



**Caplin Point**  
Laboratories Limited

**“Caplin Point Laboratories Limited  
Q1 FY 23 Earnings Conference Call”**

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**MODERATOR:**

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KARANI SECURITIES INDIA PRIVATE LIMITED**

**Moderator**

Ladies and gentlemen, good day, and welcome to the Caplin Point Laboratories Limited Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited.

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 an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishikesh Patoe from B&K Securities. Thank you, and over to you, sir.

**Rishikesh Patoe**

Thank you, everyone. Good evening. On behalf of Batlivala & Karani Securities, I would like to welcome you all for Q1 FY '23 Earnings Conference Call of Caplin Point Laboratories Limited. From the Management today, we have with us Mr. C.C.C. Paarthipan, The Chairman; Mr. Vivek Partheeban, Chief Operating Officer; Dr. Sridhar Ganesan, Managing Director; Mr. D. Muralidharan, CFO; and Mr. M. Sathya Narayanan, Deputy CFO.

I now hand over the call to Mr. Vivek for his opening remarks. Thank you, and over to you, sir.

**Vivek Partheeban**

Thank you, Rishikesh. Good evening, everyone. We are pleased to welcome you all to our earnings call to discuss our quarter 1 results. Please note a copy of our disclosures are available on the Investor Section of our website as well as on the stock exchanges, and also do note that anything said on this call which reflects our outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

With this, I hand over the floor to our Chairman for his opening remarks.

**C.C. Paarthipan**

Ladies and gentlemen, welcome to our earnings call. We are aware that the world has been witnessing COVID war, CIS war, and also the Cold War now. Whether it's COVID war or cold war, what is important to companies are wars of talent and the war chest of cash. At Caplin, we use our ESOPs to attract the deserving talent as we all know the importance of people first. Currently, our cash and cash equivalents stand at INR746 crore, which is a proof of our effective cash flow management.

Now, let me give you the presentation of our useful past and present, and how we will create our useful future for all our stakeholders in the form of projects and technology and markets and models. As you know well, it changes the nature of business, challenges the future of business. The challenges are not new to Caplin as it's a turnaround story. Challenge means, as you all know well, it's supposed to be hard. If that was easy, everyone would have done it. The turnaround of Caplin is the first challenge we undertook by going to the toughest parts of the world and created a business model which really works even today. The proof is the report of Value Research innovation where Caplin has been ranked as Number 1 in India among the 100 most consistently profitable companies. Had we not accepted challenge as a change of course for Caplin, we would not have reached to this position. Hence, handling the challenge is a useful proportion for our future business too.

Now let us look at the project and technology. Number 1, the second phase and the second unit of CSL is in progress. The COO will brief you in detail. Number 2, Onco OSD will be completed in two months from now. And the Onco Steriles will commence their commercial operations in the next year, hopefully, in the third quarter. Number 3, API. We are still in negotiation with the company for the acquisition of their plant in Vizag. These two the COO will brief you. Number 4, the land for OSD for the regulator market have been bought and we will start the construction shortly. Number 5, the injectable and softgel facility of our Pondicherry facility, which we call it as CP-1 will be expanded as we have great opportunity to export these products to the current markets of Latin America, where we are present now.

Number 6, the necessary R&D activities are in progress for the expanded facility. Number 7, AMARIS CLINICAL got the approval from Chilean Authority. We are

planning to register 12 OSDs in Chile, but these studies are already on and will be completed by November. Number 8, the API at the R&D level has been completed for 70 products. Further, the capital allocation being a strategic priority, is also being done effectively. There is no debt overhang or debt leverage and most of the cash has been from the internal accruals.

Our major markets, as you know well, are still Latin America. However, we are now present in U.S. in addition to our brand marketing of West Africa. We are currently registering our products in many bigger geographies, namely U.S.A., Mexico, South Africa, and Europe, and we have plans to enter Brazil and Southeast Asian countries and CIS too. Our first order has come from Cambodia, although it's a small one. We will continue to follow our business model of catering to the middle and bottom of the funnel, which means we will look at second tier and third tier opportunities in the larger markets, and stock and sale models in the smaller geographies, the way we are doing in Latin America now.

Although the lead time for registration and the entry barriers are high in the regulated markets, we have the opportunity to create various buckets in the form of injectables, OSD Onco and OSD General to form a larger basket of over 100 products in three to four years from now. We can start our stock and sale model in Southeast Asia faster as the registration will be completed in 12 to 18 months. We're also getting into tender business in the current markets of our operations now as we are planning to manufacture our API from key starting material. We are sure that we would be in a position to create an end-to-end tech platform in the form of KSM to formulation. KSM means key starting material to formulation, and also the front-end process. You are aware that we have an end-to-end marketing presence in the Latin American markets.

We will also follow the leaders of the industry in terms of technology, be it in the form of CapEx and R&D, and also the market, especially the bigger markets. But we will create and continue our business model that is unique, which is what has created the cash flow and profit in the last 10 years. So finally, our focus will always be on the bottom line and cash flow.

Thank you. Thank you very much. Now I will hand it over to the COO.

**Vivek Partheeban**

Thank you, Chairman. I'll just take a couple of minutes to update on the regulated market operations, specifically the U.S., and also throw a little more light on the CapEx strategy of the company. So, as you all might have seen through our results released today, we've had a reasonably good growth in the revenue. Specifically, it was a healthy mix of profit share and milestone revenues also for Caplin Steriles.

We've grown more than 60% compared to last year. I think this year is when we can say that business is sort of mature enough where we can compare it on a quarter-to-quarter basis, which was something that we couldn't do in the previous years. Now the revenue has been a mix of 75% Caplin's own ANDAs, which we've outlicensed to multiple partners in the U.S. and from 25% from CMO. And when it comes to product revenue versus profit share, I would say this quarter it's been around 70:30, but this will not be very consistent going forward. It could be 80:20, it could be 40:60. So as long as there is a healthy mix, I think we are happy about this.

Now our order book, compared to the last time we spoke continues to remain even more healthy. Compared to last time, we were at about INR150 crore, and now we are close to INR175 crore, and we just need to make sure that we execute well. And added to it, good profit share and milestone revenues should push us closer to the INR200 crore mark, where we will effectively have a net breakeven from Caplin Steriles. That's a milestone that we've all been waiting for and we remain quite cautious, and we remain quite excited that it could happen this year. Most of the products that have been approved have been launched.

We have two more that is yet to be launched, which will probably happen in the next three months. And we also have five ANDAs under review, and we are on target to find another 10 to 12 this year. Going forward, our target will be more on specific molecules where the complexity to manufacture or complexity in the home of sourcing or

development would be more compared to what we have taken on in the past, because our product line, our pipeline of products is already quite robust in terms of quantity. Now we will start to do a little bit more cherry picking on slightly more complex products going forward.

Our larger focus would be to have a differentiated business model in the U.S. Actually, what we are planning is we are planning to do something that is similar to our Latin American model, where we will be focusing a little bit more on the Tier 2, Tier 3 buyers, and specific focus at the bottom of the pyramid. We feel that this is something that is -- if it is possible in Latin America, we feel that this is very much possible in the U.S. as well, as long as we get into the right kind of partnerships, we get into the right kind of conversations in the front end. And on that note, we are putting together the processes and plans in place to have our label in the U.S. within the end of this year.

We are likely to launch Caplin's own label products, three of them specifically, before the end of this financial year in the U.S. We are making very good progress on the complex products that we discussed. We have already completed two emulsion injectables, one of them for a partner and one of them for ourselves. And for the one that we've done for ourselves, we've used AMARIS CLINICAL to complete the biostudies for that product. We are likely to file that by January of next year. We have four more complex products that will be scaled up and ready for exhibit batches sometime within the next four to five months. And the filing will be in another six to seven months from then. So, the pipeline absolutely remains very robust and healthy.

When it comes to CapEx, I will start with Caplin Steriles and then move on to the other one. So, we made a strategic decision to expand into two separate units. This will make us achieve better flexibility, quicker qualification timelines, and also utilization of the additional capacity and a little bit earlier than what was originally planned. This will obviously increase the CapEx by about INR40 crore to INR50 crore. But thankfully, the parent company is healthy enough with adequate surpluses that can take care of the extra INR40 crore, INR50 crore in terms of CapEx requirements, so the final number to be around INR260 crore, INR270 crore mark plus GST.

When it comes to CP-1, which is our Pondicherry plant, we are expanding our Softgel line. This is an area where we've seen a gap between the orders that we receive versus what we are ready to execute, which is always a good thing. So we have already ordered the process machineries from Korea, and we are also expanding our warehouse and injectable sections here that should be completed in the next four to six months. When it comes to oncology, as Chairman said, oral solid dosages oncology phase is nearly completed now, and we will be going for qualifications and validations of the process equipment in the next three to four months. The injectable phase of the oncology side will be completed probably by end of next year.

When it comes to API, as once again the Chairman said, we are at filing stages of evaluation with regards to this Vizag facility. And we also have design drawings, et cetera, already completed for a greenfield facility of our own, which will be closer to Chennai. That's basically the updates for both Caplin Steriles and our CapEx projects.

Let me hand over the floor to our CFO for some remarks on the numbers before we can open it up for questions. Thank you.

**D. Muralidharan**

Thank you, Mr. Vivek. Good evening one and all who have joined us for the investors call. The numbers are already there with you. The numbers are gratifying. Even more gratifying because most of our peers and also the bigger players in the industry have either been stagnating or reported a negative revenue growth or profit growth for the quarter ending June '22. The numbers what we have reported, thanks to the strategy of Chairman and judicious product selections under the market, we have reported a 16.3% growth over the year-on-year.

And in terms of PAT, it is even better, 20% growth on an increase of sale of 16.3%. thanks to CSL, which is our US regulated business, which is quite positive this quarter as compared to minor negatives in the past. This has also contributed to the overall PAT number being what it is. And coming to the major components of the P&L, gross margins

are stabilizing at around 54%, 55%. There were some aberrations in the past and it's all taken care and now this is the range in which we would continue to operate. As I mentioned, it is on account of judicious product selection and the products close to customers.

And in terms of opex, though it may look as though the quantum had increased in terms of employee costs or other costs, it is the investment for future. As Chairman rightly put in his opening remarks, we are taking on board talent keeping the future in mind for various projects. He has also mentioned about operational excellence division in the press release, so we are creating a separate focus on operational excellence that will keep us in good stead for the future when the company grows into a different league altogether.

our focus on R&D continues to be there, and we have been consistently debiting all our R&D related expenses to the profit and loss account. We don't consider to capitalizing any of them as of today.

And then the working capital cycle, again, it's now stabilized. It is about five months. Out of those five months, the receivables account for three months. And then the inventory account for about five and a half months. And the five and a half months that we see, two to two and a half months is taken away by the voyage time. As all of us will know that the market channel partners were acquired by us and they are part of our consolidated numbers today. So, the inventory, once it is sent from here, comes into our books. And then they are all part of transit, and that itself is about INR100 crore, which is about 40% of the inventory on hand.

Then the receivable is about 90 days. Inventory is about five months on cost of goods sales. And then the creditor support is definitely to the tune of three months in terms of RM and PM. So, this adds up to about closer to five months of working capital cycle. And thanks to our cash flow, we are debt free. And then all our CapEx and opex are being funded, including the projects on hand and projects that, both organic and inorganic, what is visible today, for the next two, three years, would definitely be able to fund our overall internal accruals.

And then coming to the capital expenditure, the depreciation, somebody had raised the question as to why it has come down from the last quarter. This is because most of the CapEx we are yet to put into use. So, we have about INR52 crore worth of advance towards capital expenditure, which are either in the form of in-transit or have been received, but not yet put to use. And then INR35 crore is in capital WIP at various stages of installation.

So we would see definitely a quantum increase in depreciation over the next couple of quarters, but the profitability will be commensurate with the increase in operations and then the 23%, 24% of PAT. I think we see a good reason why we should not continue in that range. The numbers are there, and as we have already mentioned in the press release, the good milestone has been reached, INR100 crore plus PBT in one quarter is a milestone. We are very proud of having reached it. We hope to sustain that in the future as well. And if you have any queries, we would be more than glad to answer them.

Thank you, Mr. Vivek.

**Vivek Partheeban**

Thank you, sir. So, we can open the floor for questions now, please.

**Moderator**

We'll take the first question from the line of Anika Mittal from Nvest Research.

**Anika Mittal**

Sir, my question is on your API backward integration side. Basically, I'm little bit confused between these inorganic acquisitions and the organic greenfield expansion you are talking about. So, can you please elaborate and clarify the theme about these two action plans in more details?

**C.C. Paarthipan**

Yes, I'll let Muralidharan to take this. Vivek, can you -- in fact, it was not very clear.

**Vivek Partheeban**

So the question was, can you please clarify on whether it will be an inorganic acquisition or a greenfield expansion for the API?

- C.C. Paarthipan** Okay. In fact, we are trying both. Whichever is meaningful, eventually we will do it. We are talking to one of the companies for acquisition. But when we go through the acquisition, there are issues which have to be sorted out, the known and unknown, that's why it's taking time. And side by side, as the COO said, we have already bought the land and the drawings, and everything is completed. We are planning to start at the earliest. Even if the acquisition opportunity comes up later, we currently have enough cash to acquire. On top of it, going forward that we will have to develop many products, as I told in my speech that we have, and the R&D level, we have around 70 products done, which means by going for one project, it may not be enough actually to complete all the 70 products in one year. So, it will be a mix of both organic and inorganic piece.
- Anika Mittal** So basically, we can go for both also? That means – that's what you are saying?
- Vivek Partheeban** We are trying both. As I told you, if it is meaningful, we will acquire actually the one which we are talking, which is in negotiation stage. And we will also start the other one. Yes, please.
- Anika Mittal** So for, let's say we are going for both, so CapEx amount will remain the same, like INR110 crore?
- Vivek Partheeban** So, I'll answer that one. So basically, the acquisition cost that we are looking at is not very high. We expect it to be less than INR30 crore. So regardless of our greenfield expansion, the acquisition will not really move the needle too much on the overall outlook for our CapEx.
- Anika Mittal** And, what is the expected timing do you expect this API CapEx integration will start, either organic or inorganic?
- Vivek Partheeban** Yes. So obviously, if it is an inorganic one, this can be very quick, potentially in the next few months. Of course, we might not be able to use it immediately after taking over. There'll be some refurbishment that needs to be done to bring it up to live and bring it up to the U.S. standards that we would be using it for.
- When it comes to the greenfield one, we believe a complete structure can be completed within 9 to 10 months. We'll be going for pre-engineered building. And from then on, another six months for completion of all the API-related activity. So the inorganic one would be a few months, but the greenfield is potentially about 15 months from now.
- Anika Mittal** So what other problems are you facing in this inorganic acquisition? Like last to last call, you were mentioning that we are all set to buy in next month only. Now it is quite different like you are saying it is next two months wait.
- C.C. Paarthipan** I would like to pitch in here. The company is to receive the factories once we get satisfied with the due diligence -- technical due diligence. Then the financial and legal due diligence starts at renewal. Even the financial due diligence, actually we didn't have any issues. When it goes for the legal due diligence, we have come to know that most of these factories, which are in the region of INR30 crore, INR35 crore, they have a lot of issues in the NCLT.
- The major issue -- the promoters of the company, they come forward when it is the question of settlement, like one or two companies, already actually they are saddled with debt, and our companies, especially what you call the DRT company, they are not coming forward, and they are not in a position to actually accept the settlement with the promoters. So, like this there are issues. That's why they have been hanging on for quite some time. Now that we have formed one company, which does not have anything in the form of NPA or DRT issue. So, the promoters have come very close. Hopefully, this time actually it should be through.
- Anika Mittal** And, this company is in Vizag you are saying?
- C.C. Paarthipan** Yes, yes. These are all factories which are situated in Vizag.



- Anika Mittal** Okay. And a little bit clarification on our U.S. operations. We are not at breakeven currently right now. And by when do you expect to cross that particular level, breakeven, for your position?
- Vivek Partheeban** Yes. So we expect at a revenue run rate with similar kinds of profitability that we're doing we expect INR190 crore to INR200 crore to be the net breakeven level. So at this point, we have visibility within this year itself for us to achieve this. But of course, we will take it month on month, we'll take it quarter-on-quarter, but we are certainly not very far away.
- Moderator** Next question is from the line of Harshal Patil from Sharekhan.
- Harshal Patil** Just had one question on the U.S. business. And if I have just missed it, you can kindly share it. Sir, the U.S. thing, we kind of have a strong growth of about 60%, and there are also some bit of milestone payments that are being included. So possible for you to give a broad mix of what can be your milestone payment or something like that? Just an idea around that?
- Vivek Partheeban** I think, Sathya, can you clarify the exact numbers on what was the product revenue and what was the milestone on profits?
- Sathya M. Narayanan** Yes, sure Vivek. So, in the current year, the mix is, around 66% has come from product sales, and the balance 34% has come from milestone and profit share. Whereas in the last year, it was the product sales revenue was less than 50%, and balance 50% comprises of milestone and profit share.
- Vivek Partheeban** Here, I would just like to add one thing. Basically, the more products that we launch, the new products that we file, you can expect the product revenue to go up. And because of the fact that we expect our own label to be launched in the U.S. soon, we are not signing any exclusive deals. Typically, your milestone fees go up when you're doing exclusive deals, but that's not something that we target. So going forward, I expect the product revenue to climb up even further. And I think it might end up somewhere around 80:20 sort of a ratio.
- Moderator** We'll take our next question from the line of Girish Bakhru from OrbiMed.
- Girish Bakhru** Congrats on good quarter. So, on the U.S. side, again, I understand that breakeven possible this year. So, when do you expect cash flow breakeven in the U.S.?
- Vivek Partheeban** See, there's two parts to this, right? On the cash flow in fact, at INR200 crore, we will be cash flow breakeven itself. That's why I mentioned that it might be a breakeven overall. When it comes to the second part of it, the fact that we will be filing around 10 to 12 ANDAs this year will put a little bit more strain on our efforts towards breakeven for sure. But how we are trying to mitigate that is, when we sign nonexclusive deals, we do get a reasonable milestone payment. We are trying to make it, so we are trying to structure it in a way that the time we get ANDA acceptance, not approval, the time that we get ANDA acceptance from the FDA, one of the milestones starts to kick in, so that whatever filing fees that we pay gets offset by some milestones that we get from customers. So, if the timing for both of this is around the same, I think we can very much expect net breakeven including cash flow by end of this year.
- Girish Bakhru** But, this new investment or the expanded investment in Steriles, you are counting that also in this, right?
- Vivek Partheeban** No, no, no. So, CapEx is not being included in this. It's only opex and R&D that we are talking about. CapEx will have some more time for us to...
- Girish Bakhru** Right. And I'm asking more from that angle that say when you actually look at sizable base with maybe, I don't know whether the number reaches INR100 million by CY '25, '26. Is that let's say, a good level where you feel that even from the CapEx side, this breakeven can be achieved?

- C.C. Paarthipan** Now what is important to us, to be very honest with you, if you look at our model, we are not very concerned about the top line. We are always actually -- our focus is always on the bottom line and cash flow. So even if it is INR70 million or INR80 million, if we can make actually good profits and cash flow, we would prefer to do it that way. As COO said and as I told you in course of my speech, our focus will be on the tier 2 and tier 3, where the profitability will be high. Maybe, the top line, as you rightly said, actually INR100 million kind of stuff, may or may not be in a position to reach there, but we are very sure that we will be in a position to achieve the bottom line and cash flow, say, three to four years from now.
- Girish Bakhru** So let me ask this way that what would be, let's say, your understanding of sustainable margins in the U.S.? I mean, given that we may breakeven this year, going forward in two to three years, what could be the margins in the U.S.?
- C.C. Paarthipan** Coming to that one, it's not actually, we are not in a place to give you the numbers now. The reason is if you ask me what will happen in Central America, these are markets where we have been there for quite a few years, maybe more than 10-15 years we're there. Here, we are only looking at the models, and we are sure of doing it like this. As I told you in course of my speech, we will only follow the big leaders, the leaders of the industry in terms of technology and the market. But the models are the one which will give you the profit and cash flow, the business model.
- And most of the big companies, as you know well, they will only concentrate on the top layer, the creamy layer, but what has helped us actually in the form of creating the creamy layer for Caplin is concentrating on the bottom of the Pyramid. So here, we will focus more on the uninsured and underinsured, which is mostly in the form of second tier and third tier. So, I'm sure that we'll be in a position to get good profits and cash flow. But the numbers, I think it's too early for us to commit actually in terms of profit or in terms of actually top line.
- Girish Bakhru** Right. And if you look at this INR90 million, INR100 million number, given that your market segmentation looks different from the addressable population, how many ANDAs, let's say, ballpark, are you looking in terms of commercialization to reach this number? Or is it independent on -- yes, sorry, go ahead.
- C.C. Paarthipan** Please go ahead.
- Girish Bakhru** No, I'm just trying to understand, is it dependent on the -- because the size is small in terms of the customers you may reach out to, do you need larger number of products to get that number to?
- Vivek Partheeban** Yes. So, our current pipeline, we have close to 55 products that we are working on in addition to '23-24 that's already been filed. But once again, I think it is not the case of one or two products that will decide the fate of the company. As chairman said also the business model depreciation is going to be important. And for this also, it's just like how we have a large basket of diversified products in Latin America. A large basket would certainly be important in the U.S. as well, which is why if you see our current pipeline consists of many needs to generic products where there is a little bit of competition.
- But where we feel we should be in a position to stand apart is, as a smaller size company, our control on the cost of the product, our control on the effective supply chain, and our business model, where we are targeting not exactly the top of the pyramid, where the middle and the bottom of the pyramid is something that would probably set us apart, where as long as you are one of the last ones standing, you still end up having a reasonably good business in the regulated markets also.
- So, while there is no magic number as to what number of ANDAs will get us to INR80 million, INR90 million, INR100 million, it's more of a basket and a continued compliance record that really stands us apart. If it doesn't happen in three, four years, it might happen in four, five. So, we're not in a race with anyone at the moment. We want to make sure that our fundamentals, which are basically our cash flow and bottom line, are taken care of, which has always been our mantra from the parent company as well.



**C.C. Paarthipan**

Let me add few words here. I would request you to look at actually the countries where we are present today in Central America or Latin America. The six countries that give us a business of INR1,000 crore, the population actually is lesser than Tamil Nadu, all put together. So, the same logic is applicable actually to U.S. too. It's not the population that really matters. But I fully agree with you about the basket of products. But coming to the present situation, although we are in the initial stages in some areas such as Onco and OSD, in four to five years' time, we are sure actually we'll have different buckets that would create a big basket, 100-plus products, as I told in course of my speech. And those 100-plus products, if somebody can cater actually to the middle and bottom of the pyramid, whether it is a larger market or a smaller market, it's bound to clear actually a good impact to the company. Is that helping, else you want to ask more?

**Girish Bakhr**

No, yes, this is very helpful. But I'm just also taking cue from the industry where, I mean, of course, larger players are exiting few products and maybe the smaller guys are entering and investing into different products. When you look at such big pipelines, 100-plus products, and at the same time, you are, of course, planning for API backward integration in some. But I mean, I'm just curious that, is there a price erosion or significant impact from other companies factored in your equation? Like do you feel is it good to be selected from the start?

**Vivek Partheeban**

See, there are many products, I would say, quite a large number of products that have probably already hit the bottom in terms of the pricing. So, I know that there are larger companies that may complain about price erosion and stuff, there are products that we deal where we sell it at sub \$1. And even on that, we lay gross margins of more than 40%. So, I think you'll also have to take into account the size of the company as well and our expenses in comparison to larger companies. So, while the price erosion is very much there, I don't think it's at a stage where you're talking about 10%, 6% margins or anything like that. I know if there were products like that, obviously, we will not go anywhere near it.

**C.C. Paarthipan**

Coming to one more thing. The price erosion comes to you if you follow the conventional business model. If you can remove the intermediaries and if you have the capability to reach to the last mile or one step above of it, then the profitability is always high. It is the intermediaries who eat away the entire profits. You take any country for that matter, not necessary you have to be a brand player, even in generic, if your business model is a brand, then you generate profitability and , cash flow. That's what has happened in Central America. The larger it is, one has to say, whether you are in U.S. or in other country, poor people are there, actually. Poor is poor everywhere.

We don't look at actually poor as poor and we look at poor as customers and then created a business model and removed the intermediaries. And what is important to people is affordable actually cost at good quality. And how that can reach, only you have to remove the intermediaries. The we don't have to worry about the price erosions. Who will worry about the price erosion is the one who follows the conventional business model. And if you want to ask, please ask me. I will also be happy to know and learn something from you.

**Girish Bakhr**

Yes. And just this last one, and you have some of these complex products like emulsion and all, and you were talking about the own entry. Are you going to market these products also on your own, directly? And...

**C.C. Paarthipan**

No, here the issue is, there are products, as you rightly said, if the product can create a huge actually opportunity to Caplin Point, we are not hours to selling this one actually to the top layer. What is important at the end of the day, whether the product, as you rightly said, at that point of time, if the product that we are going to launch, the emulsion or suspension or a difficult to manufacture product, it can fetch you volume and value, we would prefer even the top layer. If the product is very competitive, because competitive market destroys profit. The price erosion comes only because of the competition. So how to stay away from the competition is to look for a new business model in the form of getting into the uncontested space.

So that's why I said, there is nothing in the form of we will follow something which is actually 100% beaten track or whatever it is. We will craft the bridge when we reach

there. We will look at actually the opportunities available in the market. If the opportunity is very unique in the form of like our product is unique in the market, we will use all the channels. If we find we are one among the 8 or 10, then what we have to do is, we have to decide actually to enter into the second, third tier and reach the customer, where the customer feels that he is getting a quality product at a differentiated price compared to my competitors. Am I addressing your question now?

**Moderator**

Our next question is from the line of Sachin Kasera from Swan Investments.

**Sachin Kasera**

Congrats on a good set of numbers. two, three questions on U.S. As you mentioned that this year, because of the strong order book, we are looking at net breakeven. But from what I understand that from December of this year, we're also going to have our own front end, and also that next year the expansion kicking, so again, the cost will go up. So, is it that FY '23, we will again see some pressure because of this new CapEx and front-end costs hitting us in many more filings, or we think that the momentum we are seeing, the type of top line growth we could see in FY '24 would more than compensate for the cost increase we could see?

**C.C. Paarthipan**

Okay. Sure, I would like to answer to your questions briefly. As I told you in course of my speech about the value research report, then I request my finance people to go back and give me how exactly we fared in the last 10 years. Last, out of 10 years, 8 years, the cash and cash equivalents were in two digits. Only the last two years, they have been in three digits. Which means we will continue to achieve how the cash and cash equivalents in three digits every year. So, we are very sure that our current business model will fetch us good profits and cash flow, as I told you before.

So, we will not have anything in the form of major pressure in the form of cash flow, one. Number two, we will also be very cautious in heading into the regulated market. Currently, the focus is on creating something in the form of long-term value. At the same time, once we complete a project, we'll also look at what is happening with the other projects which are already there. The moment we breakeven in one project, then only we will start actioning the commercial in a big way in the other area. So, we don't foresee any major issues in terms of cash flow compression in the future.

**Sachin Kasera**

Sir, thank you, but my question is more specific for the Caplin Steriles, that next year when the expansion is kicking, and we also have the full-fledged content team operating, will we again see some pressure in margins, or the revenue momentum we see is very strong in FY '24 also?

**Vivek Partheeban**

So there are two parts to this. Number one is when we are launching our own label in the U.S. this year, the front end that we are talking about, we are not taking into account any expenses towards the front end today. That is a work in progress. It may happen this year or it may happen next year. So, the way we are constructing this partnership is, there are distribution companies in the U.S. that are looking to take products -- basically, in-license products from us and sell them on a consignment basis.

So that's the first option that we are looking at when I said that we'll be having our own label in the U.S., number one. Number two, we are filing a bunch of ANDAs this year, which we will probably see getting approvals in the next 18 to 24 months. So next year, we would not be very, very bullish in saying x number of certain figures we will grow. But the year after that, we are very confident because of the approval that will start to come through and also the new capacity that will be put to use.

So, while we don't want to get into numbers or when we will have more pressure, I think the next 12 months would be similar to the current one, probably slightly better, but 12 months after that we are a little bit hopeful of better performance.

**Sachin Kasera**

Sure.

**C.C. Paarthipan**

There's one more thing I would like to convey here. As you are getting into regulated markets, these are the most important things I would like to convey. First, we have to go for the market survey, then its selection of products, then, of course, the R&D work. If it is OSD, then biostudies happen, then the regulatory filing, and the registration, that also

takes long time. What is important here, is the company having enough actually where we have to extend our these things. Yes, we have the value.

We may be the last man standing, but last man standing will be the least one to get affected, or the last one to get affected. Since we have the support from the parent company, any amount of pressure that comes from Caplin Steriles, whether it's in the form of CapEx or opex, it is manageable. And moreover, when we get into the regulated markets, our focus should be on the green destination in the form of getting into the uncontested space, which can happen in three, four years from now, or four, five years from now, which is sure.

Because we are one among the very few companies that are into the injectables space of our side. Of course, there are one or two companies which are there, but they are not concentrating on their own products. They are in the OEM business. OEM business, it is somebody's business, although it helps in the initial stages, although it helped only one company in India. In future, it is nothing like giving for our own products. The cash flow and the profit with regard to Caplin Steriles may not be huge, but eventually, we'll make it big because this is going to be -- of course, this is the largest market in the world. And moreover, injectable is not a space where each and everybody gets into. Am I in a position to address your questions?

**Sachin Kasera** Yes, sir. Second thing, sir, about this loan that has been given from parent to the subsidiary for funding the CapEx. Can you just tell us what are the terms of this loan, and if the subsidiary is paying any interest or when it will be repaid or eventually will it get converted to equity? And secondly, what about the investors who are there in Caplin Steriles? What is the sort of agreement we have? At some points of time, how do you get an exit?

**C.C. Paarthipan** I'll request the CFO to answer your question, please.

**D. Muralidharan** To answer the first question, the interest is being serviced on the loan that is taken from the parent company on a month-on-month basis. It is -- linked. The interest is -- based on the SBI MCLR rate, plus risk premium of 2% since it's unsecured loan. As regards to the investor getting replaced or so, it's a long-term strategy. There is no definitive time range that has been agreed to. There are various methods by which they can exit through. Too premature in my opinion to discuss that.

**Sachin Kasera** Sure. And sir, for the CFO, can you give us this CapEx breakup, total INR450 crore, INR500 crore of CapEx at the end of last year, how much of spend of that in FY '22, how much are you spending in FY '23, and how much spend in FY '24, if you could give us a brief view.

**D. Muralidharan** FY '22, if you see our cash flow, it is about INR92 crore is what our CapEx last year was. And during first quarter, we have spent about INR16 crore. As we have outlined, there were major plans in terms of oncology OSD, phase 2 of Steriles, and then Softgel expansion, that will be spread over the next 12 to 24 months, the INR400-odd plus crore, what we have identified, will get consumed in the next 12 to 18 months in a phased manner.

**Sachin Kasera** But, can you give us a sense for the remaining nine months of the current financial year, how much you could be spending approximately?

**Vivek Partheeban** I think that will be a little difficult to quantify because what happens is, there are instances where there are delays with regards to some semiconductors, some PLCs that are not available. So, while we have an overall plan when projects are supposed to get completed, it might also get pushed over by a few months. So right now, when it comes to Caplin Steriles project, there's also a change that we've made, which is to split it into Phase 2 on Unit 2 also. So, Phase 2 is likely to get over by December to February period, and Unit 2 will be by end of next year.

On the API part of it, as we discussed in detail, there's an inorganic opportunity. There's also a greenfield opportunity, so that could be in months to probably 15 months from

now. And oncology part of it, again, is in two phases. So, it might be difficult for us to quantify in so much of detail how much CapEx is going to be in the next nine months.

**C.C. Paarthipan**

See, in the next 12 to 24 months, that's what the CFO and COO said actually, the projects will be completed. And in the next 12 to 24 months, please note that there will be a cash flow stream actually from parent company. Even if we spend INR200 crore, INR300 crore in the next 12 to 24 months, or INR300 crore to INR400 crore, we are sure of actually getting that. INR300 crore, INR400 crore will be generated in the form of additional cash in the parent company. So that's not going to create any impact to the cash and cash equivalents in a negative way. It will not be.

**Sachin Kasera**

Sure. And sir, just last question. When do we start to see the impact of the new markets which you are entering as far as the emerging market of the business is concerned? You had mentioned that you had got some tenders and some registrations, but when do we start to see some meaningful impact in terms of revenue and bottom line of these new markets?

**C.C. Paarthipan**

Yes. There are two ways to answer this question. One, as you know, two years have been spent working from home. That's not the way business has to be done when we want to create something in the form of new models in markets. So that's how we spent two years. And 2019, we spent a lot of time. In fact, I had more than 10 trips to China. When it was coming to fruition and we were not in a position to continue. Of course, almost three, three and a half years we have not been able to travel to the markets, which we are planning to enter now. However, the registration work is on, and some of the inputs in the form of market survey, we have been doing it and collecting this information. The R&D work actually is also in progress.

Some products for these studies, the immediate opportunity I would say is from Chile, and then Peru, Colombia. Little later, we will see opportunities in Mexico, because we have a different model in the form of going for a private labeling in Mexico. I already worked in this country three, four times. I am just waiting for my trip to Mexico, which can happen anytime in the next three to four months' time from now. Once we complete our work, which of course we have been doing here. After that we will make a trip.

If there is going to be a change in the business model, it is better to do it on our own because if we try and teach these tricks actually to our professionals, in the initial stages, I am talking, there is some risk in the form of, they learn everything from you and they might be then become your competitor also.

That's why it is better actually, the promoters and some of the loyal professionals who have been with us in Central America, that is Latin America, would come with us and we will do the business model changes. Then, of course, the seasoned professionals would take over from there. So, when exactly I would be able to generate revenues and other things, it's difficult to say how much time. When it happens, yes, it will happen actually in a big way. That is the reason I said we'll have to look at actually the future of Caplin Steriles four years from now, like that you'll have to look at. And year-on-year, our business is good, so the results that you are seeing now will continue to remain that way. And the big growth, the growth that we estimate, can happen maybe four years from now in a big way.

**Sachin Kasera**

Yes, sir because in the last four quarters, our operating profit is now standing at close to around INR100 crore. And while I understand that it has been challenging, but that is not the track record that we as investors are used to at Caplin. Normally, we see very good growth, but last four quarters, despite all that we have done, the EBITDA is more or less standing at INR100 crore. So, I just wanted to get a sense, with all the effort we are putting, when we can start to see some good growth in EBITDA there?

**C.C. Paarthipan**

Your answer is, actually if you try and compare our growth actually with our past growth, it's an issue. If you try and compare our growth with other companies' growth of our size, maybe some of them who are big players also, then there won't be any issues, I think. Am I right?

**Moderator**

Our next question is from the line of Alisha Mahawla from Envision Capital.

- Alisha Mahawla** Sir, I would like to understand, the two tenders that we have in LatAm, are they going to be contributing in this year?
- C.C. Paarthipan** No. Slowly, we are also getting into tenders if the profitability is reasonable. And this is how we look at it. Wherever there is an opportunity for us to make profits and generate more cash, we will get into that space also. Earlier, we were not concentrating on that because we were happy with the private market opportunities. Now we're entering this space also. Again, we are not going actually with all the tenders. We are going with the tenders where we are getting good profits, as I told you before. The same way, the cash flow also should not be affected.
- Vivek Partheeban** So on the timelines, the El Salvador one will be completed by Q2 of this year, and the Ecuador one is over 24 months. So, we have already started the first dispatches. This will go on for another year or so.
- Alisha Mahawla** So there is some contribution from them in Q1?
- Vivek Partheeban** Small one, yes.
- Alisha Mahawla** Okay. And what is the total number of products that we have launched in the U.S.?
- Vivek Partheeban** So we have so far launched 15 products, which includes 10 from our side and 5 from our partners. We are about to launch two more. In fact, one of them is already in transit. And the last one would be launched in October.
- Alisha Mahawla** And, after that, at least for 18 to 24 months, there will be a gap till the new ANDAs get approved?
- Vivek Partheeban** No, no. We have about three that are at an advanced stage. We feel that those could be potentially approved by fourth quarter of this year. And then there are some that we have just filed that will take another 10 to 12 months.
- Alisha Mahawla** Okay, sure. And from the newer geographies, is there anything which is relatively at an advantage on the Southeast Asia side, like you were talking about Vietnam, Cambodia, or maybe some of the new geographies in LatAm that will actually materialize in '23?
- C.C. Paarthipan** Yes. The Southeast Asian market, we're entering now because we have the wherewithal in the form of huge basket of products, one. Number two, when we go to these types of markets, we will also go for actually creating a stock and sale model next to the customer. And the advantage in Southeast Asian markets, especially markets like Philippines -- in Philippines, there is actually the baby -- they call it as baby registration or something. By registering one product, you are allowed to sell to five customers, something similar to actually what we see in U.S. and Mexico. So that will also be an added advantage when we get into markets like Mexico.
- Cambodia, although it's smaller in size, the way in which we have product basket, various, like 400 to 450 products, once we register here -- the registration is faster -- we are sure of getting good returns also from this part of the world.
- Alisha Mahawla** And, entering these new geographies, are we expecting it to have an impact on our margin, maybe because they are new and it will take time to scale up, or because we're doing more tender business?
- C.C. Paarthipan** No, I don't foresee any major changes in the margins because the volume of business in terms of tender is not very high compared to our private market, the volume of products that we supply at least.
- Alisha Mahawla** And, the entry in new geographies also will not have an interim impact on the margins?
- C.C. Paarthipan** No, because the products that we select, or the markets that we select, the first thing which is important to us, as I told you before, is the profits and cash flow. If that is going to affect our profits and cash flow, we will not get into that kind of markets.

- Vivek Partheeban** Just to supplement what Chairman said, if you see, madam, it will be a very small component of the wide basket what we are carrying today, even a small dent in the margin levels will not impact our overall margin. And as you rightly said, the product we choose, as we have been choosing judiciously, we will yield definitely profits, which we have a benchmark.
- C.C. Paarthipan** Another thing, madam, we would request you look at actually as a whole, not in isolation, and like if it is maybe a small portion in the form of tender, getting into some markets where somebody is not making money. So all those things are totally different from the way in which we are doing business, because we don't follow the conventional wisdom. Yes, when it comes to technology as marker, we always follow the big guys, but when it comes to actually business model differentiation, we always create something unique and try our best. It may take one year extra, but at the end of the day, we would always follow actually our own model.
- Moderator** We'll take that as the last question. I now hand the floor back to the management for closing comments. Over to you, sir.
- Vivek Partheeban** Yes. Thanks to Rohit, Rishikesh, and the entire B&K Securities team for organizing the call. And thanks for all the participants and your questions. And we'll be in touch. Stay safe, everyone. Thank you very much.
- C.C. Paarthipan** Thanks to all of you. Thank you. Thank you very much.
- Moderator** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.