% to them.

Moderator: Thank you. The next question is from the line of Hiren Kedia from PM Securities. Please go ahead.

Hiren Kedia: My question is on Fidelity fund infusion. Would they also have a seat on the board and if yes then how many members on the board for Caplin Steriles will be from Fidelity?

Vivek Partheeban: We have created a subsidiary of Caplin where we have the majority right now and Fidelity is a minority partner and they do have seats on the board in terms of the shareholding right now.

Hiren Kedia: You said you own 39% partner in the JV with China but towards the end you also said that there is 51% profit share, am I unclear on that?

CC Parthipan: One is actually the JV where we have 39%, that does not mean the products that we are going to register in China should have only 39%. These are two different arrangements. Anything that is in the form of actually exporting through this joint venture we will hold only 39%. Anything that we register or anything that we do R&D for, we will go for a different arrangement. That is how I said, when we go for registration of products in China, our R&D is much more important than the facility because there are so many facilities which are idle actually, not only in China but also in India. You can even use it as CMO by giving the conversion cost. But here, they are going to spend money for scale up and exhibit batches which means they are also equally investing. They also know the most important thing in the form of R&D comes from Caplin Point. Hence the marketing authorization will be with us. Also the controlling profits in the form of 51% will be with Caplin Point.

Hiren Kedia: If it is a pure export, then it is 39% or if Caplin does the R&D and register the product, you would keep 51% profit share, correct?

Management: If it is an export, the business is going to be generated by Jointown from China or it is going to be generated any other business in the form of export from China to other countries other than what we are doing now, then of course, yes, 39% becomes 51%.

Hiren Kedia: What is our strategy on taking a contract manufacturing for the USFDA approved plant – are we seeking more of contract manufacturing or are we thinking otherwise?

Management: No, it has to be a good mix, it has to be a mix of our own product filings where we typically earn more margins and of course what happens right now is there are a lot of benefits also to be associated with very large multinationals. So we do encourage contract manufacturing but the first preference will always be given to our own filed ANDAs.

Hiren Kedia: Since in terms of timeline it would be easier to start the contract manufacturing for the products filing would go on for some time, so immediately from now we would start entering the contract manufacturing if there are potential …?

Management: You are absolutely right. So basically in the first stages of our revenue realization, we are looking at contract manufacturing of some site transfer products which we are actually doing right now, even though Ketorolac, etc., were all developed by us. For all practical purposes, it is contract manufacturing. But going forward, we try and tilt the scale towards our own products where like I said we earn more margins, we also have a profit share kind of an agreement with front end partner.

Hiren Kedia: In terms of the capital infusion for Fidelity, as you said that the majority stake would remain with Caplin, so that means it is a notch of Rs.500 crores valuation as of now on a base case for the subsidiary?

Management: No, it is much higher. I think you can work out the math with the information available in public domain.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Just a couple of questions: One, how do you look at opportunity in China meaning the in selling drug products into China? Right now I understand it is more into importing products from China and selling into emerging markets. Do you think China as a market is an opportunity, how are we placed to capture that?

Management: China is definitely a major opportunity as China is the second largest market after US. And China again I would say is a big opportunity, the reason being, they are just opening up which means whether it is a big company from China or me, the opportunity is one or the same. The only difference is the big companies have more ANDAs, to that extent they would be in a position to file dossiers in the Chinese market and they also have the wherewithal to think of a factory in the long teem. But in our case, there is nothing in the form of that we have to establish a factory, we will use the factory of our partners and file the dossiers. The first advantage as I told you is we will be one of the first movers and that would create a lot of difference for our company. #2, it is true that the professionals play a very important role in decision and filing the dossiers and other things whereas since ours is a company which is in the process of growing I have taken up this assignment personally and most of the time I visited in the last four, five, it is more of actually information gathering. Gathering the information which would give me the real knowledge and I will use it in such a way to create something which has not been created by any other company of my size. Due to some of the business reasons I may not be able to disclose everything at this juncture.

Nimish Mehta: But just a follow up, what I understand is that China market has opened up after they have got other ANDA approvals or other country approvals, fast track approval in China but do they require any kind of mandatory manufacturing in China or are there any hurdles, otherwise it looks like simple market to kind of address, so…?

Dr. Sridhar Ganesan: One of our prime ministers once said for China there are some places where we need to co-operate and some where we need to compete. So we need to understand where the opportunity lies and cooperate with them and create a model which would be in the form of uncontested. It is definitely possible and they are currently looking for R&D, CROs and regulatory skills from India and most of the products which have been registered in US is true that they are looking for this kind of know-how and they also identified some 289 drugs and ask the Chinese manufacturers to go for drug consistency evaluation with regard to the R&D. So China is opening up, there are opportunities but we will have to utilize it in such a way that we create something which is niche. That is how we look at it.

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

Ashish Rathi: Earlier once in a press release we had indicated that we intend to convert the FY'16 top line into FY'22 bottom line. If we look at the run rate from here on it appears to be only 16 to 17% growth

in bottom line to achieve that number of around Rs.230 crores. Your comment on this like should we be able to easily surpass that number much sooner than 2022?

Dr. Sridhar Ganesan: We are confident of what we have committed and it is better to actually underpromise and overachieve.

Ashish Rathi: Sir, there was a plan from our side to increase the presence in the number of pharmacies that we are present in Latam. So we were at around some 3,000 pharmacies our products were there compared to some 12,000 in the market and I believe there were some very base healthcare portal that you were promoting from our side to the pharmacy what is the progress on that sir, have we been able to penetrate more pharmacies?

Dr. Sridhar Ganesan: Yes, I agree with you. We are using this portal to automate the clinics and pharmacies free of cost and it is happening which helps us to get the data, there are two, three things which we have already found up from this data; a) the products that we supply to the pharmacies, we are in a position to understand whether products is sold or not so that it becomes easy for us to collect the money and also we understand which are the products that sell well in the pharmacy and also we look at the competitor data so that we are in a position to increase our sales by requesting the pharmacy who get this free automation as a favor, in turn we expect a favor from them in the form of increasing our sales. So this has created a shift from sales from distributors to pharmacies and this has been helping us actually in one or two countries where we have started using this portal mainly in Guatemala and Honduras. We have plans to enter various other geographies also.

Ashish Rathi: Branded generic as a percentage of sales for us now and what is the outlook on that?

Vivek Partheeban: It is around 22-25%.

Ashish Rathi: What is the outlook? There is going to be a change more favorably towards branded generic or this is the kind of level that we should expect because it requires capital, etc.,?

Dr. Sridhar Ganesan: Any generic which you blend it with data, it becomes actually in a brand.

Ashish Rathi: I am asking from the company standpoint, we are a mix of branded generic and generic-generic. So generic-generic you require as much working capital from our side. So we had a plan to cap the branded generic growth as a percentage of sales for the company at a certain limit I believe. So, what is the kind of trajectory for the company as a percentage of total sales, where will the branded generic peak out is my question?

Dr. Sridhar Ganesan: To be honest with you, the exact percentage we will come to know now by the end of the year but the business of branded generic is on the rise and the plain vanilla generic we are also making it as a brand by way of actually automating the clinics and pharmacies to get the data. Once the data is obtained, automatically that **will give cream** to the plain vanilla generics also.

Management: I think another thing that you are asking about is will we be capping the sales of the branded generic at some point, is that correct? What we discussed earlier is that our big cash cow is plain vanilla generics, right. So what happens with brands is that it takes a while to get established. So it might result in some credit sales especially in the newer markets and stuff. So because of that, even though we would like the branded generics to go up as much as possible, it has to be regulated so that our cash flow does not get affected.

Dr. Sridhar Ganesan: In fact, I have not conveyed; the most important point is there are two ways of creating a brand as you know well – one is brand for the products, whereas our business as a brand, as a model is sells with the brand because there is no other company which actually controls imports distribution and the last mile in addition to a portal which automate the clinics and pharmacies. Hence the very business model has become a brand. That gives us enough cash flows and reasonable profits on the long run.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consultant. Please go ahead.

Hari Belawat: This is regarding what is the revenue you are getting from Latin America countries. And is there any payment problem particularly from Venezuela which we had seen with other companies?

Dr. Sridhar Ganesan: Currently, we do not do any business in Venezuela. As I told you before 84% of our business comes from Latin America. All of them are in dollars. As I told you before there is no currency risk in countries where we are currently operating in Latin America. I once again reiterate there is nothing in the form of credit risk, it is more of credit sales like any other company that has not gone to a credit risk in the form of write-offs and long-term bad debts.

Moderator: Thank you. The next question is from the line of Nikhil Davda from Motilal Oswal. Please go ahead.

Nikhil Davda: A couple of questions: So, this is related to Steriles. Which part of injectables value chain are we going after in regulated markets and how much would Caplin Steriles form part of revenue and profitability for Q3 and nine months?

Management: In terms of revenue like I said, absolute number we are at about Rs.15 crores for the last nine months. In terms of the value chain per se, I am not too clear on what you mean, but we are into general category, liquid injectables for the US we are putting in place the capabilities to manufacture complex injectables as well and we are also expanding our capacity to accommodate contract manufacturing operations as well in addition to our own filed ANDAs. On a larger pipeline, we are working on about 30-35 ANDAs to be filed over the next four years which will be a good mix of simple and complex molecules.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Firstly, on the numbers, want to know what is the milestone payment during the quarter and the year-to-date? Secondly, have you adjusted for the US subsidiary – has the OPEX part been

adjusted in the standalone number? Another question to Mr. Vivek. If you can give some kind of guidance for the injectables business, however long term it maybe, that would be really helpful?

D. Muralidharan: First to answer your question on the Q3 revenues, it is about $1.25 million in terms of milestone payments. As the subsidiary was formed and hiving took place during January, this is forming part of the standalone results what we have declared for the quarter. Going forward it will get consolidated with Caplin Point Laboratories. Caplin Steriles is the subsidiary. Hiving took place during current quarter. So going forward only it gets consolidated. As of third quarter it is forming for the standalone revenues what we have reported.

Management: The milestone was about $1.25 million.

C Srihari: That is only in Q3?

Management: Yes. In terms of guidance, we have already discussed last time also. We do not want to get into numbers right now but once again we reiterate that for our top line to become the bottom line like we have declared, we fully expect the US to play a large role in it and we are fully convinced that it will happen also.

C Srihari: You have given a guidance overall. So, we will have to consider the whole picture and then try to find the missing piece?

Management: When we talk about Caplin, we are talking about the overall picture only right now.

Moderator: Thank you. The next question is from the line of K R Senthilnathan from Crest Wealth. Please go ahead.

K R Senthilnathan: Sir, in your statement you have mentioned that CRO will be commencing from June 2019 onwards. Just want to understand like will the CRO be fully used for China joint venture or will it be contributing to our standalone also?

Management: This will constitute for the captive clinical trials which we will do for our own products. In addition to that, we are also looking at opportunities which can be after some time.

Management: Yes, we will also use this both for our own actual products in addition to the China requirement.

K R Senthilnathan: When can we expect revenue from CRO at the standalone level sir, not with the China JV, if at all if you are having any opportunity?

Management: Initially, we are going to use it for our own products because these are the products which would create a huge value for the company in Latin America. Hence, we are not very keen to go for the commercials through CRO. We will use it as a model that would enhance actually advantageous for the company in the initial stages.

Vivek Partheeban: There is one more big benefit to that; when we worked out the mathematics, doing a product in-house has multiple benefits -- #1, the cost of which would only be around 30-40% of what we would pay if we were to do it outside. #2, as you would have noticed, many of the CROs are also getting into issues these days in terms of compliance and regulation and stuff. This is something that just like how we are maintaining the plant compliance at a very high level, we would like to make sure that we follow the same sort of principles for the CRO. So we are in-charge of the data, we are in-charge of compliance and we are comfortable, that is it.

Moderator: Thank you. We have the next question from the line of Akash Salle, an investor. Please go ahead.

Akash Salle: Can you please give an overview of your five-year vision for the company, so, what I am trying to understand is what is the strategic direction for the company for the year until 2024?

Management: Let me put it in a nutshell. We have zero distance to the customer as far as our South American business is concerned and zero tolerance in our facilities for data integrity,that is going to be the major factor that contributes to the success of any business in the US market. In addition to that, we will also concentrate in some of the biggest geographies in the world in the form of China, Brazil, Mexico in future. Currently, we are expanding in some of the geographies of Latin America as I told you before in Chile and Columbia. So the business will be increased in the existing markets as well as markets of South America where we have not entered before. After that the shift will be to bigger geographies where most of the big players are concentrating on. Using our current facilities, also the facilities of our partners in China, we will focus on all these geographies. I am sure this would give us the substantial volume which we would need going forward.

Moderator: Thank you. We have the next question from the line of Subbu Murugesan, an investor. Please go ahead.

Subbu Murugesan: One question I had was with respect to the deal with Fidelity, you said they have about approximately 25% stake in the subsidiary, and they have invested Rs.280 crores, overall valuation of about Rs.870 crores. So when they convert, the valuation will be fixed and 25% is the maximum they could get, right?

Vivek Partheeban: Several parts of the deal is confidential right now. We are very comfortable with the valuation, we are very comfortable with the partners right now, but we do not want to get into too many details on what is the conversion rate or anything like that. Like I said, it is very early stages and it is also confidential.

Moderator: Thank you. We have the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: So the follow on, the $1.25million that you mentioned that to reflect in which line item? And secondly, the OPEX of the US facility which I think is running around Rs.60 crores, is there any change, and if you can break down in terms of the product development expenses and others?

Vivek Partheeban: Today, like you said, we are spending around 60 to Rs.65 crores on the operational expenses of the Injectables facility alone. This includes R&D expenses also. I do not have the exact break up on the back of my hand, but if you could write to us, we can send you the exact breakup.

Moderator: Thank you. We have the next question from the line of Rajat Singhal, an investor. Please go ahead.

Rajat Singhal: Paarthipan ji, would you be able to share company's internal policy if any on dividend payouts and share buyback especially given the light that the company's growth rate has slowed down a bit compared to its historical growth rate?

CC Parthipan: Dividend is an issue which I have to discuss actually with the board of directors. At this juncture, to be honest, I may not be in a position to throw light on that one. And also I hope that the dividend that we paid now is reasonably good compared to actually other companies or other constitutive companies. Am I right?

Rajat Singhal: I just wanted to get a handle on how does the company think about issuing dividends or about engaging in stock buybacks given that the return on capital for Caplin is pretty lucrative and that the internal growth rate at least projected over the next 3 or 4 years is slightly short of return on capital. So I was just thinking if the company is thinking along the lines of engaging in stock buyback. So, any other ways of value accretion?

Management: Actually, we are looking at the opportunities in the form of expanding the business in the countries where there is a huge opportunity, because being a mid level company, not many are venturing into the bigger geographies such as US and China. So the first priority is to focus on the business essentials. And currently we do not have any policy with regard to the dividend payout and other things which you are talking about. However, I will discuss with our board of directors and get back to you.

D. Muralidharan: Just to clarify gentleman, the ROC is not declining, it is hovering around 50.

Moderator: Thank you. We have the next question from the line of Siddhant Maheshwari from Multi Act Equity. Please go ahead.

Siddhant Maheshwari: My question is whether US facilities currently rented out to any other manufacturers till the time it is fully utilized?

Vivek Partheeban: No, there is no renting out or any concept of that we will be interested in. this is fully a part of Caplin Point.

Siddhant Maheshwari: Of the total sales, how much is from the outsource to business model?

Vivek Partheeban: So we have three types of manufacturing that we are doing right now -- One is our own manufacturing which is around 40%, there is another big part of our manufacturing that happens

in China that is around 35% to 40% or so, the other 20% to 25% is products that are outsourced out of other Indian companies.

Moderator: Thank you. We will take one last question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Yes, in terms of capacities for injectables, you said you would be doubling the capacity. Can you give the capacity in units and the current levels of utilization?

Vivek Partheeban: So as you know we have three product approvals in the US right now, but because we are filing multiple ANDAs from our site, even though our capacity utilization is not very low, it is actually somewhere around mid range but most of it is to scale up and exhibit batches that are used to file ANDA. On absolute numbers, we are about 18 million vials in installed capacity for one of the lines, the other line we are converting it to another high speed wireline which is about to get imported from Italy and when it is done in the next six months we would be looking at about 40 million vials capacity altogether.

Charulata Gaidhani: Your current level would be more than 50% utilization or…?

Vivek Partheeban: It is difficult to put a percentage on it right now because all of them are not for commercial manufacturinsg, many of it is scale up because when you file a product in the US it is 12 to 18-months process where you have to do multiple scale-ups, trials and R&D basically. It is difficult to put an absolute number or even a percentage on the utilization of capacity right now.

Management: Trials cannot be equated to commercial production. There will be several iterations going on.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to the management for closing comments. Please go ahead, sir.

Management: Thank you everyone for logging in to our first investors call. We hope it was useful. If you have any follow on questions, you could always write to us and we will try to answer back within the shortest period and we will also let you know the next time we prepare for an earnings call also. Thank you so much for your participation.

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.