"Caplin Point Laboratories Limited
4QFY23 Earnings Conference Call"
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Moderator: Good day, Ladies and gentlemen, good day and welcome to 4Q and FY2023 Earnings Conference Call of Caplin Point Laboratories, hosted by Ambit Capital. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Nair from Ambit Capital. Thank you and over to you.

Prashant Nair: Thanks a lot, Yashashvi. Good afternoon, everyone and thank you for dialling in. I am Prashant Nair, healthcare analyst from Ambit Capital. I would like to thank the Caplin Point management for giving us the opportunity to host this call. From the management team today, we have with us Mr. C C Paarthipan. Chairman; Mr. Vivek Partheeban, Chief Operating Officer; Dr. Sridhar Ganesan, Managing Director; Mr. D. Muralidharan, CFO and Mr. M. Sathyanarayanan, Deputy CFO.

I will now hand over the call to Vivek for his opening remarks, post which we can go to Q&A. Over to you, Vivek.

Vivek Partheeban: Thank you, Prashant. Hello and good evening to everyone. Welcome to our earnings call to discuss Q4 and FY23 results. Please note that a copy of all our disclosures are available on the Investors section of our website, as well as on stock exchanges. Please note that anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces.

The conference call is being recorded and the transcript along with audio of the same will be made available on the company's website, as well as the exchanges. Also, do know that the audio of this conference call are the copyright material of Caplin Point and cannot be copied, rebroadcasted or attributed in press or media without specific and written consent of the company.

Now, I would like to hand over the floor to our Chairman for his opening remarks.

C. C. Paarthipan: Thank you. Good evening to all. Welcome to our investor's call. First, the two most important salient features of our company despite our strong top line and bottom-line growth supplemented by benchmark cash flows are, one, the return on capital employed stands at 26.19%. Two, the cash-and-cash equivalents has increased some INR17 crores to INR770 crores in the last 10 years, despite investing INR650 crores in capex during the same period. We are aware that living comfortable in the present business without understanding our today is a friend or foe is not a sustainable solution.

However, the following will make you understand that we are building our tomorrows today. One, our additional line of Softgel we produce a business of INR80 crores to INR90 crores from

LatAm markets for the current year. Two, the brand marketing that we started in Central America, that is LatAm would also fetch us a revenue of INR30 crores to INR40 crores. Three, the introduction of generic business in West Africa might also result in an additional revenue of INR10 crores. You are aware that we are currently doing only brand marketing in this part of the world.

Four, our new initiatives in CIS and Southeast Asia could also fetch us a business of INR20 crores to INR25 crores for the current financial year. Five, Caplin Steriles would generate an additional income of INR90 crores to INR100 crores for the current year. Six, Caplin's liquid assets are in excess of INR1,450 crores, whereas the payables are only INR160 crores.

Now, accruals to cash balance has been INR300 crores each year in the last two years and this will definitely continue for the future also. Further, we are aware that the four important factors that contribute to sustainability and scalability of companies are, a. men, b. materials, c. machineries, d. markets. Now the men and women. Employable talent comes at a cost, we at Caplin not only offer good salaries, but also performance bonus, ESOP and engage in employee experience. Recently we selected around 100 youngsters from various places and offered them good food and accommodation free of cost and also trained them for our necessary skills for the new normal.

Materials, we've already developed 65 API's in our R&D in the last three years that consist of both general category and oncology. The API facility that we bought in Vizag will go on-stream in the current year itself. This will help us in reducing the cost of goods and also consistency in supplying over a period of time.

Machinery, currently, all of our new expansions in the existing and new facilities consist of imported machineries from Germany, Italy. These machineries are capable of increasing our productivity without any hassles in future. For example, the capacity of our new line from our Phase II in Caplin Steriles is higher than the combined capacities of two of our machines from Phase I.

Markets, since the generic business is based on the concept of supply and demand for profitability, it's not the markets that matter, but the models. We are also aware that 85% of our business with benchmarking cash flows and profits comes from six smaller geographies of LatAm due to the business model differentiation. However, we are very keen to introduce the same model of end-to-end in the bigger geographies too in the next two to three years. We will also cater to the bottom of the pyramid which is what brought us to where we are today.

Once we complete the expansions of our oncology, OSD and API project and also the product registration in the next two to three years, we are sure of being one among the few of best companies of our size. Finally, we sincerely believe that every phase of our business offers something relevant to all our stakeholders. We also understand that it depends on us whether we analyse the positive trends or just turn the pages, it is for you to decide. Thank you. Thank you very much.

Vivek Partheeban: Thank you, Chairman. So, I would like to give a brief about our regulated market business, specifically the U.S. We are, of course, very happy with the progress Caplin Steriles has made in the last financial year, where we have grown nearly 70% and also achieved the full break even with a small profit as well. We need to also take into account that this includes all of the expenses that we incur in the way of ANDA filing, the R&D cost, the regulatory costs, etcetera which I believe amounted to close to INR20 crores, which is a direct hit and now specifically most companies I believe capitalize these expenses, whereas we charge them off with expenses. So, achieving the break-even despite a large regulatory and filing fees is something that we can all be appreciative of.

The mix at this point is still quite healthy we feel, the mix is around 70% product sales and 30% milestone and profit share. In the last quarter, we've received three approvals in quick succession. One of these products has just been launched and then two more are being launched in the coming few months.

As we've explained many times in the past, our all-recent deals have been non-exclusive and brings me to the next point where we'd like to inform you that we have just launched our first four co-labelled markets in the product, co-Caplin labelled product in the market. This we will start to see some sales of this in the coming few quarters.

We have eight products under review with the FDA. We feel it can be approved within the coming three to four quarters and there is also another 13 products under stability right now, which includes four complex products as well, including ophthalmics, bags and vial. All of these together we are targeting a revenue of an additional 50% growth in the coming year amounting to close to INR300 crores.

It will not be out of place to mention that we are sitting on an order book of close to INR230 crores to INR240 crores as we speak. So, the key is to make sure that we execute the production with high degree of compliance like what we have always maintained. The focus right now is to complete the validation of our new line, especially the ones that Chairman explained, which is high-speed and highly compliant line that we've bought from Bosch.

Now we feel that this is going to significantly reduce our turnaround time. It will significantly increase our productivity as well. We are hopeful that this should go onstream by October of this year and that will free up quite a bit of capacity for us to continue doing our R&D work and exhibit batches work and stuff, which is the last thing that we need to do before filing the ANDAs.

We have also made some progress with regards to our front end in the U.S., but I'll be able to give you more information on this in the next three to four months because quite a lot of this is a work in progress as we speak. We also have some approvals that have come through in Canada and Australia. These are products that are the same for which we have received ANDA approvals in the U.S. At this point, the revenue potential from these are quite small, so we're not really taking into consideration these approvals as anything significantly material.

In terms of market share, for a majority of the products that we have live in the market, we have increased our market share. This is despite many of our peers complaining that there is significant price erosion and market share erosion, etcetera. We continue to maintain a lot of focus on our products and we make sure that we are increasing our market share as much as possible without reducing the prices in any way.

But of course, the most important thing for us is to make sure that our business model is differentiated because that is the one that is going to be impactful over the long run and that is what is going to make it even more sustainable. This should happen once we start making more regular visits to the U.S., which will start in the coming couple of months onward.

In addition to this, once we complete our Line 6, which is a pre-filled syringe line and also Line 7, which is our lyophilised products line, it will give us a complete portfolio of products and also by which time we will have quite a lot of visibility on our label products and our front in the U.S. as well, along with a good business model differentiation that we have showed in the past with Latin American markets, we feel that this could be a good potential combination for everyone.

That's it from my side. I will hand over to our CFO for a brief description on the numbers that we've had in the last year. Thank you.

D. Muralidharan: Thank you, Mr. Vivek. Good afternoon, everyone. This is Muralidharan. I will just take you through briefly on the numbers, as it already available with you, but still I thought I would take you through the salient features. Last year, we delivered good growth which is 16.4%, resulting in terms of INR it is INR214 crores a total increase in the revenue and the gross margin plus other income increase is amounting to INR109 crores, of which INR66 crores has been spent on expenses, basically on employee cost about INR22 crores, other expenses about INR24 crores, INR46 crores is expenses increase and INR66 crores is thrown into the profit loss account directly.

So, the consistency is evidenced by the CAGR we have reported, which is at 27% for the 10-year period, even at a larger base, it is 22.8% on revenue and 21.1% on PAT, which is more than evident in the consistent growth year-on-year the company is delivering and the gross margins hover around 55%, which is what we committed in the last year's meeting as well. EBITDA is at healthy 33%, it is about 33% and then PBT is also around 30%.

And PAT is about 25%, which is very good margins by industry standard. We happen to compare our process to comparable peers and very, very proud to say that we are ranking number one in almost all the parameters with respect to the peers be it revenue, growth, be it ROCE which Chairman mentioned, ROE or EBITDA percentage or PBT percentage. Vivek was modest enough to include only the regulatory cost, we also spent INR35 crores on employee costs and R&D consumables, that is also added, our profitability would have been more on pure commercial sense. This year, CSL has seen a very impressive growth of 67% and reaching PAT level break-even is a very good gratification.

And as he said, we have very good order book and then the key is to deliver and then take this company forward. In the front of cash flow and the cash and cash equivalents, Chairman has already mentioned, we are having about INR1,500 crores worth of liquid assets, whereas about INR150 crores to INR160 crores is the creditors that we need to service and INR772 crores of cash what we have today will take us through the entire Capex that is planned for the current year, as well the accrual that is happening which is planned to be around INR300 crores as our Chairman mentioned will see us in good stead. And this is it from my side in terms of numbers and we will be happy to take the questions.

Over to Mr. Vivek.

Vivek Partheeban: Thank you, sir. Prashant, we can open the floor for questions right now.

Moderator: Thank you very much. We have our first question from the line of Girish Bakhru from Orbimed. Please go ahead.

Girish Bakhru: Just on the U.S. thing to begin with, I mean, right now, I mean, given that you have a good order book visibility, I mean, just trying to assess in the longer time frame, I mean, couple of, I think quarters ago we had painted a possibility of $100 million sales by CY '26. So, I mean just trying to assess if that number is still quite visible in terms of the launches? And if you could comment on these three approvals, Carboprost, Thiamine and Rocuronium, my understanding is Carboprost could be a very decent opportunity given that there are very few players?

Vivek Partheeban: Yes, so the overall projection in terms of what we targeted, we continue to believe that this is possible. Of course, we are not able to give you year-on-year what we expect the market is going to be like, obviously, because it is still a very dynamic situation in the U.S. If you consider the approval that we've got recently, we believe they are all very good products, I mean, each of them have different types of markets like you said, Carboprost probably doesn't have too much by way of competition, even Thiamine doesn't have too much by way of competition, whereas a product like Ketorolac or Rocuronium for that matter has more competition, but the volumes are also larger.

As a smaller company, we would like to believe that over a longer broader portfolio, we would have a good hold on the COGS. And once we go for backward integration on a few of these products, we will have even more control on COGS as well. So, we can be certainly encouraged by what we would see in the market on these products.

C. C. Paarthipan: Yes, one more thing, I would like to add...

Girish Bakhru: Yes, sure. Go ahead.

C. C. Paarthipan: Sales which you mentioned from my speech that is likely to come in somewhere by October or November, where the capacity actually in terms of production will be high, that would also reduce the cost of goods actually. Thank you. Thank you very much.

Girish Bakhru: Correct. And when you actually talk about these high-speed lines, higher capacity, you mean there is room to take more market share in existing products, right? Is that the correct understanding?

Vivek Partheeban: Yes. So, as we -- actually, the truth is, because we have a large pipeline of products that we are working on, we are constantly balancing between what would take up commercial production, what slots would be taken up for exhibit batch if, et cetera. So, because we only have two lines and we have multiple approvals, this third line vial line I'm talking about, which is basically Line 5, will significantly increase our production capacity and also without getting too technical, there are certain kinds of products called terminally sterilized products versus other kinds of products on accepting products.

Now the former is the one that we are going to be doing in Line 5 and we will be dedicating with both terminally sterilized products, which have larger volumes and quicker turnaround time. So typically, this is what we are trying to achieve with higher productivity and by all means I think you can say that we will be aiming for higher market share because right now we're actually sitting on more back orders than before because of the amount of orders that we have received and also the newer approval.

Girish Bakhru: And when do you expect PFS line to commercialize?

Vivek Partheeban: Our first choice is to make this Bosch line ready that we expect to happen sometime in October and November. PFS line will be in two months after that.

Girish Bakhru: Just on the non-U.S. piece, this branded generic versus generic mix right now being 25 to 75, I mean you were talking about this in the initial remarks that West Africa launch and brand marketing in LatAm. How should we read this? Is that mix going to change significantly over, let's say, next three years and what will be the two margins?

C. C. Paarthipan: We will go step-by-step on this. The volumes, as I told you, that might even result in INR30 crores to INR40 crores, but the profitability will be quite high. And the advantages that we have today is in the form of bio equivalents and bioavailability, which we can do it in our own Amaris clinical lab, which has been approved by USFDA. We've already completed eight to 10 products now. We are likely to do another 20 products also in the future.

As we increase the bio studies, that will actually somehow represent the quality and also it will create a new image for our generics in LatAm. So, we are sure that we would be in a position to increase our brand marketing over a period of time. The idea is to generate a new revenue stream that will increase the cash flow and profitability.

Girish Bakhru: And just one more if I can squeeze before I join the queue. On the audit side only where you're mentioning, there's been no audit on the U.S. side, right, since 2019.

C. C. Paarthipan: We are in the midst of USFDA audit five days are completed, three more days to go.

Moderator: Thank you. We have our next question from the line of Karan Dubey from Anubhuti Advisors LLP. Please go ahead.

Karan Dubey: Just two questions from my end. First, regarding the delay in series of our projects, first, Caplin Steriles the commercial batches was supposed to start from first quarter of FY '24, now it has been delayed to third quarter FY '24 and same for oncology, oral solid dosage was supposed to be completed by December '22, now it has also moved further.

So, what would be the reason for the thing, first? And second, regarding the cash and cash equivalents, in the presentation, it has mentioned INR772 crores. But according to us, it should be INR724 crores, so what mistakes are we doing? Can you please provide the break-up of cash and cash equivalents? Thank you.

C. C. Paarthipan: I'd like to talk about the project overrun. See normally, this is quite common for any first generation entrepreneur. You see, we, in fact, we had sufficient professionals to take care of it. However, there is a delay, but that has not resulted in a huge cost overrun, but there is a delay in projects. Luckily, we have not been borrowing money to complete the project. Hence there is nothing in the form of action, you know last two, last in the form of like you know, if you borrow money, then there is the interest cost. But of course, there is a loss in the form of opportunity, but again, we'll be able to offset it once we actually start our commercials.

And the second one, we, in fact, we went for simultaneously three, four projects, in between, we had to buy a API project and then the priority was shifted towards first Phase II in Caplin Steriles. Now also some 30%, 40% of the work is completed in Phase III. Then we recently bought a key API facility in Vizag, we are trying to actually remodel the whole thing to suit to the U.S. FDA, so that the API that we manufacture in Vizag can be used in our products that we have already registered in U.S. FDA. So, it's happening, it's a question of time. It may happen actually few months later, but that doesn't mean actually we are in trouble, there's no such thing.

It happens to every businessman today. Post-COVID days, this creates a new normal in the form of actually difficult to understand the mindset of the people. There are people who are getting sick, there are people whose attitude also slightly changed. So, this is part of our new normal, of course, each and every entrepreneur has to undergo this one. That way we haven't lost anything as I told you, there is a delay, but there is no denial of opportunity.

For your second question, can you please repeat regarding the cash flow?

Karan Dubey: Yes, in the presentation, the cash and cash equivalent is mentioned of INR772 crores, but as per balance sheet, the breakup, I mean like as per balance sheet we had calculated, it comes to INR724 crores. So can you...

C. C. Paarthipan: Now I request our CFO to answer your question.

D. Muralidharan: I will just take the question and then thanks to Ind AS, the cash and cash equivalents, it will take some trouble to figure out for anybody for that matter, this is scattered around five to six places. Just let me repeat what is stated. Ind AS adoption, the cash and cash equivalent is not reported in the balance sheet in one place, it is split over four to five places depending on whether it is current, non-current, whether it is bank balance, whether it is fixed deposit, et cetera, et cetera. I can give just the breakup for INR772 crores. In the interest of time, we don't want to do that, the INR46 crores what our friend has pointed out is part of other financial assets, intercorporate deposits.

About couple of years back, we had large mutual funds, post Franklin Templeton fiasco, we withdrew everything from mutual funds, we are not into mutual funds at all. We invest our funds in scheduled bank and AAA rated Company deposits and intercorporate bonds. So INR46 crores, I think our friend has missed out, is sitting in INR71 crores other financial assets.

Karan Dubey: Okay.

D. Muralidharan: Yes, that will add INR71 crores.

Karan Dubey: And one more question, sir, from my side, so in other expenses has been dropped INR52 crores this quarter from INR62 crores last quarter, INR64 crores last quarter. So, what is the reason for drop in that?

D. Muralidharan: Primarily, last quarter, we paid a huge facility fees of INR7 crores, INR7.5 crores in CSL, which is paid in October annual fee. So, which is not repeated this time. So that's the main reason for that.

Moderator: Thank you. We have our next question from the line of Chirag Fialoke from Ratnatraya Capital. Please go ahead.

Chirag Fialoke: Good evening, thank you so much for the opportunity and congratulation. I have a couple of questions just on the Central America and the LatAm business. Firstly, could you share what the gross margin of that business right now must be running out, even if it's an approximate number for the year or for the quarter?

C. C. Paarthipan: I will leave this actually to our CFO to answer this.

D. Muralidharan: 54.5% to 55%, that is average what we get.

Chirag Fialoke: And for Steriles, what would be this quarter's EBITDA number, sir, if you can just share that as a bookkeeping question.

D. Muralidharan: EBITDA number for the quarter?

Chirag Fialoke: Yes.

D. Muralidharan: INR135.33 crores.

Chirag Fialoke: Sorry, sir, I couldn't hear that, can you repeat that please?

D. Muralidharan: INR135.33 crores.

Chirag Fialoke: This is the EBITDA number for steriles?

D. Muralidharan: No, no, are you talking about Steriles or the company, when we talk, we about Caplin as a group.

Chirag Fialoke: Okay, okay. Sterile?

D. Muralidharan: Sterlies EBITDA, just give us a minute, I will just...

Vivek Partheeban: You want steriles EBITDA for the quarter, quarter four?

Chirag Fialoke: Yes, yes.

Vivek Partheeban: It is around INR8.5 crores.

Chirag Fialoke: So, this year that means we would have probably made close to around INR23 crores -- INR33 crores, INR34 crores of EBITDA in Sterile right for year-on-year?

Vivek Partheeban: For this year, sterile EBITDA is around INR20.3 crores.

Chirag Fialoke: And just back to the question that I had for Chairman sir. You outlined a large number of initiatives that might come on board in '24, things that you have been working on in the past and will bring fruits in '24. Could you just talk about the Latin America business a little bit more, sir? I'm going back to your opening remarks, if you can just detail out a couple of more initiatives that you are taking there, obviously, growth has been sluggish in that part of the business for the last couple of quarters. But how do you see going forward? And particularly, is there any geography that is under stress because of any microeconomic or macro indicators? That will be my last question. Thank you.

C. C. Paarthipan: Yes, to tell you, to put it in a nutshell, if you look at actually in the form of a holistic approach, overall, actually, the cash flows and profits are the thing, I think, I think we are very, very comfortable. As you rightly said, in some geographies, there is a slight decrease or increase that happened because of the focus, sometimes that will happen, given the business profile and the profitability sometimes from the private market or the government market are little competitive.

However, we, in fact, we are not only getting into generic business, we're also getting into the various areas of brand marketing. And to create a niche to our brand marketing, as I told you before, we are adding our bioequivalence and bioavailability which normally only the big companies do it in their smaller geographies, like especially the multinational. The Indian companies, big companies they are not interested in smaller geographies, they always go bigger geographies for the cash, Mexico, Brazil, Argentina, Columbia that kind of stuff.

So, these particular market where we are today, we will continue to grow, but only thing post COVID, our focus has been actually on the U.S. market, it's not only the market, but also the facility and as you know well last four years there was no inspection, so were all focusing actually on the U.S. FDA inspection which is happening now.

So going forward maybe one to two months from now you all will get into the market, we will also increase actually the sales and profitability. So, is there anything you would like to want me to continue please?

Chirag Fialoke: No, this is very helpful sir and if I'm not wrong...

C. C. Paarthipan: Please, please go ahead.

Chirag Fialoke: Well, in your opening remarks, if I'm not wrong what you said is that the soft gel line will help us bring around INR80 crores to INR90 crores this financial year and INR30 crores to INR40 crores on brand marketing initiatives that we have taken in LatAM geographies, is that broadly right?

C. C. Paarthipan: This is broad guidelines and suppose which we are suppose -- we'll definitely be able to do it in the current year, we'll be able to increase the sales.

Chirag Fialoke: One last question from my side sir, on the core business, outside of Sterile, if I just look at the core outside of Steriles business, what would you think is a sustainable EBITDA margin for that part of the business?

C. C. Paarthipan: Our core business as of today, as you know well is LatAm business. Today, generally, whether it is U.S. or other markets, as I told you before, it is not actually the technology or other things which really matters - except in complex areas of maybe a biological product or biosimilar. And most of the products whether it's in U.S. or in any of the regulated market, the competitors are there.

The only way which we can create actually a substantial differentiation is to create a value monopoly. And we look at it this way, there are only two things that are permanent in the world, one is change and the other one is poverty.

As long as you cater to the bottom of the pyramid, by removing the intermediaries and the bottom of the pyramid business itself will become a creamy layer and that is what actually has helped the company to where it is today. So, we'll continue to do the same business, we'll try and do the same thing in the regulated markets, ROW and the bigger geographies. Only difference is it takes time.

It's not like actually the ROW market where the registration gets completed in six months, their own places where we have studies, their own in fact expect the kind of dossiers and the regulatory hurdles that we have in the bigger geographies is not there. However, we will continue to grow in this domain and we will also go for something long term in the regulated markets where the big boys are ruling currently.

Chirag Fialoke: Any views on the margin front, EBITDA margin for the core business? Is there any view there that you might have?

C. C. Paarthipan: So far, we don't have any issue in the form of margins and there will be small challenges in the top line. Top line challenges is bound to happen, maybe for two, three years, but our cash flow and the profitability will continue to remain, as I told you in course of my talk, last year and last before what I mentioned in the form of accrual to cash balance in the form of INR300 crores each for last two years has been happening and it will continue to happen.

That means most important as you understand I hope you will understand with me, is you have bottom line and cash flow, top line is vanity, bottom line is vanity, cash is, I hope you would agree with me.

Moderator: Thank you. We have a question from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: So just taking up on where the previous participant was asking, the LatAM growth has been one of the lower through the last couple of years and I understand that because we were prioritizing on growth in the U.S. market and as you highlighted will still lead to a low teens kind of growth. Is that the kind of aspiration that we have at least for the next year?

C. C. Paarthipan: Yes, we need to see that our growth in LatAm actually is decreasing, am I right?

Alisha Mahawla: Yes.

C. C. Paarthipan: Yes, I look at it this way, if the growth is decreasing, you will not have this kind of cash flow and profit. That's the reason I said, we are not focusing on the top line, we are focusing on the cash flow and profits. We will continue to have the cash flow and profits. If you ask us actually about the top line, top line is not very important because when you think of top line, then we'll push our people to sell in credit, which we don't want.

Alisha Mahawla: And the last couple of quarters, we were talking about entering into bigger markets, so looking at some tenders in Brazil and Mexico. Any update on that on the entry of these markets, will they -- have they contributed in the current year or will they be significant in the next year?

C. C. Paarthipan: Yes, you mean to say that actually the individual break up of actually the countries or something?

Alisha Mahawla: Yes, because we were talking of entering Brazil and Mexico and...

C. C. Paarthipan: Yes, yes, yes. Mexico, see, the model that we will be adopting in Mexico definitely is going to be very unique. But again, Mexico is a market where the registration and other things takes long time. And now we are in the process of registering our injectables there and we will also get into OSD and other products shortly.

Once we get a basket of actually 50, 60 products with different buckets in the form of tablets, capsules and injectables, probably we'll start our business. We are doing actually a bit small business, not a big business, the consistency will start, say, one to two years from now in a big way, maybe two years from now, that would be the right timeline.

Alisha Mahawla: And Brazil?

C. C. Paarthipan: Sorry?

Alisha Mahawla: Brazil?

C. C. Paarthipan: I couldn't hear properly.

Vivek Partheeban: I think she is asking about Brazil.

C. C. Paarthipan: Brazil, no, like Brazil know, we are still in the registration stage. Here, the arrangement is totally different, it's not a continuation of what we do in Central America in the form of our work. We have a partner; he is registering the products. Again, it will take actually as we told you right now, Mexico, it will be still more, maybe definitely not less than two years.

Alisha Mahawla: Okay. So, both of these markets will only significant in two years?

C. C. Paarthipan: Yes, we'll still actually do well and as I told you, what is important is the cash flow and profit we'll continue to have that. And the top line, the real top line with good cash flow is probably the kind of things that we expect to happen maybe in two years from now.

Alisha Mahawla: And this tax rate for the current year was 16%, slightly lower than what we had earlier. What is the reason for the lower tax rate and what is the kind of tax rate we can expect for next year?

C. C. Paarthipan: I would request our CFO to answer to these questions, please. Hello?

D. Muralidharan: Yes, Chairman, I'll take that question.

C. C. Paarthipan: Yes, please.

D. Muralidharan: The tax rate, madam, is net tax rate is what we are referring to, which has two components, gross tax is about 18.2%. It is coming down because the deferred tax assets which we have created in Caplin Steriles. That is reducing the total tax liability INR73.88 crores resulting in INR74.36 crores as a net tax liability. So, 16.48%, last year it is about 20%, we will be around 20% the sustainable level is what we feel is that's right because now that CSL started breaking even and we think that we'll be able to sustain 20% as an effective tax rate.

Alisha Mahawla: And for the current year excluding other income, our EBITDA margin was around 30%, if now with Steriles also breaking EBITDA at PAT level and has been significant amount of momentum, can we expect EBITDA margins to start improving and crossing a 30% threshold sustainability?

D. Muralidharan: Yes.

Moderator: Thank you. We have our next question from the line of CA Garvit Goyal from Nvest Research. Please go ahead.

CA Garvit Goyal: My question is on ROCE side. So, our ROCE is getting depleted over the years and part of the reason is our unutilized cash balances. I did a little bit calculation around this and found that if we exclude the high cash balances from capital input and its corresponding interest from EBITDA, then ROCE comes out to be more than 40%, which is obviously in force these significant balances are getting invested in lower returns than letting instruments, which is not good for shareholders.

So why are we not considering rewarding shareholders in terms of buyback or high dividends? I understand we have a good line of good capex line there, but still the kind of cash flows you are talking about and we are generating also year-on-year basis. It can take care of the upcoming capex, I think, so that is my first question.

C. C. Paarthipan: Here what is important actually is building, you know our business model has been asset-light, now that we are building the assets heavy model and we would prefer actually to build a vertically integrated business model, which is something similar to all the big companies that are rich too.

So, at this juncture, we would prefer to invest more and more cash in the project so that what happens, any customer who comes to our place will be in a position to understand that they will be in a position to get all kinds of products under one roof. So maybe in future your suggestion, of course, we'll discuss with the Board and we'll take a decision.

CA Garvit Goyal: And sir, on LatAm part, you are saying growth obviously is not there and it will come after two years. So how you will manage the profitability from here going ahead in that particular part of core business, sir?

C. C. Paarthipan: I didn't say LatAm as a whole, she was asking about Mexico, we will continue to have, if you look at -- if you remember what I told in course of my speech is, we are increasing our business through soft gel and also through brand marketing, where the profitability will be good and we will continue to increase our cash flow and profit, whatever profits which we made, which we are making now, also the cash flow that we have -- which is happening now, it will continue to happen. Growth in the sense, growth in credit sales is not a real growth. We will definitely have a growth, if you look at the holistic way, we are growing compared to some of our peers most of our peers of our size.

CA Garvit Goyal: And sir, overall basis, what will be your guidance for FY '24 in terms of top line and bottom line?

C. C. Paarthipan: See, we will continue to grow the way we have been growing and I would prefer to give actually good numbers, maybe starting from '25, '26, because that's a trend we will have actually lot of products registered in the regulatory markets too. So, we'll do well that's now actually dented to under promise and over rather than giving you some numbers.

CA Garvit Goyal: And sir, you mentioned overall sustainable EBITDA margin 30% and still we are saying U.S. is at EBITDA margin of 10%. So how is it going to be in the next couple of years like U.S. EBITDA margin shaping up from this level to whatever your target levels are?

C. C. Paarthipan: That's why I request you to look at it in the holistic way, sir, any business that you do in the initial stages especially if it is a business in the form of Steriles to U.S. market, the sustainability without borrowing money that itself actually, I sincerely hope you would accept with me is actually a good business model.

We have never borrowed anything; we have been completing new projects. We still file more and more ANDAs, the parent company has been helping the sister concern, the subsidiary, hence, don't you feel that actually it's a good business model, otherwise would not have been would have been debt trapped by now.

Vivek Partheeban: Yes, in addition to that, note that, as I said during the course of my speech, we are not capitalizing any of our R&D spend on our ANDA filing spend or regulatory fees nothing, right? So, all of it is expensed out and it's a direct hit to our bottom line.

As the CFO was saying, if you took out the R&D spend of INR30 plus crores and the filing fee was INR20 plus crores, you're looking at another INR50 crores that could have potentially been added to the EBITDA, which we don't do because we want to be fully conservative and R&D is very much a part and parcel of the U.S. side, part and parcel of the LatAm side as well.

So, I think going forward, obviously, there will be an increase in EBITDA as we -- as the revenue grows and the filings catch up with our revenues as well. But at this point, I think we should be appreciative of the fact that we have a high R&D and a filing spend at this point.

C. C. Paarthipan: I also would like to add one more thing here. If you look at companies of our size, most of the companies would we see most contract manufacturing facility, where they will not have their own ANDA. Today, we have around 17 ANDAs in our name, eight are in the pipeline, another eight to nine products are going to be filed actually in the next six months to nine months.

So, these -- all these products have a cost, right, from R&D to file increase and good for fees. So, to take this out, probably our should be one of the profit-making company, I'm talking about the Caplin Steriles.

So, all that in the form of actually happening, this is our investment, I won't consider as an expense. One day, maybe two years from now, we will do extremely well, although the prices are crushing in some of the regulated markets with a new undifferentiated approach to business model and the number of ANDAs which are coming actually over a period of time, we will definitely we'll do well actually, that's for sure.

Moderator: We have our next question from the line of Girish Bakhru from Orbimed. Please go ahead.

Girish Bakhru: Yes, no, just catching on this point on the pipeline front, when you said that you will have decent product probably pipeline created for growth in '25, '26, I mean would that be like -- I mean, I mean, I'm just thinking from that acceptability point of view, is there like a mathematical model you're running that certain products do take a higher load in terms of growth after this low base is done? Or will there be some big products, which could take off in the...

C. C. Paarthipan: Vivek, go ahead.

Vivek Partheeban: So, I would, Girish, at this point, if there is anything that I've learned from my little stent in the U.S. market profile is that we cannot be dependent on products, right? So, you need to be dependent on a good business model, a unique business model and also identifying something that is differentiated from what everybody else is doing.

Because whatever products that you are doing, you can rest assure that five or six others are going to be doing the same product, right? There is no first to file concept, there is no exclusivity or anything like that, unless you're targeting only LTE kind of molecule. So, while we are developing a very broad portfolio of good product, we need to make sure that our business model is a little bit differentiated compared to others.

So, we have not changed our portfolio. In fact, we made minor additions recent here and there, but whatever that we started with five years ago, 90%, 95% of the portfolio still remains the same. So, I would say that if you take our track record to account what we have done, there are some products where there are 16 players on the market, but we are occupying 14%, 15% market share. So, I don't think we are specifically looking at one particular product or five particular products will really take the company to the next or anything like that.

We are trying to target something from the other side, which is being completely integrated back to front, having a very high level of compliance, making sure that continuity of supply is ensured. So, we want to play the patient game, we want to be one of the last ones standing rather than going after one particular product that will change the dimension or anything like that because those days, in my opinion, are gone.

Girish Bakhru: Yes, and there is no need of a strong like risk management here, right? Because I mean, I'm assuming at this stage, you would assume most of the products will get approved easily in one go or maybe in the next go or do you think that because the space we have seen typically many companies struggle even if it's small or large their other space is not a very easy space to operate in U.S. So, what is the confidence that most of these products will come through and we have a basket on this let's say, 40, 50 products in three years?

Vivek Partheeban: Of course, I mean, the thing is touch wood, we have filed by ourselves around 25 products and we have filed another five with partners. We have not even received one refusal so far, we have not had any product that has taken more than 18 months to get approved, right? So, we have an excellent track record for a company that is very new in this space.

So, we are very much confident that not even one of our products are going to be rejected or anything like that. So, we remain very confident with our R&D capabilities and stuff. What is more important for us is to make sure that we have a good business model depreciation similar to what we've done in LatAm.

For that, we need to continue traveling there and to identify those nations, identify those pockets because as Chairman was saying, change and poverty are two things that prevail in every country in the world today. And catering to the bottom of the pyramid is a pattern that has worked for us in the past. We need to try and see how we can replicate this in the newer markets that we are entering into.

Moderator: Thank you. We have our next question from the line of Rusmik Oza from 9 Rays Equiresearch. Please go ahead.

Rusmik Oza: Sir, my question was on R&D front, if I'm referring to Slide number 15, between '17 to '20, we had a big jump in R&D spend from INR30 crores, INR34 crores to almost INR70 crores to INR85 crores. There after the last three years, which was FY '21 to '23 static at around between INR60 crores to INR66 crores. And similarly, the number of team members have also gone down from 362 in FY '20 to around 331. And if I relate similar numbers as a percent of revenue, R&D expense is to be around 10% between FY '19, '20, comes under 4.5%, you know the revenue is almost doubled from that pace of '19, '20. So, I just want to understand your thought process going forward, what kind of emphasis in terms of amount in terms of percentage of revenue is going to go in for R&D because that's going to determine your future product pipeline. That's it from my side, sir.

C. C. Paarthipan: Okay, that of course a proper, a brief reply I would like to give on this one. R&D, yes, R&D matters, but again, as I told you before, it's not an R&D for a biosimilar or biological product. So, the most important I sincerely feel is the model. As you know well, you must have also read actually what I have read in the papers.

When Warren Buffett says about Charlie Munger, he is my mentor because of his model he says. So, at the end of the day whether it were a small company or a bigger investor like Warren Buffett, the models that really matters, whether you are a investor or a manufacturer. So, coming to R&D and the other logics which you mentioned, I would ask one of either the COO or CFO to answer to your question.

D. Muralidharan: Thank you, Chairman. If we can take partly, the R&D expense consists of two parts, one is opex other one is capex. As we have been telling in the initial years also as we repeatedly told, capex in the initial period was high, so it was representing in terms of quantum as positive sales. Now that most of the capex has already been incurred, what is remaining is opex, there is no net of fund allocation to opex and then it is being sustained. I request Vivek to supplement.

Vivek Partheeban: Yes, so as a percentage of revenue, I think we do not want to broad base against our revenue or anything like that, but our R&D spend will continue to remain in similar kind of a space going forward as well in terms of absolute numbers. Like CFO was saying, we have an initial high spend when it came to capex and stuff.

Now most of these equipment and all that will be good to go for the next five, six years also. Now we might at some point reduce the number of projects that we are working on and increase the complexity of some of these projects. But in terms of absolute numbers, I don't see the R&D moving up significantly or anything like that because quite a lot of that is already a work in progress or has already been completed.

For example, if you take our API R&D, before actually having a factory in place, we've already completed 66, 65 products development over the last three years. So, this has been a company that was actually smaller in size, we've been exiting our R&D strength for quite some time now. Now it's important to put that into the factory scale that up and make sure that, that API or formulation gets approved.

Rusmik Oza: Second question was on capex, can you give us some broad guidance, what will be the capex amount we plan to spend in FY '24 this year and next year FY '25?

C. C. Paarthipan: Yes, I would request CFO to just take this call, please.

D. Muralidharan: Yes, what is visible as of today is the ongoing CSL project, Phase II and Phase III, which will consume anywhere between INR150 crores and INR170 crores. The Onco project will consume another INR50 crores, INR60 crores.

And as Chairman was mentioning, another OSD plant, greenfield plant is being initiated this year. The total outlay is about INR150 crores, I'm not sure how much of that will get consumed within this year. Between FY24 and H125 anything between INR350 crores and INR360 crores will be capex as planned today.

C. C. Paarthipan: Correct, correct.

Moderator: We have our next question from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Hi, sir. Thank you for the opportunity again. My question is also on capex, is INR350 crores is only for FY '24 or with over the next two years?

D. Muralidharan: So, as you mentioned, madam, one project is yet to be commissioned, that's where the INR150 crores. So, between these two years H1 of '25, it will be INR350 crores, INR360 crores. It could be -- if it's expedited, it could get all hit consumed. Our endeavour is to do as such as possible, but this is on what is firmed up with this. And in the meantime, if something new comes up, it will get added.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, this was the last question for today. I now hand over the call to Prashant Nair for closing comments. Over to you.

Prashant Nair: Yes. Thank you, Yashashvi. And once again, thanks to the Caplin Point management for giving us the opportunity to host this call and thanks to all the participants for dialing in. Thank you.

C. C. Paarthipan: Yes, thanks to all of you. Thank you. Thank you very much.

Vivek Partheeban: Thank you everyone. Thank you.

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

C. C. Paarthipan: Thank you.