“Caplin Point Laboratories Limited
Q3 FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Caplin Point Laboratories Limited Q3 FY2024 Earnings Conference Call hosted by Dolat 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kapil Yadav from Dolat Capital. Thank you and over to you Sir!

Kapil Yadav: Thank you. Good afternoon everyone. On behalf of Dolat Capital, we welcome you all to the Q3 FY2024 conference call of Caplin Point Laboratories Limited. I take this opportunity to welcome the management of Caplin Point Labs represented by Mr. C. C. Paarthipan who is Chairman of the company and Mr. Vivek Partheeban who is the COO of the company and also we have today with us Dr. Sridhar Ganesan, Managing Director, Mr. D. Muralidharan, CFO and Mr. Sathya Narayanan, Deputy CFO and now I would like to hand the conference over to Caplin Point management to take the proceeding forward. Over to you Sir!

Vivek Partheeban: Thank you Kapil and Dolat Capital. Hello and good evening to everyone. Welcome to our earnings call to discuss the results of the Q3 and nine months for FY2024. Please note that a copy of all our disclosures is available on the investor section of our website and as well as the stock exchanges and 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. The conference call is being recorded and the transcript along with the audio of the same would be made available on the company's website as well as on the exchanges. Also do note that the audio of this conference call are copyright material of Caplin and cannot be copied, rebroadcasted or attributed in the press or media without specific written consent of the company. I would like to now hand over the floor to our Chairman for his opening remarks.

C. C. Paarthipan: Thank you. Good evening ladies and gentlemen. Welcome to our investor call. As you are aware that Caplin discovered new pathways in the road less travelled. We also learned that if you are unwilling to risk the unusual, we have to settle for the ordinary. The smaller geographies that are considered insignificant by the major companies have become the center of gravity for our core business. The current cash flows and profits are mainly from the smaller markets of Central America in addition to U.S. now. We are entering into bigger geographies such as U.S., Mexico, Chile and others. The U.S. story will be narrated by the COO and I will talk now on Mexico.

Mexico is the second largest market in Latin America and Mexico's advantage is its geographical proximity and cultural compatibility to both South and North America. We have already filed 24 products in Mexico and received the registration of five in the recent past. We are sure of increasing our filing to at least 60 to 70 before the end of 2024. We have already started outsourcing dossiers from some reputed companies from China. We are also aware that we have been exporting quality products directly from China to Latin America especially to the smaller markets. Now we are moving to the next level of business in the form of outsourcing from China companies for the regulated market. Here we are using our advantages and experience of catering to the markets such as U.S. which helps us to associate with bigger companies in China for our second innings in the larger markets of Latin America. We also understand that there are some big companies in India which import Insulin and other biological products from China in bulk and do the fill and finish before they export to the regulated markets after conducting the necessary clinical trials. We do have plans to identify some good companies to do the same as we also have the necessary wherewithal with us in the form of CRO which has been approved by USFDA where we can conduct the clinical trials before we market the products. This will be an asset light model where we do not have to invest huge money to manufacture the biological products from the scratch. We are also getting into business of manufacturing double chamber PFS for the Central American markets shortly. The machinery will be installed either in March or April and the registration may take six to nine months before we hit the market. Here the volume of business may not be high, but the profitability will be very good as there is only one competitor, that too is a multinational company. We will also be starting one more warehouse in Guatemala border which is closer to Mexico and many of our customers feel that it is very difficult and expensive for them to come to the capital of Guatemala. This will also increase our profitability and cash flow in the coming years. You are aware that we had a stall in CPHI Barcelona and the response is really good. Hence, we are planning to go for more and more of these types of stalls in various expos to reach to the B2B customers too. The COO will also brief you about the participation of the expos in USA to understand the uninsured and underinsured customers of the US market. We will continue to focus on the bottom of the pyramid and also the bottom of the business pyramid where the traffic for competition is always lesser.

Now let me share a few words about the status of our facilities. We have completed phase two in our CSL and the commercial production of line five started in mid-October of 2023. That is one of the reasons of nine months' sales of CSL is 40% higher than the previous year. We also have done some work in phase three where we still not decided anything in terms of starting something and we are verifying the technical feasibility and commercial viability of fill and finish of biological products which includes Insulin. Caplin One is our Onco facility where we are all set for the Indian inspection on the 12th and 13th of this month for the tablets and capsules. We also have Onco products under registration in Latin

American markets where we are very confident of doing business in the initial stage itself unlike Caplin Steriles. Our injectable and API for Onco facilities will also be completed in nine to 10 months from now. We are sure of doing profitable business in future after the completion of our injectable division and the registration. It is also true that we have been delaying the general API facility in Vizag as we are looking for some niche products other than our own injectable API for captive consumption. Finally, we have appointed an API expert who has filed 10 DMF for some niche products and he has joined with his team recently. We will now focus on the completion of Vizag API at the earliest.

Now let me come to the important area of my focus for the last two to two and a half year of managing the CSL Facility to make it very unique. My stay in the factory initially and the subsequent stay closer to the factory made me to understand the importance of perfection for integrity, quality and safety in addition to improvements in productivity. I personally went to the shop floor areas many times in the day and night to find out some disobedient minds whom I removed them later. I went to start this factory next to my village only to help the poor not to become a poor. I also learnt that bottom up approach which helps the company to reduce the deviations and OAS which are very important for any pharmaceutical company and needless to say it is pertinent to a USFDA facility. Further we have also digitized many areas except the three important areas such as logbook, BMR and BPR. Our e-log book will be completed by May or June. The remaining two BMR and BPR will also be digitized before the end of 2024. In addition to this, we have also installed cameras and biometric access control to monitor and review the activities of people in various areas while ensuring the empathetic right to our employees, we also felt that the review, monitor and control are mandatory for ensuring integrity, quality, safety and productivity. The last but not least is that we are constructing a free hospital mainly for cancer and cardiac care and also prevention and rehabilitation of patients with stroke for which there is no hospital in the entire district. Finally, today's business is all about chance encounters and how to translate into choice architecture. Our choice and choice architecture will make us to reach our dream destination in the years to come. Thank you very much. Now I will hand over the phone to Vivek.

Vivek Partheeban: Thank you Chairman. I would like to give a little update on the Caplin Steriles business which is much more focused towards the US. We had another encouraging quarter for Caplin Steriles as you would have seen we have matched the previous year's full year sales within the first three quarters of this year and with the rate at which the current quarter is heading in we feel comfortable that we should finish in a fairly strong position for this year. In addition to expansion of capacities we have also managed to put those capacities to use quickly which is important we feel because we were running on two commercial lines and then we were getting quite a lot of approvals which needed a third line as well to ease the pressure from the first two lines and we have been able to successfully manage that in the

last quarter and continues on in this quarter also. More importantly we have not lost track of our filings which is important for our future growth potential. We are happy to inform you that we have around 14 products that are under active review with FDA and we expect most of these to be approved within the next 12 months. Some of these are ophthalmic products which we have a line that is largely underutilized at the facility so we will be aiming at launching these products as close to the approval date as possible. The rest of the products and the review are under active development and are a healthy combination of injectables and vials, ready to use injectable bags, injectable suspensions, emulsions and also ophthalmic. We will also shortly be working on a pipeline of prefill syringe products as well so you can imagine that we are trying to cover a broad spectrum of products that are used in hospital and clinical settings. This will certainly be augmented when some of our Oncology injectables start to feature in the coming years onwards. We are also pleased to inform you that our front end in the US, CSL USA Inc, is making good progress on the state licensing activities front. In the next eight months, we will have licenses to distribute our products on our own label in all 50 states in the US. We hope to launch around six to seven products in the initial period within the first year itself and as Chairman was saying we are going to be attending more and more expos in the US trying to identify the underinsured and uninsured population which we believe is anywhere between 30% to 35% at this point and these pretty much belong to the tier two and tier three cities and also tier two and tier three buyers of the US which is what our focus has always been on including in Latin America. This also will not have any impact on our current business partnerships in the US which is more of a B2B model because our partners are much larger in size and they are much more focused towards the GPO related business. We have also filed several products in Mexico, Canada, South Africa, Australia, etc., and we can start to see some non US based revenue within the coming 18 months so overall we are making good progress on the US side and with prices stabilizing and also injectable shortages continuing, we feel that our razor sharp focus on digitalization and quality and supply continuity at Caplin Steriles will certainly augment the company's progress in the years going forward. I would like to request our CFO to throw a little light on the numbers before we can open up the floor for questions.

D. Muralidharan: Thank you Mr. Vivek. Good evening to all of you who have joined us in the call. I welcome you all once again. This is Muralidharan CFO. One more quarter with the gratifying result. The nine months have been pretty good as we have already reached FY2022 sales in the nine months of FY2024. CSL our subsidiary has also reached the entire FY2023 results in nine months of FY2024 which is a commendable achievement and also as you have been talking about sustenance of contribution margins and the PAT levels, we are way above what we have promised to the market. We said we will be around 55% average. We are at 57.1% for the nine months and we hope that we will be able to maintain around 55% to 56% for the coming quarters as well and as far as the PAT is concerned, we are 26.4% as

against the 25% what we said we would be able to sustain. Even the one off quarters will have higher margins and higher profitability and what is heartening here is the sales have grown by 15% which is about Rs.163 Crores in terms of number but the profits before tax has grown by Rs.90 Crores meaning that Rs.117 Crores increase in contribution 75% of which has directly flown into PBT since we have been very discreet in handling our expenses. About couple of years back when we took over the channel partners and then brought them into fold, there was some concern about the expenses going up and what not, it is all bearing fruits now and everybody is contributing and then we have been able to contain the expenses at manageable levels and that has shown in the flow of 75% in increasing contribution margin to the PBT directly and as far as the other numbers are concerned which is there already with you for a while now and I would not take much of your time and if there are any questions to be asked we will be more than glad to take those. Thank you Mr. Vivek.

Vivek Partheeban: Thank you. Thank you Sir. We can now open up the floor for questions please.

Moderator: Thank you very much. We will now begin with the question and answer session. We have our first question from the line of Rohit Singh from Nvest Analysis advisory LLP. Please go ahead Sir.

Rohit Singh: Good evening Sir. Congrats for a good set of numbers. My question is do you see any kind of near to medium term risk either due to Red Sea crisis or any other specific reason to maintain our growth trajectory going ahead because like you mentioned in your presentation as well due to Red Sea crisis we have been shifted to CIF model from FOB model so can you please put some color on that what is the situation right now and how it is going to be in upcoming quarters?

C. C. Paarthipan: Okay. Red Sea issues will not have any major impact to us, the reason being we have our stocks next to the customer. If you look at our stocks actually we always keep our stocks sufficient stocks next to the customer in our warehouses. We also have stocks in transit. In addition to that as we also actually some of our consignments or most of our consignments are not routed through the Red Sea nowadays. There is one issue in the Red Sea which is there is a slight delay of seven to ten days' delay is there and also slight increase in what do you call know freight. These two things can be handled very effectively by way of increasing the prices so the product that already reached to the warehouse, we are now in a position to increase the price because of this issue so it is going to actually help us in terms of profit in future. So far, we do not have any major issues and on top of it, I would like to tell you one thing which is very important in the form of liquid assets of the company. Today we have liquid assets to the tune of Rs.1,550 Crores whereas our total revenue is

only Rs.1,290 Crores. I am sure this will clearly show you that we have a very healthy balance sheet, thank you. Thank you very much.

Rohit Singh: That seems good and Sir like you mentioned about the biologics importing into India and then doing some clinical trials so can you put some more color like what kind of opportunity do you see here or whether it will be done via Caplin Steriles or we are looking for a new facility their own?

C. C. Paarthipan: This of course we can either do it there or as a new facility depending upon the viability. What I have found in fact I have checked with some consultants and I also met couple of people who have been doing this business by way of importing from China from good companies and then what they do is as I told you in course of my speech. They do the fill and finish and they do the clinical trials depending upon the country. If you want to launch in India, then you have to do clinical trials on Indian people for which our CRO will be very useful. If you have to launch in other countries, then of course you will have to do clinical trials in that particular country before we launch the products but not many companies of our size will be in a position to think of getting into this business. The reason being A) we have exposure to China market which you are aware that we have been doing business for the last 15 to 16 years. B) you are also aware that our cash flow is very comfortable to import and then do the clinical trials and export also to any country wherever there is an opportunity.

Moderator: We will take the next question from line of Satyam Sharma from Narnolia Financial Services Limited. Please go ahead.

Satyam Sharma: Good evening Sir. Sir I have one question like in presentation you have mentioned that you are converting from for FOB to CIF is that will be like margin dilutive or what is the issue with this?

C. C. Paarthipan: Now I will request my CFO to give you the reply to it.

D. Muralidharan: It is only to address, actually there will not be any impact on the margin assets. There are two things we are trying to achieve by way of converting them into CIF from FOB. One being a corporate group we are able to optimize the freight cost and as we are able to pool the goods and our container formatting will happen faster than earlier right and then availability of ship also will be faster and then we will be able to reach the goods earlier to the port. As we have mentioned in the past, we have a warehouse in Guatemala. The other countries can be serviced from there. Once the goods reach to Guatemala some of the countries it goes by road. One country it will go by ship. The El Salvador and for other countries it can go by maximum of two to three days. When we are able to pool the goods

for Guatemala, we are able to get earlier consignment, earlier ships availability and then also freight advantage. This is the reason.

Satyam Sharma: Yes, Sir but I think like it will be more efficient but on margin side other expense will increase or it will be like stagnant?

D. Muralidharan: There is nothing to worry about on the margin side because the freight we were incurring earlier we will be incurring slightly lesser only.

C. C. Paarthipan: I would like to add one more thing except two countries most of the countries are connected by road. Guatemala to Honduras, Guatemala to El Salvador, Guatemala to Nicaragua, Guatemala to Panama, Guatemala to all these countries they are all connected by road except Dominican Republic and Ecuador as you rightly said.

Satyam Sharma: Okay Sir. Thank you Sir and as you have told earlier that we will have Rs.300 Crores revenue from Caplin Steriles so we will be able to achieve in FY2024 Rs.300 Crores?

C. C. Paarthipan: See now we are all set actually in the form of achieving something either it is closer to that one or maybe. The only issue sometime there are supply chain problems which you are also aware. Today we have orders. We have enough capacity to manufacture. To be very honest with you there is one API which we are expecting now. We may get it. 99% we get it. If we get it yes, we will be able to achieve something closer to what we have committed or exactly what we have committed. If that is not available because you know very well especially for the US market is not like other countries where you can use API which has been mentioned in the dossier. We are not allowed and even if you want to change the API that takes its own sweet time, so this is the only issue which we have now. Everything depends upon maybe a week to 10 days' time when we will come to know. I would ask actually the COO also to say a few words on that.

Satyam Sharma: **Q3 numbers for Caplin Steriles**

Vivek Partheeban: We are at about Rs. 210 Crores. We have in fact completed whatever target that we set to achieve for ourselves. In fact, we are confident that Q4 also will be able to achieve but like Chairman said there is one particular raw material that we are expecting but so far so good. We do not want to project a negative picture or anything like that but even if not, we will go very close to that Rs.300 Crores number.

Satyam Sharma: Okay Sir. Thank you so much Sir and congrats on the good set of numbers. Thank you.

Moderator: Thank you. We have our next question from line of Ca Garvit Goyal from Nvest Analysis advisory LLP. Please go ahead.

Ca Garvit Goyal: Good evening Sir. My question is on the delays happening on our capex plans particularly on the general API and Oncology API and the OSD facility so is there any specific reason like in this particular quarter, we have changed our presentation and I think there is a delay of two quarters as compared to the last presentation so can you please put some color on the on the delays happening on this ground?

C. C. Paarthipan: Yes, I would like to tell you. As I told you in course of my speech when General API we wanted to complete it for the captive consumption. Later we have found out that there is an opportunity for us to add some more and that too we were looking for a niche product which of course we have found a person as I told you before so now that it will be speeded up and it is true it was delayed that is the reason I mentioned in course of my speech also. Coming to Onco we thought of doing it in the existing facility and we have been told by our head of project that we could do it there but later we felt it will not be that viable in the sense this is a product API you need more land. When you expand at a later date we will not be in a position to accommodate the API there so now what we have done is we have bought land in the form of 18.5 acres in an industrial estate at Thervoy Kandigai that is why we have decided to start it and we are going to start it now and we will be able to complete it in the next nine to ten months' time from now.

Ca Garvit Goyal: So, we are completely shifting our Oncology plan that what you are saying?

C. C. Paarthipan: No we are not shifting the Oncology. We have never started. We are starting our Oncology tablet capsules as I told you. The commercials will start before March and injectables will take eight to nine months. The machineries are on the way. We will install the machinery and do the registration.

Vivek Partheeban: I will just explain what Chairman was saying. So as Chairman was saying when it comes to the Oncology plant the initial aim was to have it as close as possible to the formulation plant the initial formulation plant as well but now what we decided because as we expand into oral solid dosages also into Oncology this might require an expansion of capacity so we have decided to put this project into Thervoy Kandigai industrial estate where we are going to start our OSD plant also, so in the next nine to ten months we will see most of the progress being completed in that.

Ca Garvit Goyal: So that is what I was saying like is it the same place or the same land where we are expending on or the place has been changed that is what I was?

Vivek Partheeban: No it is a different place. The one that we have already completed the OSD the oral solid Onco facility and also where the injectable one is going to come from. That is called

Kakkalur and this is a different place to the one that we are going to start our Onco API one. That is called Thervoy Kandigai .

C. C. Paarthipan: To be very precise the head of the projects was interested in doing it in the form of a pilot plant in the existing facility where we are starting our tablet, capsule and injection, but later we felt the pilot plant may not be enough and we expand our operations to various countries. That is why we stopped that facility that is Kakkalur. Now we are moving to Thervoy Kandigai Industrial Estate.

Ca Garvit Goyal: Understood Sir and Sir I think I was not able to hear you properly? You mentioned about the reason for shifting from FOB to CIF so can you please give some highlight on that?

C. C. Paarthipan: That I would request my CFO to give you this one.

D. Muralidharan: What I said was that FOB to CIF is for two reasons. One as there has been some disruption in the logistics and supply chain, the voyage time also has been going up as compared to the previous time. We thought it will make a prudent idea to put all the consignments and then ship it to Guatemala on CIF basis so that they reach them and then gets redistributed by road. As our Chairman was saying it is about two days to three days' transit time from Guatemala to these countries by road. Only two markets which are Dominican Republic and Ecuador are taking longer time from Guatemala. We will address that so will achieve two things. One optimization of price and also making sure that the goods leave faster. As Chairman has been mentioning very often our strength has been that having the inventory closer to the customer. Even today when we say that we are not disturbed or affected in the near future because of this Red Sea issue is that we have enough goods available in our own warehouses in the market such that the sales would not suffer.

Ca Garvit Goyal: So you are saying via this route we will be able to take the products faster as compared to the sea that is what I was saying?

D. Muralidharan: The route does not change. There are two things. If I were to make for a container only for one market it takes a longer time and availability of ships are that much limited. When I am pooling all the goods and sending it to one particular warehouse it will be able. I will be able to form containers faster than earlier and the immediate available ship I can ship out the goods. I am not changing the route. That is not possible.

Vivek Partheeban: I will just add two points here. See note that around 30% to 32% of our containers go from China which actually takes a different route and even from India the one which used to take the Red Sea route now the transit time is increased by about 10 days as Chairman said because they avoid that route and they go across the Horn of Africa so that is also reason.

The consignment is not at risk, but it is delayed by about 10 days so rather than shipping it to each and every country we pool it and then ship it to one country and move it by road from there. That is basically what we are trying to achieve.

Ca Garvit Goyal: Understood Sir. That makes sense. Thank you Sir. That is it from my side. All the best for the future.

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

Alisha Mahawla: Sir I wanted to understand the LATAM business. The growth has moderated to a very large extent versus what we used to do earlier which was 20% plus. Now we are doing low double digit. At the start of the year we had said there were multiple initiatives new products that were starting soft gel. There was some four million Onco product that was supposed to start from H2 but we are not seeing any significant pickups so just wanted to understand are there any other challenges or what is happening in a LATAM core geography right now.

C. C. Paarthipan: Let me answer to these questions this way because we have been telling to our investors. Ours is a company which is driven by the profits and cash flow. We are not very keen to increase the top line. You know very well top line is vanity. Bottom line is sanity. Cash in the bank is king. If you want to increase the business we could have increased and what has been happening is in the form of like strengthening the bottom line that is the reason I mentioned to another investor that our liquid assets is in the form of Rs.1,550 Crores which is much more than the revenue of nine months so when such is the case I am sorry to differ with you that we have saturated in Central America and Latin America but again definitely we will do well once we enter into the bigger geographies of South America like Mexico, Brazil, Chile, Colombia and all but these countries as you know well it takes time to complete the registrations and then these are countries where you will not be in a position to do big business with 10 to 12 products. We have to have different buckets in one big basket which is going to happen say one year or two years from now. That is the time we will do again extraordinarily good business the way you ask but to my knowledge I also feel sincerely that our bottom line and cash flow is very comfortable.

Alisha Mahawla: Understood Sir and while I do understand that we have always been most careful of the profitability of the business that we do just wanted to understand where the next leg of growth will come from which you have explained will be once we enter the newer geographies for which the work is ongoing. My second question is on the gross margins which sequentially have declined. We did about 60% in Q2 which has come down to 56%. Could the CFO please explain this.

D. Muralidharan: I will just answer your first question. Then come to the second question. Actually, the growth has been about close to 11% of the conventional business. You have to have the two factors in account. One on the base effect okay so on the larger volume we are growing at 11%. On the lower volume we were growing at about 17% to 18% in the past right that is one thing. Secondly on the gross margins, if you have attended our concall last quarter we have already addressed that. We have been only promising around 55% as the sustainable gross margins. Last quarter was a boon so 60% we could get because of some good orders on some institutional business on Oncology area and the 60% was realized and we said we cannot expect that to be repeated going forward so that is the reason why we said and then if you see nine months we are at 57% and 55% is what we promised. 56% is what we have achieved. As far as the PAT is concerned we have promised 25%. We have achieved more than that.

C. C. Paarthipan: Let me also add some more points actually to your question because since you mentioned what the path is forward. See the status as of now to five years from now I would put it this way. See like one year, two years, three years, four years and five years is the period where we sincerely feel that will be in a very comfortable position in the form of sustainability and scalability. The reason is we have asset light model and we also have the asset right in the form of vertically integrated company where we will be manufacturing intermediates, API, and formulations of all sorts of formulations starting from OSD, OSD Onco. Then we will have liquid oral suspension, ointments and all that is including various kinds of injectables. Then we are also moving from smaller geographies to larger geographies of markets which mean the volume of business is always high. For example, the population of all these countries put together in Central America is 10% to 20% of Mexico which means Mexican market is 10 times higher than what we are doing currently there. You know very well the things cannot happen overnight. It takes over time so which means that is the reason I am telling so let me also tell you in the next two to three years we will have all the facilities and then second maximum registrations will be completed in majority of the countries in the next three to five years and then the facilities will not be manual. It will be digitalized, and it will also be integrated with CCTV cameras and other things so that it becomes easy for us to review, monitor and control everything. In addition to this one as I told you we will also think of going for an asset light model for products which are biological which is bio similar or what do you call Insulin. These are things even the big companies initially used to import and test the orders and go for their own manufacturing. Of course, they are all companies which have deep pockets. We also will be in a position to do it after we test the waters by importing of Insulin and other things for which we have the necessary warehouse which I told you in course of my speech and then the surplus cash today. We have around Rs.800 Crores. Even if you spend Rs.300 Crores to Rs.400 Crores to Rs.500 Crores in the next two years we will have Rs. 1,000 Crores. That is the time you will think of acquisition of brands, acquisition of companies for domestic business and in addition to that we always

look for something unique in the form of acquisition of distribution companies which will make us understand where we will have to sell our generics because generic is a business there is nothing in the form of marketing. Generic business is based on supply and demand. You only need to understand how many products we have, what is the cost at which we will be able to supply and the quality wise once it is approved by USFDA everybody thinks quality will not be an issue. It is true also. So what is important is the distribution channels and the places where this can be reached by avoiding the intermediaries. Then coming back to one more thing in the form of LATAM, I am sure in five to six years from now we will be the number one company. In all humility I can claim that we can do it. The reason being in the smaller geographies where all these six countries put together the population is less than Tamil Nadu. We are doing close to Rs. 1,000 Crores. Once we get into the bigger geographies as I told you in the years to come, we will be the best of the best business and we are sure of becoming number one also in these countries. These are the few things I would like to convey to prove that we are a force to reckon with in the years to come.

Alisha Mahawla: Thank you so much for the detailed answer and I absolutely agree with you that I also believe that Caplin will be the number one company.

Moderator: Thank you. We have our next question from line of Sachin Kasera from SVAN Investments. Please go ahead.

Sachin Kasera: Good afternoon Sir and congrats on good set of numbers. I had couple of questions on Caplin Steriles, so what would be the current capacity utilization at Caplin Steriles?

Vivek Partheeban: With the addition of this new line, we are in a good shape right now. See the thing is we do not do much CMO business at all. In fact, what we had signed in 2017 and 2018 PBS we do a little bit of CMO but the rest of the capacity I would say more than 70% to 80% of our usable capacity we are actually using for our own. Now with line five that has come into place we actually have expanded the capacity by more than double so we are actually good till about I would say next four to five years at least. We do not need any further expansion but of course we will have to see as and when the business comes in and then if at a certain point we feel that there are some good opportunities that can really strengthen the bottom line and top line as well when it comes to CMO we might look at further expansion which is why we have a phase three where we have completed the shell and we have left it or basically we have slowed down a little bit just to understand how well we will be able to utilize the existing capacities before we can move there.

Sachin Kasera: And once this line six is completed what is the peak revenue, we can do in Caplin Steriles. Can we do like $120 to $150 million in next three to four years?

Vivek Partheeban: See we never get into numbers on these right so obviously especially in the formulation facility where we are a multiproduct unit it is very difficult to predict what a peak capacity is going to be and obviously as you know the US is a very dynamic space right so what is at ten today is at fifteen tomorrow or seven the next day so we do not want to restrict ourselves to a certain number or something like that. What we feel is that with the pipeline that we have in terms of R&D and with the pipeline that we have in terms of what is on the review by FDA we are fairly well covered till about 2027 to 2028 at least but peak revenue we have given out in public domain. We feel fairly confident that we can get to that number within that period or probably one year after that.

C. C. Paarthipan: I would like to add one more thing here. Since we are planning to go for our own front end, we will follow the policy of pick and choose not necessarily we will have to manufacture all We will go for products where the profitability is good. That is how we will choose also once we establish our front end presence in US which is in the initial stages and which is in the nascent stage now.

Sachin Kasera: Sure and Sir you mentioned that this year we could be closer to 300 somewhere there any sense you could give us how is the next year looking like for Caplin Steriles and I believe we have some private equity investors there. Now that has become very profitable, Are we looking to buy them out or we going to go for IPO if you could give us some sense on Caplin Steriles?

C. C. Paarthipan: It is too early to take a decision on that. They are comfortable and we are comfortable. We are only focusing on business now. We are not thinking of who will buy whom or how to go for a public issue please.

Sachin Kasera: Sure, and can you give us some sense on next year how is it looking for Caplin Steriles?

C. C. Paarthipan: As the COO said it is a very dynamic business especially the U.S. one. As he said what is important is to increase the buckets various buckets in the form of liquid injectables and then now we have we started getting approvals for ophthalmic products. We will be getting some more products in the form of bags and then we also will go for actually our Onco injectables at a later date so all these buckets will form one basket. That time what will happen the situation will totally change. The US market is for companies who can give a variety and novelty to the customer and now it is changing. Some of the big guys in fact they approached us, and Vivek will be able to tell us about this. what are the three companies which has approached us and he has already tied with them.

Vivek Partheeban: So, see of course we are very confident that next year is going to be quite a reasonable growth as well right, but we do not want to put a number to it or we do not want to put a

percentage to it. We know that we have a very decent pipeline of which multiple products will start to get approved over the next few quarters. Of course, some of that is not in our hands. What we expect to receive, let us say in April might end up getting approved in June or something like that so which is why we do not want to give out a certain number or anything like that. We are very confident about where the company is going and then another one year hence, I think we will have a very decent basket of products. Now like with all of these approvals coming through we are starting to get more and more visible in the US which is why I think it is at very good time for us to launch our own label in the US and one of the three largest distributors in the US has already tied up with us on about five products now and we are in active discussions to create a private label for them for another four to five products also so it is again in the nascent stages and we see that there is a certain level of disruption that is happening in the US also with certain companies and then making deals directly with manufacturers and stuff so we think that there is going to be more opportunities in that direction and we do not want to confine ourselves to the GPO space or the CMO space or anything like that. We want to be open to all ideas and so far so good we will be patiently cautious about what we want to do in the US.

Moderator: Thank you. The next question is from line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead.

Shrinjana Mittal: Thank you for the opportunity. Just a small book keeping question from my side. So, can you help me with the EBITDA number for the Caplin Steriles business for this quarter?

Vivek Partheeban: I request CFO Sathya, did you hear the question.

Sathya Narayanan: Good evening. This is Sathya Narayanan here. See the EBITDA for Caplin Steriles for the quarter ended December 31, 2023 is Rs.11.7 Crores.

Shrinjana Mittal: Right and just a small followup to that so if we exclude the Steriles business and if we see the business for Steriles so EBITDA margin for the nine month is somewhere around 36% to 37% so is it fair to assume that our core business like extra Steriles margins are going back to the pre COVID range like before 2023 35%?

Vivek Partheeban: As our CFO has explained I think it will be difficult to look at the company on a quarter to quarter basis so the base number that we are comfortable giving out is that our gross margins are always between 55% to 57% and our EBITDA and PAT and everything have been very similar 35% to 36% and then PAT has always been hovering around the 25%. We are today a global company right in whatever small size we are still; we are still a global company. I do not think you can net off this and net off that because that might not present the right picture. Are we growing in the right direction and are all levers of growth

firing up in the right areas? That is what we have to look at, so we are consolidating our positions in all the areas where we are operating in.

C. C. Paarthipan: One more thing I would like to say here about this Caplin Steriles see our profitability is actually fluctuating because of the fact of the filings. The filing fees today is $240,000 per product. We are in the process of increasing our filing. We are also increasing our R&D. Most of the companies of our size do only CMO. They are not actually companies who are going for their own products. We are not the CMO. We are companies which are similar to medium and big companies. Maybe we do not have that kind of reach now but we are sure of reaching to that level maybe two to three years from now.

Shrinjana Mittal: Yes, okay. Thank you for taking my question,

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Kapil Yadav for closing comments.

Kapil Yadav: Thank you everyone. Thank you all the participants. Thank you management for taking out time for this Q3 earnings call and we have answered all the questions. Thanks for that Sir. Thank you very much.

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

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