“Caplin Point Laboratories Limited
Q3 FY2021 Earnings Conference Call”

February 04, 2021

ANALYST:	**MR. AMEY CHALKE - PHARMA ANALYST - HAITONG SECURITIES**
MANAGEMENT:	**MR. C. C. PAARTHIPAN – CHAIRMAN**
	MR. VIVEK PARTHEEBAN – CHIEF OPERATING OFFICER
	DR. SRIDHAR GANESAN – MANAGING DIRECTOR
	MR. D. MURALIDHARAN – CHIEF FINANCIAL OFFICER
	MR. M. SATHYA NARAYANAN – DEPUTY CHIEF FINANCIAL OFFICER
	MR. VINOD KUMAR – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Caplin Point Laboratories Limited hosted by Haitong Securities. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Chalke, Pharma Analyst at Haitong Securities. Thank you and over to you, Sir!

Amey Chalke: Thank you. Welcome all to Q3 FY2021 earnings call of Caplin Point Laboratories. From the management side, we have Mr. C.C. Paarthipan, Chairman, Mr. Vivek Partheeban, Chief Operating Officer, Dr. Sridhar Ganesan, Managing Director, Mr. D. Muralidharan, Chief Financial Officer, Mr. Sathya Narayanan, Deputy Chief Financial Officer, and Mr. Vinod Kumar, Company Secretary. Over to you Vivek!

Vivek Partheeban: Thank you, Amey. Hello and good evening everyone. We are pleased to welcome you all to our earnings call for Q3 and our nine months yearly results. Please note that the copy of our disclosures is available on the Investor section of our website as well as the stock exchanges and also please do note that anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunctions with the risks that the company faces. With that I would like to hand over the floor to our Chairman, Mr. Paarthipan, to take it off.

C.C. Paarthipan: Good evening ladies and gentlemen. Welcome to our earning call. At the outset, some of the key milestones of the past and present: Cash and cash equivalent stand at Rs.426 Crores as against the revenue of Rs.796 Crores, so the cash is more than 50% of our revenue. Number two, cash flow from operations for the last nine months stands at Rs.223 Crores as against Rs.44 Crores in the last year with consistent growth in topline, EBITDA and bottomline. Caplin, a turnaround story reaching the status of second position as a wealth creator in the last decade by selling simple generics in semi-regulated markets of South America and that too in smaller geographies. This news appeared in Economic Times on December 31, 2020 and we also secured the position of 36 among the top formulation companies of India and 759th position among the 1000 pharma companies of the world as from Torreya's report. The above message reflects how we performed as a mid-size company compared to our peers. Caplin is a debt free company, which you are aware and there are no bad debts also in the market's subsidiary.

Now the benchmarks of present and future: Caplin is on the cusp of significant change in creating tech architecture. The CNBC TV has featured Caplin as the number one company in India across all industries with regards to R&D spend as a percentage of revenue in the last 5 years.

Today, we have two API R&D and two formulations R&D and one CRO for clinical studies with close to 400 scientists working in our company. We have developed 25 to 30 unique injectables APIs for US market, which can also be sold in various other markets of the world. We are in discussion with an API company for acquiring the facility in which we will start our own API

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

plant immediately. Our new API facility is not only for the injectables, but also for OSD and oncology. We have already bought the land, it is 18 acres in place called SIPCOT Industrial Estate in Thervoy Kandigai, near Chennai which is next to our injectable plant.

Our API R&D team has already identified close to 40 APIs, which we were planning to manufacture from the key starting material to API, which means we will not only manufacture the API, we will also manufacture the KSM and intermediates, which alone could prevent the dependence of external companies or countries. Our formulation injectable R&D has developed many simple and complex molecules, which are in various stages of registration. Further our oral solid dosage R&D has developed more than 100 products, which are in various levels such as translations, filing and the registration in several parts of South America.

Our CRO is also to file the documentation in February that will trigger inspection for US FDA, and we are very positive that we would get our approval mostly in six months from now.

Now let us take up the various projects of future. We recently bought four readymade buildings measuring 1,52,000 square feet, which came from an auction. These buildings were constructed by a pharmaceutical company, which became NPA. We already started the design drawings and we are planning to go for an oncology plant for tablets, capsule and injectables for regulated markets in this building. We are in fact sure of completing and starting the commercials in 18 months from now, we also have plans to go for OSD and hormone plant for regulated markets and entire funding for our capex will be from our internal accruals.

Now, let me highlight recent changes in Caplin Steriles. The second line for liquid injectables is already on stream. Number two, currently we have sufficient capacities for liquid injectables vials and ophthalmic production. Number three, we already received the machineries for the upcoming Pre-Mixed Bag production project, which will be installed in the current year itself. Number four, we will start our PFS section and also a third Vial line with Lyophilization capacity in 2022 and we also have plans to go for a dedicated line for emulsions in 2023. Once we complete the installation of all the segments, we will probably be one of the companies of our size to have many segments of injectables area, which will be instrumental for a mega growth in North and South America.

Now let me highlight the major opportunities for future. We now have two legs of the pharmaceutical business, one is the business model differentiation in various markets, international private markets especially and the second one is that tech architecture to accentuate the positives to remain relevant and create a sustainable competitive advantage both in private and tender business like any other big company.

The key starting materials to formulation will create a leg up for Caplin in tender business in many countries. As you know well, the tender business is very voluminous with more number of competitors; however, Caplin’s end-to-end technology platform will create an advantage for many products in tenders. Further the cash flow will continue in future, which will create

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

advantage for our company for R&D projects both in terms of Capex and Opex. We will also attract and retain relevant human resources using our unique ESOP scheme.

Now let us look at markets and registrations. Indian pharma exports to Latin America increased by an impressive 23% reaching $790 million in the first 8 months of April to November. This clearly shows the opportunity in our major market. We are increasing our registration in the current markets not only for generics, but also for unique products for brand marketing. We are also expanding to bigger geographies such as Mexico, Brazil, South Africa, and others. Our first order from Mexico is being processed now. We appointed people from India for brand marketing and also as country heads in the new markets of Latin America.

So, in a nutshell, our future business will be based on the following. A. Focus on the cash flow first with the consistency of growth in bottom and topline. B. Add new revenue stream every year. C. Keep cost under control while keeping an eye on quality, integrity, safety, and security. D. Enrolment of key people for the next level. E. Efficient allocation of capital for various projects right from KSM to API and complex molecules for regulated market and also fast track registration to achieve the break event for the new projects. Thanks to all of you.

Vivek Partheeban: As Chairman has indicated, I will just give little more detail on Caplin Steriles, which is our US and regulated market business. We have been having pleasant surprises in terms of approvals, in fact, when we conservatively earmarked around 11 to 14 months per product for approval, we had three approvals in very quick succession - one in nine months, one in 10 months and the other one, very surprisingly, in six months. So we have three very quick approvals recently and we are putting together plans to launch these products as soon as possible, so basically, in total, we have launched seven products in the US so far and then the next five to six products will be launched in the coming three to four months.

Our capacity in our vial line one is running at a high level and vial line two, you know it is new, it is starting to get filled up when it comes to capacity for the commercial products and exhibit batches. We are putting together plants to add the next two lines as the Chairman had explained in his note, the other two lines are going to be one vial line with high Lyophilization capacity, which will probably come on stream sometime next year and then the following year we are going to have completely dedicated line for injectable emulsions. We are getting into good partnerships now for all the products that have been approved.

Most of these partnerships are long-term and also, they are designed in such a way that they do not restrict Caplin from launching our own label in the markets if and when we decide to do so. When it comes to market share for the products which are present for more than two years we are at about 7% to 10% on an average, 7% for products where there are more than 8 or 9 competitors, 10% and above for products where we have about 5 or less. Of course, we would like that to be at least 10% to 12% for all products overall and we are working towards that with our partners.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Going forward, starting from this year itself most of the products that we will be filing will have some amount of complexity involved because we have completed most of our products, which were considered as simple solutions. Now, we are getting into the complex product so it could be emulsions, it could be suspension, and it could be products that are difficult to manufacture also. We are going to be filing our first three ophthalmic products by Q2-Q3 of this year and we are also making good progress when it comes to non-US markets. We have already signed up a partnership with JAMP Pharmaceutical in Canada and we are in discussion with companies for entry into South Africa, Brazil and Australia within the next few months. When it comes to revenues, this year we have seen, there is a significant increase in terms of product revenue, which is understandable considering we will be launching products in the markets and there is a little bit of reduction in terms of milestone revenue, but going forward this will be the case because our more significant revenues will be coming from product launches and product supply and milestones will start to reduce, but will be replaced by what we call a profit share because almost all of the partners we are having right now we are doing a profit share where the net profit will be shared with us from the front end. That is it for now, so we can open up the floor for question right now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

Shrikant Akolkar: Just wanted to get some clarity on the tender order that we have this year, so if you can clarify when does it commence and the kind of margin profile that we will have?

C. C. Paarthipan: There are emergency tenders now in Central America; emergency tenders are related to COVID-19 issues, which of course you are aware. We received tenders in last 6 months, half of which we have already completed and rest of it of course will go in the last quarter of this year. The margins are very good, the reason being it is not easy for any and every company to export these products, as there is a huge shortage of raw material, some of them have to be imported from the neighboring country and some of them are in the form of containers which also creates a lot of issues. But the advantage that we have is, we already have stock close to customers, which you are aware, because ours is a stock and sale model so that gives us an opportunity to cater to the market without much hurdle.

Shrikant Akolkar: Sir, how much of that tender would we already have completed so far?

Vivek Partheeban: So, there has been continuous tenders coming through. This $10 million that we had spoken about, was received only in the last month-and-a-half and we are going to start supplying, it will be supplied over the current quarter and the next quarter.

Shrikant Akolkar: Understood, and the other question is on the US revenue, so I think US revenue for these 9 months would have been around 65 Crores to 66 Crores and we have guided a 100 Crores revenue in this fiscal, so where do we think that we will end up? 100 Crores? Can we go ahead more than 100 Crores this year?

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi, Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Vivek Partheeban: We have completed revenues close to 60 Crores, we are not at 60 Crores at this moment. We are at about 54 Crores to 55 Crores right now. We are confident and expect to finish this year close to 100 Crores, I am not sure if we will cross 100 Crores, we will have to take into account that there have been significant delays in the man and material movement between the months of April to October, which sort of delayed some of our qualification and launches in the market, I will not call this missed revenue. These are shifting of revenues from current year to potentially next year I think even if we finish it at Rs.90 Crores to Rs.95 Crores, it still represents about 50% to 55% increase over the last year, which is good and the other thing to take into consideration is, there will be a big shift upwards in terms of product revenue, which is what is long lasting, which is what is more predictable in the markets.

Shrikant Akolkar: One more question and then I will join back the queue, so now we are doing about Rs.300 Crores of Capex over next 30 months, so just wanted to understand about the free cash flow expectations over the next 3 years?

C. C. Paarthipan: The project that we are planning, as I told you before is all the products that we are going to manufacture from the projects such as oncology and others. These products have very good demand in the market and to be very honest with you, we will also not make the mistakes which we have done in Caplin Steriles, in the sense we commissioned the plant and we were not in a position to attract the R&D talent when we went for our Caplin Sterile plant, whereas today our company is also visible and we also go for the ESOP to attract the talent so on one side we are commissioning the plant and the other side we have already developed some of the products and we are using a third party manufacturer to file the registration so by the time we start our commissions we would have completed some of the registration and we will only shift from other factory to our factory, which means we are very sure of achieving the break even without much difficulties. We are sure that we will be in a position to maintain the current ratios, we are very sure for the next 2 years, after that starting from 2023 and 2024, we expect a mega growth for Caplin Point.

Shrikant Akolkar: So, we can deliver the free cash flow even after Rs.300 Crores Capex over the next three years?

C. C. Paarthipan: Yes, sure of cash flow. It may be little higher or lower that we will have to wait and see, what is important our focus will be more on cash flow, but at the same time when we start investing more and more in the facility it may be slightly lesser, but we will never go for borrowing, it will be only from the internal accruals. Any project that we do here. it will be only from internal accruals, so whether we achieve the same level or slightly lesser it is not going to affect the company's future.

Shrikant Akolkar: Understood. I will join back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Sonia Lalwani from Pareto Capital. Please go ahead.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Sonia Lalwani: I have a few questions, first question is, you have been alluding to new launches past two to three years, focus on tender business, proportion of branded business getting increased and even injectables to LATAM so given that Caplin has considerable understanding of LATAM markets, how much incremental growth we can expect from all these initiatives in the LATAM market in the next 2 to 3 years' timeframe, if you can quantify some of these initiatives?

C. C. Paarthipan: There are three business that we have mentioned; one is the tender business, brand business and injectables. All these involves time, as you know well when you get into larger markets, the entry barriers are quite high. The registration takes its own time. Then, coming to brand marketing, whether it is brand marketing in India or overseas it takes its own time and then coming to injectables, the business that we are going for in injectables is more of institutional selling. Of course, we will be in a position to achieve with short and medium opportunities; however, we are sure that we will be able to maintain the current growth ratio, the CAGR will be the same or slightly higher, but to quantify in number, it is not that easy as we are not in a position to start the brand marketing as of now. At the same time, tenders are also happening now, it is more of emergency tenders and we will continue to do well in spite of COVID. COVID is surely flattening, we will be able to do it because of the fact there will be a lot of traffic and lot of congestion in ports and then containers have not been in a position to get it on time also. For company like ours, we always keep goods next to the customer as I told you before, at any point of time, we will have goods more than Rs.100 Crores to Rs.150 Crores in these places, by the time we arrange the container, we always have goods to sell, so our sales will not be affected, the ratios will be maintained, phenomenal growth will start only after 2023 and moreover paying 2000 to 3000 extra or even 5000 extra for a container is not much important to us because the cost of opportunity is much more important than the cost of the container. We are sure of selling at a higher price because of the stock and sale model. Suppose you sell to an importer, the importer will take the goods from various manufacturers, but when we sell to the customer we will watch the situation and then decide when to sell and how to sell at a higher cost, these are the few things, which I think probably will convince you to understand our business model.

Sonia Lalwani: Surely. Thank you so much. Second question that I have, is on the US injectables business, so I think Mr. Muralidharan can give numbers on what the asset turnover could be on the new capacity that is coming up and what is the expected timeline for achieving this kind of asset turnover and also whether regulatory approvals been place for this new capacity?

Vivek Partheeban: I will just answer the second part of the question, so as per FDA guidelines if you are adding an additional vial line, as long as it is under the same building, under the same quality system, they call it the FEI number that is FDA Establishment number; as long as it is under the same quality system then it is only an annually reportable change, so we will need to just inform FDA that we have added another line, so it does not require any inspection

Muralidharan: Asset turnover ratio, actually it will be more practical if you see two to three years hence because we just invested and the current year turnover and asset as we speak, it will be about Rs.100 Crores, Rs.90 Crores to Rs.95 Crores, which means it will be about 1:1, going forward without

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

much addition to the capex, we should be able to do 3x kind of turnover with the capacity what we have today and if all goes well with the plant capacity enhancement, then three years from now definitely it will be 3x will be asset turnover.

Sonia Lalwani: So, you are saying for the short-term it is 1:1 and may be for the longer term it can go up to 3x?

Muralidharan: Yes, in the medium term.

Sonia Lalwani: In the medium term, okay and Sir, when can we achieve this kind asset turnover with the break-even point?

Vivek Partheeban: We feel that from a cash flow break even angle, (excluding the R&D expense) according to our estimates we feel that it should be anywhere around Rs.120 Crores to Rs.130 Crores. We are not far away from that, right? I mean, we expected to achieve that this year, but because of some disruption due to COVID, we were not able to do it, but we are not far, we feel that next year it should be very much possible.

Muralidharan: I just like to supplement what Mr. Vivek said, the break even here actually when we take the expenses, we charge off the R&D related expenses and filing expenses, which many companies have different view point and they give different treatment, but conservatively we are charging off the R&D expenses and the product development expenses. So, the break-even is misnomer because we concentrate more on building more products so that in 2 to 3 years we should be in a position to take advantage of these products. So, what Mr. Vivek meant was excluding the R&D related and filing related expense if you have to see as a commercial operation, it will break-even even at the current turnover.

Sonia Lalwani: Got it. Thank you. Sir, I have a third question, if you can just tell about how much revenue we can achieve from four ANDAs that will be launched in the next two months, a ballpark figure as to what could be potential revenue?

Vivek Partheeban: Of course, we do not want to get into numbers at this stage, even though this is very short-term what we do give out is an addressable market size of the product as and when we have our ANDA approved; we are working with very high-level partners. In fact, some of our partners are largest companies in US and they will do justice to the products. We are very sure of that, so we would like to look at it from an overall revenue angle rather than on product to product kind of a basis because as you might already know there is an intense competition in the US, there is no doubt about it even though injectables there is lesser competition compared to orals there is still significant competitive landscape in the US right now, but from an overall perspective I think we will comfortably beat this year's revenue. When it comes to next year and as always our target is to achieve at least 10% to 15% market share each time we launch a product, so you could take that as a guidance.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: This question is on the US operation, you mentioned that this year because of the COVID related issues we were not able to achieve the planned budget, so because of the lower base now have you also revised the FY2023 budget downwards or we remain hopeful of achieving the FY2023 budget also?

Vivek Partheeban: So, when it comes to product approvals, we have not faced the delays thankfully, when it comes to product filings there has been probably a few months delays with the couple of projects. I would not say it is directly related. It is not linearly related I would say, but yes, compared to what we have done this year I would comfortably beat the revenues next year and that is about it like I said when it comes to product approval that you might have seen we already have 12 approvals now, 8 under Caplin's name and 4 with our partners' name, so, I do not expect a slow down in the revenues or anything like that.

Sachin Kasera: Can we expect a significant jump in FY2022?

Vivek Partheeban: We will have to wait and see, we are hopeful; we are confident that we will do well, but a significant jump I do not know how you would quantify a significant jump.

Sachin Kasera: Rs.150 Crores plus next year?

Vivek Partheeban: We are still not comfortable to get into the numbers, Sachin, our break-even point is about 120 Crores to Rs.130 Crores, Rs.130 Crores I would say and that would be our milestone that we want to achieve for sure.

Sachin Kasera: Sure. My second question was on the capex that has been presented in today's results of around Rs.275 Crores to Rs.300 Crores so, can you tell us what is going to be the peak revenue and what is the type of feedback that you are looking from this project at full utilization?

C. C. Paarthipan: One thing, which is very important is not only completion of the facility but also completion of the registration, so we need minimum of three years. In three years, we are very sure that we will be on the fast track that is for sure, however, it will not be in the form of all the factories that we are planning and all the divisions, which we are planning to start. We will start the commercial production after 3 years, some will start after 2 years also, so we are likely to do well starting from 2023, so this period for Caplin we will start from 2023 onwards.

Sachin Kasera: That is understood that you have mentioned, but question is a little different, with this investment of 275 Crores to 300 Crores can we generate additional 1000 Crores, 800 Crores, what is the type of incremental revenue that can come to the company?

C. C. Paarthipan: We are sure of reaching that kind of revenues, 1000 Crores to 1500 Crores of revenues is definitely possible. In addition to what we are doing now, what we focus is actually the cash flow

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

in 3 to 4 years' time, we expect the phenomenal cash flow, again our concern is not the topline to be very honest we always focus on the cash flow because topline is vanity, bottomline is sanity, cash is the king. If you look at other companies of our size then you will be able to understand that there are not many peers who are of our size having this type of cash flows. We will continue to have the cash flow. This will double and quadruple in three to four years from now and that is the most important point I think, more than the topline.

Sachin Kasera: Sir, last question is on the API, you mentioned that you are working on acquisition so is it that we seeing some final stages and it could happen soon or is it at some very preliminary stage for the API plant?

C. C. Paarthipan: Somewhere half way through and we will take a decision by end this February and we will not be waiting because we already waited to be very honest with you. We will start our construction starting from March. About 50% to 60% is covered, still we would not say we have come to a stage where we are in a position to understand the whole infrastructure and other things. More than the infrastructure and other things we do not know how many competitors are there looking at it to be very honest with you. This is the facility of a multinational company, so we will take only up to February end that is what we have decided in which we will go our own AP facility.

Sachin Kasera: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.

Mitesh Shah: I just have one question, your expansion on the Latin America was delayed because of the COVID travel restriction, so what is the current position and when we can see the ramp up in the Latin American markets?

C. C. Paarthipan: Yes, extension in the sense, the registration is on. The only thing, there is one market, which I consider as the best market because I have travelled to this particular market several times and that is Mexico. The business has already started. However, there is a market, which we know now that when you get into it, we can be able to create a niche in that particular area. So that is one thing I would say is delayed because I have not been in the position to travel. But the advantage that we have today unlike other companies of our size, we have people working to the tune of 500 to 600 in our subsidiaries. So, they have been working continuously even in COVID time. On top of it, my son who lives in this part as well, he is taking care of the marketing also along with the professionals. The delay with regard to the new geographies, yes, it has happened, not in the current market or not in the form of increasing the registration in the current business market. It has happened only in the bigger geographies and hopefully, it will be over in the next three to six months' time maximum. The day we find effective actions, it will be there in the market.

Mitesh Shah: Which major market are you looking, Mexico and which other market?

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi, Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

C. C. Paarthipan: To me, more is Mexico. Brazil is definitely the biggest market, but at the end of the day where we are in a position to generate more revenue is the biggest market to us, am I right? Brazil, maybe is one of the best markets and it may be true that it is the biggest market, but for us it is definitely possible and definitely better than other markets in the sense, we know that we will be able to generate more revenue and more cash flow while getting into Mexico.

Mitesh Shah: About the US injectables, are you planning to leverage Latin America markets with the injectables portfolio you have in the US or it is totally separate?

C. C. Paarthipan: The injectables, as I told you before that we developed, we are filing in the US markets and we also use as a global dossier for filing in other markets**.** We are sure of using within Mexico and Brazil.

Mitesh Shah: So have you started taking approvals of the plants for other markets as well like Brazil?

C. C. Paarthipan: What is happening is in the form of desktop registration currently. The Ministry of Health is aware of the fact that we will not be able to travel hence they allow desktop registration. It has been happening and our regulatory team is working with various countries that way. It is little slow, but however it is happening.

Mitesh Shah: And can you give the capex for FY2021 current till nine months FY2021 and FY2022 capex?

D. Muralidharan: During the last nine months, the capex is about Rs.66 Crores.

Mitesh Shah: What about the FY2021 full year you are expecting in FY2022?

C. C. Paarthipan: We are sure of increasing the Capex as we decided to go full swing. Between Rs.100 Crores to Rs.150 Crores will be spent in 12 to 18 months' time.

Mitesh Shah: Okay and that includes the inorganic opportunity you are looking for?

C. C. Paarthipan: If that happens as you rightly put it, if that happens today, it will be much more.

Mitesh Shah: Okay. And what size are you looking at an inorganic opportunity?

C. C. Paarthipan: More than the size, we are not very keen on the topline of some company to put it very straight. We want to see whether it will be in the position to launch our APIs in the US market. That is our first priority. Second, are we in a position to go for some of the APIs, which can be used in our current formulation business of South America? So, if that particular company is doing good business in some areas that also makes sense to us. The first priority is to see whether it is going to be a meaningful fit for our own products. If that suits us, then we will go for it. Otherwise, even if that it is like company, which is doing very good business we will not be in a position and will not be very keen to go for that one.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Mitesh Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sonia Lalwani from Pareto Capital. Please go ahead.

Sonia Lalwani: So, I have two more questions. You are saying that premix injectable bag lines will be ready for installation and even the prefill syringe line will be added? So, if you can throw some light on what is the market potential for us in the market for this?

Vivek Partheeban: Yes. The premix bag is a very specialized area, and this is something that very few people in India manufacture. To my knowledge, not more than three or four companies manufacture this product, and this is a concept, which is quite strictly followed in the US. Basically, they are expecting the number of steps that the health care worker face to reduce, like previously, if a product is available in a vial, they need to draw it out of the vial and then inject it into an infusion bag, so rather than that we have the entire bag itself premixed with the drug already. So with this, obviously we can charge a premium in the market and I feel that the number of products is probably to the tune of about 25 to 26 at this point in our target place. But you can always convert a lot of products that is in a concentrated solution right now into a premix bag also. We call that in the US the sign of 505- b2 filings. So, we feel that it is definitely a lucrative and the technology involved is a little bit complex. So, I do not expect too many competitors as well in this field. When it comes to prefilled syringes, this is a direct extension of our current portfolio. In terms of the product development wise, we are looking at very similar kinds of timelines, very similar kinds of cost as well. And there are a few products where we might not be going for very high-volume kind of PFI such as the Heparin and the Enoxaparin because you need to be completely integrated for that one. We are looking at a little bit more niche high value kind of products in the state.

Sonia Lalwani: Okay. So margins would be higher than the company average margins or would be in line with the company's average EBITDA margin?

Vivek Partheeban: Today, in the US, if you take out the expenses that we are incurring in terms of R&D as our CFO was saying, we are actually at the decent margin level. It is in line with the company's overall margin and once we get up in terms of revenues, once we go up to current revenues probably triple the current revenues in the next few years, the linearity of expenses going up is not there, right? So, you are going to have a baseline of revenues, which will only go up incrementally as the revenues continue to grow well. So, our bottom line is only going to strengthen from here on. We are at the worst level when it comes to margins today. And if you look at gross margins, we are still up to about 50%. So, I expect the margins, which are already pretty decent. I expect this to grow as well.

Sonia Lalwani: Okay. Sir, any therapies that you are looking for in premix injectable bag? Sir just trying to understand the revenue potential from this category.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi, Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Vivek Partheeban: Yes. So, premix bags are predominantly used in hospitals and clinics, of course, injectables, by and large, 99% of them going through the hospital channel. And premix bags are also in the same area. Now we will need to be a little bit selective with regards to product selection, because what happens is if you are going for very high-volume kind of products, this is not something that is going to work out because of the price cost. It is very expensive to transport large volumes especially if they call it transporting water on water, right. So, we do not want to do that. We want to go for slightly more niche products. In fact, a couple of products that we already have in the market in terms of a vial, we want to extend that into a prefilled premix bag as well. So, as it stands today, if you compare the profitability between a vial and a premix bag, it is probably multiple times more profitable in the bag. So yes, the revenue potential is good, but product selection, we need to be a little choosy as well.

Sonia Lalwani: Okay. Got it. The second question is on the margin expansion that we can expect on the backward integration of APIs that we are currently doing? So, if you can throw some light on what is the potential for our margin expansion from that?

C. C. Paarthipan: If you look at most of the big companies, they are all into backward integration, forward integration and then that is how they are in a position to make things happen. One is, their margins are good because they control their key starting material, intermediates, API and then they have their own CRO. So that is exactly what we are planning to do also. So we are also sure that we will be in a position to improve our margins.

Vivek Partheeban: Yes, and in addition to what Chairman Sir was saying on the backward integration especially for US margin is one part of it. Definitely, you will see an expansion in margins because typically what happens with injectable API is because it is small volume, we are forced to buy at high prices from third party manufacturers. So, when it is your own, it is obviously cheaper, number one. But more than that, the continuity of supply is very, very important in this field because for most of the generic injectables, if someone is selling at a $1 and then if you are cutting the price down to $0.80 that really does not move the needle for a front end let us say a hospital or a GP or any other wholesale buyer. What they are more interested in is if they sign a contract with this person, will he be able to continue supply for the next three to four years. Now when you go with a package that says that you are the API manufacturer and also the formulation manufacturer, that gives them a lot more confidence to sign up with a party like us, which is what many of the large companies are doing where for products that they are strong in and products where they have continuity, they almost always have backward integrated API.

Sonia Lalwani: All right. Perfect Sir. Got it and Sir if I can just squeeze in one more question? So, if you could also talk a bit upon CRO leg of the company in terms of its significance in saying the overall revenues of the company if you can just speak more about that?

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

C. C. Paarthipan: The CRO business is mainly for our own internal use. I would like to highlight the importance of CRO like this. There is a country and it is just considered as the second largest market for Indian companies in Latin America. Most of the world which are in the tender in that particular country, one has to go for BA/BE studies. For example, I do not want to mention the name of company. There is one company, which participated in the last tender. For one product, the name of the product is Atorvastatin. The one product, actually, we got business of Rs.40 Crores to Rs.45 Crores. So the purpose of going from the BA/BE studies and the purpose of going for the API is to add value to our products and get into tenders so that the volumes and the value will be both high.

Sonia Lalwani: Okay. Got it. So, it is basically to support the existing products of the company?

C. C. Paarthipan: Exactly.

Sonia Lalwani: That is, it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

Shrikant Akolkar: Just wanted to understand how we are pouring in Mexico. So, is there any possibility of you sharing the kind of opportunity and when the operations are going to start?

C. C. Paarthipan: Mexico is one country where the registrations are like any other big geography. The advantage that we have today, my elder son went to Harvard for a course called OPM. Some of his classmates in Mexico, they have facilities in Mexico. These are people who are not in a position to sell the products very effectively. For example, the API, which they choose, it seemed to be expensive. They go for clinical studies to some of the CROs that charge them very high because this is one country where now if you are to do BA/BE studies, you will have to do it in Mexico itself. We have a plan to go for our own CRO in Mexico. When we go for a CRO in Mexico, we do not have to do the entire bio analytics in Mexico. We can have the bio analytics in Chennai and we will go for only the clinical trials there. So, the same way, when we go for our own APIs, we also go for APIs of products for which the formulation was already available. I do not have to register the product. When we discussed with this gentleman, he himself told me that I have not been in a position to make money in these few products. If you can show me the value add by way of supplying API, by way of doing BA/BE studies for them then that becomes an opportunity not only for us also for them. It is a win-win situation. That will give us some advantage of not completing the registration. We do not have to wait for the registration to be completed. So, this is one of the biggest advantages that we have as a company. Second, we also know some of the methodologies, which, of course, I do not want to disclose everything at this juncture, I am sorry to say, disclosing everything will lead to self-victimization. So, for business reason, I do not want to discuss other things. We are very confident, and we are very sure that we will become a force to reckon with when we enter Mexico. What is important at the end of the day is an effective action and now we will travel there, and we will do our business very shortly.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi, Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Shrikant Akolkar: Okay. Another question is on the operating expenses in the US. So, if we can give the nine months expenses and the recent quarter operating expenses that we have incurred in the US.

Vivek Partheeban: The expense level is pretty much the same as what it was last year, Shrikant. There was a little bit of a dip, I would say, in the Q1 and probably Q2 also, but the expense level remains the same. From here on, it may marginally go up in terms of fuel and power expenses because we are running three lines if you consider the ophthalmic line as well, but I would say it is a marginal increase. It will not be a huge increase compared to last year.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Good evening Sir. Thank you for the opportunity. Sir out of the overall Latin American revenue if you can segregate how much we have derived the revenue from the newer geography, which we have recently entered?

C. C. Paarthipan: The revenue from the newer geography, it has not been extraordinary. And the revenue that we get maximum is from the existing markets because of the fact, one, the number of registrations have been increased. Number two, COVID also induced and created an opportunity in the form of emergency tenders. The newer geography, yes, we are getting business from various countries in the form of Chile, Peru, and Colombia. And the Mexican business just started. So, the exact numbers, I do not have off hand. I will not be able to tell you probably maybe 10% to 15%. It will be in the region of 10% to 15%. It will not be more than that.

Dhiral Shah: Okay. Sir, this quarter, we have seen a sharp improvement in gross margin, but some of it has not been reflected in the EBITDA margin improvement.

D. Muralidharan: A couple of things have contributed to that. We see the operating expenses about Rs.6.6 Crores is an increase in operating expense for the current quarter. This predominantly constituted increase in R&D expenses and also one- off annual site facility fees, which we pay for USFDA, which is about Rs.2.5 Crores. The rest is all R&D increase. So that is the reason why the EBITDA margin even though there is increase in contribution margin, it is not slowing down.

Dhiral Shah: Sir, can we expect this Rs.25 Crores kind of a run rate for employee cost as we have seen sharp rise in Y-o-Y?

D. Muralidharan: This is because the subsidiaries in the Latin American countries have come into fold only during this year. The major one is Guatemala entity, which has come from April 1, 2020. I also mentioned in the last call, there will be increases for two reasons. One, the nominal increase is what is being offered to the existing employees and also, we are adding people in the research and development so on so forth, as our organization is looking at future projects. So that will be there, but it will be in tandem with the revenue growth. As a percentage of revenue, we do not expect any major increase in terms of employee cost.

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi, Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053

Dhiral Shah: Okay and sir, lastly, how is the competitive intensity in the US injectable business?

Vivek Partheeban: I think when it comes to pricing. I have not seen much erosion in the products where we are operating in. In fact, in a couple of products, the prices seem to have increased. That is also because the prices were already at a very competitive level because this is one of the lead expenses, right? So that way, I do not see too much in way of price erosion. But at the same time, the faster the approvals come through it is a double-edged sword, right. You are able to launch and then your competitors are also able to launch. But at the same time, we do not consider very large companies as our competitors in the market. So what may be very thin gross margins to a very large player might be very decent margins for us because our overheads will remain at a certain level, whereas companies that have five, six, and seven plants, all dedicated to the US, could be looking at margins in a different way. So, as a late entrant, we are still a small player. We can still carve out a niche in the market. Yes, it is competitive, but I think there is enough room.

Dhiral Shah: Okay and sir, lastly, our other income was sharply down on a Y-o-Y basis, any reason for that?

D. Muralidharan: Yes, in the corresponding period, we had a huge exchange gain, Rs.10.75 Crores to be precise. As you know, INR has appreciated during the current year and it is negative 1.15. In effect there is a Rs.12.25 Crores drop precisely in the other income that is the reason.

Dhiral Shah: Got it Sir. That is all from my side. Thank you so much.

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

Vivek Partheeban: Thank you. Thanks everyone for participating. Thanks, Amey and people at Chorus and Haitong Securities for hosting the call and your continued support for our company and we hope to connect with some other people, if they have some follow-on questions and I hope everyone stays safe as well. Thank you very much.

C. C. Paarthipan: Thank you. Thanks to one and all. Thank you very much.

Moderator: Thank you. On behalf of Haitong Securities and Caplin Point Laboratory that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)

Registered Address: 3rd Floor, "Ashvich Towers", No.3, Developed Plots Industrial,Estate, Perungudi,
Chennai (Madras) Tamil Nadu 600096
CIN: L24231TN1990PLC019053