"Caplin Point Laboratories Limited Q1FY22 Earnings Conference Call"

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MODERATOR: **MR. AMEY CHALKE – HAITONG SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY22 Earnings Conference Call of Caplin Point Laboratories. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Chalke. Thank you and over to you sir.

Amey Chalke: Thanks Rohit. Welcome all to Caplin Point Laboratories Q1FY22 earnings call hosted by Haitong Securities. From the Caplin 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. M. Sathyanarayanan – Deputy Chief Financial Officer. Thank you and over to you Vivek.

Vivek Partheeban: Thank you Amey and thank you Haitong Securities. We are pleased to welcome you all to our earnings call for Q1 FY22. Please note that a copy of our disclosures is available on the investor section of our website as well as the stock exchanges. Please do note that anything said on this call which reflects our outlook towards the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. With that I would like to hand over the floor to our Chairman – Mr. Paarthipan for his opening statement.

C.C. Paarthipan: Good afternoon ladies and gentlemen, welcome to our earnings call. With your permission I would like to give you a quick brief about the past, present and future of our business.

As we are aware, we are still in the midst of the pandemic. However, we have vaccines as a preventive cap. The second best one is the COVID appropriate behavior. There is a connect between COVID appropriate behavior and the business appropriate behavior which is the all-important discipline. Indiscipline not only leads to infection but also creates integrity issues in our workplace. Hence, we need to eliminate the indiscipline from our systems.

Now let us look at our business:

We restructured our supply chain, manufacturing, and our marketing for business in Latin America with the focus on products with the following classifications: 80% fast movers, 15% value creators, and the 5% eliminators which we've already eliminated from our list of products. The result is reduced inventories in our books with increased sales, profits and cash flow. Latin America as usual is the favorite destination for Caplin's business. We sold simple generics in smaller markets with humble employees with no meta-intelligence or meta-cognition but honest and hardworking team that created Caplin a progressive machine.

Now let me give you the overview of pharma exports to LATAM:

Pharmaceuticals are now the third largest export to Latin America after vehicles and chemicals. Exports to Latin America increased by an impressive 13% to $1.1 billion in 2021. It will not be

out of place to mention that Caplin is the early entrant to this toughest market and became the sweet cucumber in a vinegar barrel. Now we are all in the business of building our tomorrows today. Today we have two API R&Ds, three formulation R&Ds, one CRO, to strengthen our future business.

Our new registrations on the existing and the new markets would ensure a sustainable cashflow and profits for future. The new products that are being registered in the existing market will result in a new division to promote the newly registered products such as CNS, CVS, complex injectables and oncology products.

Our R&D is creating a technical superiority to our products. We also started selling specialty injectables in the domestic market. Most of these products are hospital supplies, such as Amphotericin range which is needed and used for black fungus in COVID-19. We are planning to add some more specialties and look for co-marketing opportunities with some established companies in the domestic market. We are also manufacturing a good amount of Enoxaparin to supply for the domestic market. Even if we have to form our own teams to sell this product, we don't require a big sales force as these are injectables that are sold only through hospitals not through prescriptions. A company needs hardly 3 to 4 representatives per state to cover all the private hospitals for these types of products.

We have also identified a list of oncology and general OSD for bio studies in our CRO. Our CRO is all set to get the approval from USFDA in 15 to 20 days from now. Once we start our commercial production in the new facilities, we'll be ready actually to launch these products in the market. Further we have plans to register our products in various geographies such as Europe, Mexico, Brazil, South Africa in the near future. Now that we have different buckets in the form of specialty injectables, tablets, capsules and in oncology range for the regulated market which will definitely give a niche to our company.

Friends we will also look at the new projects and the expansion of the existing projects. Caplin Onco we'll start the commercials hopefully by March 2022. API we acquired the land, we'll start the construction both for general and Onco API. Expansion of two lines in our Caplin Steriles, we have already placed orders, the details of which our COO will discuss in detail.

Products, we are planning to manufacture such as not only the liquid injectables and Ophthalmic but also lyophilized products, bags and PFS. We also have a plan to go for a dedicated line for Propofol in our Caplin Steriles.

Now coming to marketing:

It's better to follow the trends for the big companies as far as technology, market and attracting the best talented people. But coming to the market we must create new trends in the form of a business model differentiation. That's the only way to create sustainable practices for our future. We have plans to look at the second and third levels of the market to create an executable niche which alone will differentiate our business in the bigger markets such as USA and others. The

best way forward would be to create a niche which most of the companies of our size could not do, such as:

A) USFDA approved injectable facility with our own products in the market. In addition to that also planning to go for the frontend presence and the backward integration.
B) Further create a business model differentiation while competing with the big companies in bigger geographies but focus on second and third layers of the market.
C) Create a culture of integrity, quality, transparency as a sustainable business practice.
D) Attract the best talents with attractive ESOPs in addition to meeting their expectation, the expectations in the form of treating them the way they want to be treated.
E) Finally develop the capabilities to coach, train and monitor the freshers to retain the talent and prevent the attrition.

Finally, the report of financial highlights of top 50 pharma companies in India which appeared in Chronicle Pharma Biz on July 8th, 2021, and we stand that 39th position among the top 50 companies. In 2015, we promised our shareholders that our top line of 2015 will become the bottom line of 2021 which we have achieved with a small difference of some 3 crores. Now our goal is to strive and make it between 20 to 25 position in India in the next 6 years in the top list of the companies.

Thank you very much.

Vivek Partheeban: Thank you Chairman. So, from my side I would just give a quick brief about our progress in the US, followed by our CFO who will give you a little brief about the numbers for the quarter.

We continue to make good progress with regards to commercialization of our approved ANDAs with four new launches. We have four more launches planned before end of the year which will complete the 16 products that we have approvals for now. For the products that have already been launched and completed 12 months, we noticed that the market share has been anywhere between 7% to 12% and we are actively working with our partners in the US to try and improve on that to make sure that we have at least slightly higher double-digit figures on the market share. Taking into account our intention to have our own label in the US by 2023 by way of our front end we signed only non-exclusive deals in the recent past and we will continue in the same manner. The next few filings we are targeting 7 to 8 ANDAs to be filed which will be a mix of injectables and ophthalmic in the next three quarters. By January of next year, we will have the pre-mix bag line that will be ready for exhibit batches.

During the same period, we are also targeting the first four complex products exhibit batches and these complex products fall under the long-acting suspensions and emulsion category, mostly in injections and one in ophthalmic.

When it comes to Phase-2, as Chairman was saying, we have already completed the ordering of two vials lines from erstwhile Bosch which is now called Syntegon. There is also a pre-fill syringe line from Italy that we have ordered and also a high capacity Lyophilizer.

We are potentially dedicating one line specifically for emulsion injection filling of which Propofol is a major product. We are already doing Propofol in multiple countries in Latin America and we would like to extend this worldwide, including US and EU.

Then with the capacity expansion I think we'll be going once again close to tripling our current capacity which should augur well for us for the next 5-6 years at least. And going forward rather than focused specifically on US alone we are going to be focusing more on a global level. So, any product that we are taking up for development and filing we will be extending it towards a global dossier with a specific emphasis on key markets such as Brazil, Mexico, EU, Canada, etc.

When it comes to backward integration it looks most likely that we will be going for our own Greenfield project like our Chairman was explaining and we target completion of this within 18 to 24 months. In the meantime, we are working with FDA approved CMO plant from Hyderabad that will help us accelerate our DMF filings in the short run.

So, revenue wise not much has changed from our initial projection when it comes to a Caplin Steriles, we will stick to the same and we hope to achieve that and potentially go past it if things go well. That's it from my side.

I request CFO to make final comments before we open the floor for questions, please.

D. Muralidharan: Thank you Mr. Vivek. Good afternoon to everyone who have joined us in the call. This is Muralidharan – CFO of the company. The results are very gratifying, not gratifying only because it's the number what we have reported but also these numbers have been reported at a very challenging time. This shows the grit and determination of the management team and the entire workforce of the company, starting from the Chairman to the last worker of the plant who has made this happen. We are thankful to each and every one and the guidance given by the management.

The results are with you for the past 24 hours or so and I will highlight the current quarter achievement:

2015-16 entire year's turnover has been achieved in the Q1 of 2021-22 itself. Our Chairman was mentioning about the sales turnover of 2015-16 being achieved in 2020-21 as bottom line. We have also surpassed the profits of 2015-16 in the very first quarter of 2021-22.

Also, for the first time the EBITDA reported is in excess of 100 crores in the first quarter and gross margins are stabilized at about 55%. We expect this to be in line in the future as well.

The one more important aspect is that last year when we were around this time, had aberration about the seamless integration of the LATAM subsidiaries. With great pleasure we want to inform the investors that the integration is more or less seamless and all the subsidiaries are contributing well and the results are evident in this respect also.

The gross margins will stabilize, the OPEX is more or less in the same level as we have budgeted, and we don't expect any major hiccups in the profitability as well.

The other aspect is that the cash flow from operations is 75 crores in the first quarter and free cashflow is about 60 crores meaning that we have invested about 15 crores in the form of capital advances and capitalization which Vivek also mentioned that we have ordered certain equipments for our Phase-2 and also, we have released first tranche of advance for our Onco project during the quarter.

Increase in expenses: somebody raised off line comparing Q1 of 2020, my request is that Q1 2020 expenses are not to be compared with Q1 '21-22 for a simple reason. The turnover has gone up by about 63 crores. Many of the expenses which are in tandem with the increase in volume are reflected in the numbers presented. For example, the power and fuel because our factories are working almost three shifts a day, without which this numbers could not have been achieved. The power and fuel costs has gone up and as people may know the freight cost has increased substantially during these challenging times. Availability of vessels, containers, reefer containers more so for our products are not available and also as and when they are made available, they have become more expensive. And then R&D expense were not all that great in the first quarter of last year when the onset of COVID was impacting. Current quarter despite the second wave, our R&D efforts have been geared up and R&D also we have spent more money than the first quarter of last year.

These are the reasons for expenses otherwise numbers are there before you. I would request Mr. Vivek to open the floor for discussion.

Vivek Partheeban: We can open up for questions now please.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of M. S. Rajashekhar, an Individual Investor.

M. S. Rajashekhar: Congratulations for an excellent set of numbers and I was just going through it. You are expanding very well; I am able to see the passion. The only thing is that the human resources, I was much more keen to hear from you. At the last con-call or a couple of con-calls before you said that you are giving ESOPs at Rs. 2 and then you will start attracting talent. So, I just want to know what is the talent you are attracting and what is the human and development of human resources because when you are expanding, human resources are extremely important? That's my first question

C.C. Paarthipan: Very true. The most important thing as you know well is R&D. Registration and product development for any pharmaceutical company. That's how we create good science. We have some of the best people who are working in our R&D whether it is a formulation R&D or API R&D or CRO. We have people who have at least 15 to 16 years' experience either in a multinational or in a transnational company. We are in a position to attract the talent as I told because of two reasons, 1) ESOP that ensures their prosperity; in addition to actually whatever

salary hike they expect we also give. 2) we also would like to treat the people the way they want to be treated which means we will give freedom for them to actually work also in our facility. The third advantage here, the hierarchy actually is flat. There is nothing in the form of politics which can happen and disturb these executives also. So, the people who perform in this company are noticed by us. So, I don't foresee any issue, we have not been actually foreseeing any issues that way. We have been attracting talent, although Tamil Nadu does not have an ecosystem something similar to Hyderabad, Ahmedabad or Andhra, but so far so good we have a very comfortable place.

D. Muralidharan: With the permission of the Chair, can I just add one point here?

C.C. Paarthipan: Please.

D. Muralidharan: Actually, the quality of human resources, 4-5 years back if you had seen Caplin Point as an organization, we had hardly, not even handful of PhDs. Today, we are proud to say that we have about 27 PhDs on our rolls who are working across various R&Ds.

M. S. Rajashekhar: Thank you, sir. My second question is, regarding the injectables for the US, we just came to know that all the companies are putting up injectable facility over increasing their capacity especially for the US markets. So, with this I think the competition is going to increase there. How does Caplin wants to tackle these competition there?

C.C. Paarthipan: The competition is bound to happen in every market today. As I told in course of my speech, what is important is the business model differentiation. As you know well, our business is all about differentiation. Whatever we are today is not because of the basket which is in the form of US or India or brand marketing. It is nothing but actually we never chased the brands. We never created a huge product or brand. But our business model has become a brand. So, which means what we have to do in the regulated market is, rather than following the trends of the big boys we have to look at the second-third and fourth layers of the market. I am sure it is possible, for example I would like to tell you this one. I was talking to the CEO of my CRO and he is a gold medalist from Madras Medical College and he says 72 of his colleagues are working as directors and senior directors in many of the hospitals in US. His name is Dr. Gunasekaran. Then I told him, will you be in a position to come with us when we go to the market to understand the size of the market and the kind of the purchase they make. He said 100% it is possible in fact he was in US; he is the one who created OSD facilities from scratch, to the finish. Only thing he was unable to actually do it in a big way in terms of marketing because OSDs cannot be sold to the hospital. So, he told me, we are very sure that we will be in a position to sell to the hospitals because, he also told me one more thing, there are 1100 MMs, Madras Medical College doctors working in US. This clearly shows that there is a huge opportunity. We don't have to go and actually replace the importers or actually focus on the importer. We can go one step below; I would put it this way. We have been catering to the bottom of the pyramid in Central America, now that we will cater to the bottom of the business pyramid that will take care of our requirement. Thank you.

Moderator: Thank you. Next question is from Shalu Asija from Invest Research. Please go ahead.

Shalu Asija: My first question is regarding US business. I want to know about the profit margin from the US business and expected growth for next 5 years. What is the expected growth from US business?

Vivek Partheeban: So, if you look at the gross margins from our US business, it is still quite similar to our parent company. So, our gross margins are upwards of above 50% even now. The only thing is our overheads are high right now because we expense out all of our R&D and our filing fees and our facilities fees everything is expensed out as form of adequate conservatism. So, if you looked at the gross margin alone without taking the rest of the things into account, I think we will be very similar to the parent company. As the revenue starts to grow, as the breakeven part comes through and then revenue starts to grow, I feel that we should augment the parent company's bottom line, EBITDA, etc. When it comes to the growth over the next 5 years, the public statement that we made is we intend to target a $100 million revenue from Caplin Steriles which is the US focused entity by 2026.

Shalu Asija: And sir, the CAPEX you have announced, I just want to know, revenue will start coming from which year, what is the target of revenue, when revenue will kick in with the CAPEX?

Vivek Partheeban: So, when it comes to the US CAPEX, we are basically expanding our facilities in what we call as the Phase-2 of this plant and we expect to complete this within the next 15 months. Now how it works in the US is, a product can be moved between lines, within the same facility, they call it the FEI number. If the facility just expands within the same space, it doesn't really need to go in for another inspection or anything like that. But when it comes to expectation of revenues out of that, we don't really differentiate between our existing capacity, what is the new capacity or anything like that. It all depends on when the capacity is available for us to put it to use. So, we don't have a breakup of what this new expansion of capacity is going to bring-in in terms of revenue.

Moderator: Thank you. Next question is from the line of Aditya Khemka from Incred AMC. Please go ahead.

Aditya Khemka: Sir, can you briefly talk about your venture into the more larger markets of Latin America. I recall you have mentioned earlier in your earlier con-calls that you are about to enter Brazil and Mexico. So, what would be the modus operandi? Would we first enter the generic-generic market and then try to build a branded generic portfolio or do we do both together. Just some details on that side would be very helpful.

C.C. Paarthipan: The larger markets of South America, as you know well, Brazil and Mexico then followed by Columbia, Chile, Peru, now that we have completed registrations to the tune of 60-70 products in countries like Chile and Peru, last year Peru has grown by 80%. Chile has grown by 56%. I am talking of exports from India to Chile and Peru and the biggest markets, they also went for emergency purchases, we also exported some of the products like propofol, dexmedetomidine to both the countries, Brazil and Mexico. And currently, in fact we received one approval from Mexico. We are in the process of filing actually the dossiers in Mexico. Brazil, they have to

complete the virtual audit. It has come to a stage that probably in 15 days to 20 days' time they will tell us the date and now it will take another 1-2 months actually to complete the whole thing. And coming to the business model which you said, how exactly you were going to market? If you look at our business in Central America, unlike other companies of our size, we went there and we replaced the importer. This is not possible in the bigger geographies because the companies which are selling actually in these bigger geographies whether it is from India or from the local markets, there are big companies except a very small portion of companies that are small. So, you can neither replace the importer nor actually the competitors. We only have to look at actually the second, third, fourth layer which I told you before, which means any product that goes from the manufacturer to the importer, then the importer it goes to various layers. It will be in the form of wholesalers, distributors, semi wholesalers, then of course small retail chains. So, it is not that that it confines only to actually one domain. You can go to various places and find out which is the best place where you can position yourself to increase the sales, profits and cash flow. So, we will not get into brand marketing because it is a long haul and we don't have that kind of a deep pocket, although our cash flow is comfortable, we will be in a position to do generic business, but we will create a niche, that is an executable niche which we would do it, we are sure of it. In fact, I worked in Mexico before COVID. Unfortunately, I have not been able to travel now which you know, the borderless world has closed the borders and we will have to wait for the COVID curve to flatten and then we will go there. Coming to Brazil, it is more of tender business. So, it should be like any other company. We will have to get into tender business and private market, we will have to go and work and see the niche and then we will have to create something differentiator.

Aditya Khemka: So, what I understand from you therefore is our first target is going to be the generic-generic and the tender business in these large markets and not really the branded generic business.

C.C. Paarthipan: Branded generic, I will say branded generic there are two types of branded generics. One is as you rightly said brand marketing, you create prescription it becomes a brand, that is how there it is. Another branded generic actually is in the form of OTC and there is nothing in the form of one has to invest and create prescription through doctors. We may go for branded generic in the form of some OTC and all, that will be in the form of we will go for some associates and both of us can associate and do it also, that is not going to be very expensive and the lead time for evolving that kind of a business, a brand marketing kind of a business is always long. But branded generics in the form of OTC, there are two ways to do. We don't have to go to the medias today, we can go through actually the retail chains. There are people, there are companies who have 1000 to 1500 retail shops in countries like Mexico and Chile. So, here if you can get some associate, that networking asset actually will create business for Caplin also.

Aditya Khemka: And sir, second question on the USFDA audit of our injectable line, if I recall correctly, last we were audited in 2018. So, have you heard anything from USFDA? Are they informing you about a potential audit now again?

Vivek Partheeban: The last inspection was in 2019 and ever since that we have not had an inspection, of course all throughout 20 and 21 there has not been any inspections, but we believe some virtual inspections

are happening and very few physical inspections are happening, even in India. When it comes to our CRO, we have been informed about a virtual inspection. They have just started collecting all the documentation from our side.

Aditya Khemka: And sir, one more question, sorry. This dedicated line for propofol, what is the timeline and how much capital expenditure would that take?

Vivek Partheeban: So, the overall CAPEX for this expansion in Phase-2 is going to be around 140 crores. And this emulsion line, the propofol line if you want to call it that, is combined together with it. Now, propofol is a product that we have stabilized very well. Our product is probably equivalent or better to most of the companies that you can find here. So, we want to launch this as a global product, and we have already started doing fairly decently in parts of Latin America. We want to sort of take this to US, EU, Brazil etc. where we see that there is very decent potential there.

Aditya Khemka: My question was actually pertaining to given that you are laying an extra line for propofol, would that trigger our USFDA inspection of the site or would that not require a separate inspection because the site is already approved and you can just, as you get the ANDA approval you can just start selling the product? That is what I wanted to understand.

Vivek Partheeban: So, Aditya, technically speaking, it doesn't need an inspection. But at the same time, we can't really tell when the US would want to come into inspect or what they would want to come into inspect or anything like that. Every time we file a product that is in the US, that would lead to a series of checkpoints that they will have to answer themselves. Obviously, all of that there is internal information for the US, but it is what you call, you want me to get slightly more technical, it is a terminally sterilized product which means you heat the product up to 121 degrees after you complete the filling. Now we have already been approved twice for that form of sterilization. So, technically it shouldn't be an audit, but if it comes it comes. We, in the pharma world, especially in the regulated market world, we need to be ready anytime for an audit.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Rathi Investments. Please go ahead.

Anupam Agarwal: Just, firstly sir, if you could highlight our CAPEX outlined is basically 300 crores if I see your presentation. If I walk through the earlier presentation, the number was to 230-250. What have increased, is there some change in the dynamics that if you could just highlight something?

Vivek Partheeban: So, if I heard your question right, there are three CAPEX outlays that we are going after. So, number one is our Oncology line. Now this is going to be overall about a 100 plus crores we feel, a 100 crores to 110 crores kind of an outlay and we are going to start with the OSD to begin with and then in Phase-2 we are going to take up injectables. #2) the API piece of it. Of course, we were evaluating a couple of things, but it looks more likely that it will be a Greenfield project. This could be anywhere between 50 crores to 70 crores for both general category and oncology API. And the third one is the Phase-2 of our injectable plant which comes under Caplin Steriles,

but Caplin Point is extending a line of credit to Caplin Steriles for expansion here and that will be around 140. So, all put together we expect this to be about 300 crores.

Anupam Agarwal: Sir, if you could, just an extension, sir, this 300 crores of CAPEX will be sort of topline over the next 3 years to 4 years, I understand it is going to be commercialized in FY24 largely, what sort of revenue one can expect from this?

Vivek Partheeban: So, in pharmaceuticals, especially in formulations is very difficult to put revenue number as against our CAPEX spends. So, it is not like an API plant where you are doing only 5 types of API and then you put x amount of capacity, you have y amount of revenue potential from that. So, here it is much more difficult. So, we would like to broad base it to our original target which we expect to double our revenues in the emerging market, our current market in the next 5 years and we are targeting a $100 million revenue in the US within the next 5 years. So, we would like to sort of broad base it within these figures.

Moderator: Thank you. We will move on to our next question which is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, my first question from the injectables business, what is the current capacity utilization?

Vivek Partheeban: At this point, we have two injectable lines, two vial lines and one ophthalmic line. So, when it comes to commercial products we are probably still at about 45%-50%, but it looks little bit more utilized right now because we continuously make exhibit batches which is basically the batches that we file for registration in the US. So, both put together we should be at about 70% right now.

Alisha Mahawla: And with the Phase-2 in the injectables coming on stream say over the next 2 years, will the capacity be sufficient for us to reach our target of 100 million revenue by FY26, will we still need some incremental CAPEX?

Vivek Partheeban: No. This 140 crores CAPEX that we are doing is going to triple our current capacity. So, that should be more than enough for what we are targeting to file over the next 4 years to 5 years. We do not see ourselves going in for another CAPEX for the next five years after this.

Alisha Mahawla: Sir this facility has still not broken even right? The breakeven will be at what levels?

Vivek Partheeban: We feel that a cash flow breakeven is going to be at about 120 crores to 130 crores and we hope to achieve that within this financial year.

Alisha Mahawla: Sir my second question is with respect to entry in new markets so you mention one earlier participant that you have won approval for Mexico and in Brazil looking at the tender business, are we expecting any of this to crystallize in the current financial year or will most of this generate revenue only from FY23?

C.C. Paarthipan: The business which you are talking about from Mexico, we may get business in the form of an emergency purchase which we have already received, but the real business will start only after we complete the registration and when we go to the market. Today, we are not in a position to travel as I told you before. So, the ad-hoc business that we get actually I feel is not a permanent solution, it is more of a bandage solution. However, that also creates revenue, but the real business will start only when we travel to this part of the world.

Alisha Mahawla: Sir at least in this year it is unlikely depending on the current situation?

C.C. Paarthipan: The situation actually does not permit us to travel, and the registrations also does not take place the way we want because during COVID time given the Ministry of Health everywhere they work very slow. So, we are in a position to do more business because of the fact that our goods are next to the customer in Central America and Caribbean. So, that part of business alone actually will take care of our requirements.

Alisha Mahawla: Sir we had a JV with a partner with a distributor in China, is that also part of our roadmap or is that gone on the backburner?

C.C. Paarthipan: Now we have put it in the backburner because you know the situations. China the way in which actually things are happening in the border and other things. This was different case altogether when we went to China 2-2.5 years ago, but now there is nothing much in sight actually in the form of doing something in China now.

Alisha Mahawla: And just one last question while you spoke about four launches that you already did in the US and four more in 22 what is the number of filings you are looking at for the current year?

Vivek Partheeban: We are not seeing over the next 9 months I mean we try to go by each financial year, but because of all this COVID disruptions and stuff we have a target over the next 9 months which would sort of you could say that it has been into Q1 of next financial year we are trying for about 7 to 8 filings within Q1 of next fiscal year so that will be 9 months from now you can take.

Moderator: Thank you. We will take our next question which is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.

Anupam Agarwal: Sir I just wanted to ask you so this 300 crores of CAPEX would lead to what sort of revenue for us at peak utilization of our plants?

Vivek Partheeban: So, basically, what we are trying to say is that it is difficult to put a revenue figure as against what CAPEX that we build up especially in a formulation plant because there are so many variables that even if do get into some numbers right now by the time the capacity starts to get utilized it might be a very different landscape altogether especially in regulated market in terms of where there is competition. So, we would still like to have the overall figure what we have already given in public domain which is we expect to double our revenue in Latin America in the next five years and we expect to be a $100 million in the US within the same period within 2026. We would like all of this to be supported by the CAPEX that we are putting in right now.

Anupam Agarwal: Secondly on the API and backward integration front if I recall that we identified around 70% of our molecules which makes API and we went to backward integration for them, incrementally is it fair to assume that all these products that we are filing we are going to backward integrating for them?

C.C. Paarthipan: So, our first target I would say is to make sure that we are getting into API for products where API is hard to get. So, we do not want to go in for secondary source in the first stage itself it is not a priority for us that will be second priority. Our first priority is to get into API where the API is currently very scarcely available. So, once we have that we want to focus on the next wave of API which is basically cementing our position by having a secondary source which is our own source in the US. So, over a longer-term I would say next four to five years our idea is to have at least 70% of all our filings backward integrated with our own API.

Anupam Agarwal: Also, if I may ask one last question we were looking to acquire our partners in the LATAM business, we have been carrying cash in the book for a reason. How are we there and what is the outlook on that front?

C.C. Paarthipan: So, our acquisition of channel partners is nearly completed infact we have only one channel partner that we have not acquired which is one in the Dominican Republic in Caribbean. This is one we may or may not do, but basically we would say that our channel partner acquisition project has been completed.

Moderator: Thank you very much. Next question is from the line of Mitesh Shah from ICICI Securities. Please go ahead.

Mitesh Shah: My question is regarding your foray into the Indian market, can you just elaborate more about this market and the future prospect

C.C. Paarthipan: The domestic market to be very honest with you this did not happen by design. When the COVID issue, started we started looking at actually the opportunities then some of our friends who are into domestic business they started inquiring about products such as Amphotericin and other things and that is how we started it. Now we have found there is an opportunity to get into that area this is more of actually hospital business. As I told actually in course of my speech there is nothing in the form of one has to go for a huge sales force to create prescription and do business, this is actually most of our specialty injectables, the one which we have, the one which we are planning to actually manufacture in future all will go only to the hospitals which means what is needed is actually a hospital division even if you want to create on our own or the best opportunity is to go for a co-marketing with an established player. So, now that we are seriously looking at it. There is an opportunity, but the size and other things to be very honest with you we do not know, but we are still in a position to make reasonably good profits in area so we will continue to do it and going forward may be in the next 6 months we will know the exact status of the quantum and other things.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I have two questions one is you mentioned that are your expensing out even the CAPEX on R&D so is that correct any CAPEX on R&D is expensed out?

D. Muralidharan: One thing we are doing is that we are expensing out R&D expenses, product development expenses. Few companies have practice of capitalizing the R&D based on the future life, what we were mentioning was we conservatively do not attach any future value and then expense them out when Mr. Vivek was mentioning about the cash breakeven, this is excluding if you have to exclude with R&D expenses, we will be filing fees and we are breaking in at about 100 crore and 120 crore that is what he was mentioning. Tangible CAPEX is not expensed**.**

Tushar Sarda: CAPEX you are not expensing it, CAPEX will be depreciated?

D. Muralidharan: Tangible CAPEX is not expensed. It is capitalized and depreciated

Tushar Sarda: That is what I want to clarify because the presentation mentions that CAPEX plus OPEX both is expenses so I just wanted to value that right?

D. Muralidharan: I hope this is clarified.

Tushar Sarda: Second you have grown at around 30% per annum per last 7 years, so next 5 years, 7 years what kind of growth rate one should expect?

C.C. Paarthipan: In fact, I have put it this way because our goal is to achieve move up the value chain as I told in course of my speech today, we stand at 39 among the top 50 companies this report which has come actually in Pharma Biz and there was a Torreya report actually sometime back they also mentioned about our company. Rather than telling in numbers, we would like to actually tell you in terms of position. See it is very difficult to move from this level to the next level because we are competing with actually some of the giants. If you can move between 20, 25 that itself I feel that is going to be a great.

Tushar Sarda: Higher base obviously the growth rate slows down I just wanted to know whether?

C.C. Paarthipan: What will be percentage of growth is difficult to commit at this juncture, but we will definitely do well, but I do not want to be within numbers in future because the base has become big and then the next two years are very crucial because the business that we are expecting in a big way from regulated markets will start happening after two, three years until that time definitely we will have 20%- 25% CAGR.

Tushar Sarda: Let me rephrase my question what is the scope for growing your presence in Latin America and Africa because US will be an additional figure, so will the growth from Latin America and Africa continue or you have reached saturation point?

C.C. Paarthipan: No, we will in fact do very well in Latin America that is going to be our cash cow definitely there is nothing in the form of saturation.

Tushar Sarda: But that market still have potential to grow right?

C.C. Paarthipan: Yes, definitely in the next five years the COO has put it we are likely to actually double the business in five to six years in Latin America itself.

Tushar Sarda: So, Latin America continues and US becomes an additional figure?

C.C. Paarthipan: US and other markets also we are planning to go for a global dossier will be there now that we have the entire range of injectable right from liquid injectable and lyophilized products and various forms of general injections and Oncology injectables so there is a huge scope. We have tablet, capsule, ointment, powder, liquid oral suspensions where you have actually different buckets that becomes a huge basket and whether it is ROW market or a regulated market there is some opportunity for specialty products. So, the differentiation has to happen in the products and marketing and if that happens definitely, we are bound to grow in leaps and bounds.

Moderator: Thank you very much. The next question is from the line of Harshal Patil from Sharekhan. Please go ahead.

Harshal Patil: Sir I just have two questions one is on the US thing probably in FY21 we have launched about 8 odd products and we have got a market share of about 7% to 12%. This year we have kind of planned about another 7 to 8 product launches so sir how should we look at the ramp-up of market share? Any number that you would have in your mind which can be achieved over the next one to two years in the US?

Vivek Partheeban: So, when it comes to market share I think the bare minimum expectation from our side is to touch at least 10% on each of the products that we launch and in some products we have done better than that and in some products where it is much more commoditized we expect to have at least fair market share that is overall market divided by the number of players, but as a rule of thumb you could probably say that anyway between 10% to 15% market share in any generic product that we launch will be the target.

Harshal Patil: Sir second thing I missed your comments on the India business so when you say that we had forayed Amphotericin things, so any flavor on the opportunity that you would be looking around or are we like it is still early stages, any flavor on that?

C.C. Paarthipan: India business when I say people think of actually the brand marketing was the big boys group. We are not getting into brand marketing. This is going to be an institutional sales. Since you mentioned Amphotericin**,** there is Amphotericin calls Liposomal Amphotericin which is a very unique product hardly 8 to 9 companies that manufacture in India we are also going to be one among them. So, this product is a product which just went into scarcity like three, four months back. So, this is one of the product that we are going to manufacture and sell it in the local market. The same way we have some specialty injectables that of course we are planning to sell.

The model would be firstly we would prefer to go for a co-marketing with an established player who has been supplying injectables and other products to the hospitals. If that does not happen then we will have two, three models. One we will also try our own in the form of going for some three, four representatives per state and sell the product and we will also do contract manufacturing for big companies for example Cipla, they gave a very good order for Enoxaparin. We are currently manufacturing that product. The same way there are three, four people who have come forward to do contract manufacturing with us. So, all these if that adds value to the company, we will definitely do it, but not in the form of brand marketing which the conventional people do it. This is not a prescription-oriented business. It is a purchase kind of a business by the hospitals.

Moderator: Thank you. Due to time constraints that was the last question for today. I now hand over the conference to the management for closing remarks. Over to you.

Vivek Partheeban: Thank you Amey and the Haitong team. Thanks to everyone that participated in our Earnings Call. We hope you would stay safe and we look forward to being in touch with you. Thank you very much.

C.C. Paarthipan: Thanks to all of you. Stay safe and stay healthy. Thank you so much.

Moderator: Thank you so much. Ladies and gentlemen on behalf of Caplin Point Laboratories and Haitong Securities that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.