“Caplin Point Laboratories Limited
Q4 and FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Caplin Point Laboratories Q4 FY24 Earnings Conference Call.

As a reminder, all participants line 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 and operator by pressing "*," then "0" on your touch tone phone. Please note that this conference is being recorded.

I now have the conference over to Mr. Tushar Manudhane from Motilal Oswal. Thank you. And over to you, sir.

Tushar Manudhane: Thanks, Manuja. Good evening, everyone. On behalf of Motilal Oswal Financial Services, we welcome you all to the Q4 FY '24 conference call of Caplin Point Laboratories Limited.

I take this opportunity to welcome the management of Caplin Point Laboratories represented by Mr. C. C. Paarthipan – Chairman of the company; Mr. Vivek Partheeban – COO of the Company, and we also have with us Dr. Sridhar Ganesan – Managing Director; Mr. D. Muralidharan – CFO; and Mr. Sathya Narayanan – Deputy CFO.

I would now like to hand the conference over to Caplin Point management for the opening remarks. Over to you, sir.

Vivek Partheeban: Thank you, Tushar. Hello and good evening to everyone.

Welcome to our Earnings Call to discuss the Results of Q4 and Full Year 2024. Please note that a copy of all our disclosures are available on the Investors section of our website as well as on the stock exchanges. And also, do know 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 will be made available on the company's website as well as the exchanges. Please do note that the audio is conference call is copyright material of Caplin Point and cannot be copied, rebroadcasted or attributed in 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 earnings call.

At the outset, let me present the data of CAPEX and OPEX for the last four years. CAPEX for the last four year stands at Rs. 800 crores. OPEX stands up to Rs. 1,400 crores. Cash and cash equivalents as on date are Rs. 900 crores. Total it is Rs. 3,100 crores. It is entirely from our internal accruals. Here, I have not even added the dividend paid also.

Let us also look at the market cap. The market cap in 2001 was Rs. 1 crore and in 2006 it was Rs. 10 crores, and in 2024 as of now it is Rs. 10,000 crores.

Let me summarize some of the major developments that happened in FY23-24:

You are aware that the top and bottom-line cash flow and liquid assets are significant, which I do not want to repeat. Recently, INVlMA concluded the audit in our CP-1 facility at Pondicherry successfully for soft gel capsules. We will be now in a position to reach our products, especially soft gel in Mexico, Chile, and other major geographies of Latin America. We are also constructing a tablet and capsule section and remodeling the injectable to go for INVIMA inspection in one to two years from now.

We have also completed registration of 85 products in Chile. We are sending one of the managers from Guatemala to Chile in June to open a new warehouse, which will also increase our business for the current year. We received six marketing authorizations from Mexico. We have filed 23 products; another 10 products are getting translated in Spanish for filing shortly. Out of 21 products filed in Mexico, 12 products are from Chinese companies that are EU and U.S.A approved facility. I will be traveling to China to meet some of the big companies for our future business, which again is the asset-light model for biological products.

Here, I would like to submit some of the statistics of our export of three products in 2006 as well as now: We exported 6 lakh capsules of amoxicillin in 2006 from China to South America, whereas we are currently exporting close to 350 million capsules of the same product, which is an increase of 600 times. We also exported 5 lakhs tablets of paracetamol in 2006, currently we have exported 150 million tablets which again is an increase of 300x. We also exported ceftriaxone powder injectables of 50,000 vials in 2006, now it is 5 million vials, 100x increase.

The purpose of telling this one is not to invest in CAPEX, which of course it's not easy to get the return on investment, especially for the product where China is very competitive. These products are sourced from the top companies such as CSPC and Rayon Pharmaceutical. We also test these products in our own facilities in the form of QC in China and once again in Guatemala in Central America to make sure that the product is in line with international standard. If the quality is not good, I am sure we would not have grown in the last 18 years of our presence in Latin America.

Again, these Chinese products are primitive products such as penicillin, cephalosporin, paracetamol, and others, which most of the Indian companies import the API. Now, my visit to China is to source value added products such as insulin, biosimilars and peptides which are only manufactured by the deep pocketed corporations of India. We outsourced primitive products in the earlier stages, now we are planning to go for biological products, which we are sure will bring hard value to the company. And we will import these products in bulk and we will do the full finish in India and export it from India to other countries where we are currently operating now.

Some big Indian companies have also followed this methodology initially. Later, they started manufacturing their own biological products from scratch. This will be a great opportunity for our company to increase the cash flow and profits without investing in the facilities that involves huge CAPEX.

Let us look at the Caplin Steriles. The sales have increased from Rs. 200 plus crores to Rs. 300 plus crores now. We are also getting into automation, digitalization and outsourcing of our ANDA products from other U.S. FDA facilities which are more of CMOs, and also the front-end presence. And all these details will be presented to you by our COO. We have also completed the tablet and capsule section of our oncology facility called Caplin One Labs. Further, we are commissioning the injectables which is in progress now, and it will be completed say 10 to 12 months from now. Once we complete the injectables, we will plan to go for EU audit and subsequently for the U.S. FDA inspection.

Our API facility in Vizag and Onco API are still work-in-progress. However, we are sure to complete it in 2025. We are also automating and digitalizing our existing facilities, which will be future-ready for machine learning and AI. Further, it is also true that we have some challenges in the form of attracting the right talents like any other company that grows faster, since there is some delay in the completion of our API projects. However, this will not create any impact and it has not created any impact also in our exports in the past and the present and future, too.

Finally, let me quote the following one. Be uncomfortable for a year or two to be comfortable for the rest of the years to come. Thank you. Let me invite the COO to give his presentation.

Vivek Partheeban: Thank you, Chairman. So, I would like to brief you a little bit on Caplin Steriles business, which is our regulated market and U.S. focused business.

So, obviously like Chairman said, there has been an increase of over 50% in the top line, and the split up in revenue on a larger base is once again around 75% of product revenue and 25% in milestones and profit share. We feel this is commendable because we do not do any exclusive deals. We do very little CMO as a company. So, if we went around talking to other pure-play CMO companies, this gives us validation that we had to endure a few painful years in the early stages because we invested heavily into R&D and we invested heavily into creating assets of our own. But we are starting to slowly see the dividends being paid out for that. So, if you did a little comparison between our numbers compared to any other CMOs numbers, you would see that we are significantly better off with a much better pipeline in the years to come as well.

The revenue is also backed by a good growth in overall output. We went from 16 million vials last financial year to around 27 million vials. And we have also had three ophthalmic product approvals happen in the last few months. We have already launched the first one, and the next two ophthalmic products are going to be launched in the coming quarters. We are also very shortly going to be launching our first ready-to-use bag injectable product in the U.S., which is a very niche area. As of now, we have 21 approved products, 21 approved ANDAs in Caplin's name, with another 14 ANDAs under review, they are a mix of injections, emulsion, ophthalmic, suspension injectables, again, ready-to-use bags, and also plastic vial products.

Here I would like to repeat what Chairman said in terms of outsourcing. Our company has been built on a solid foundation of asset-lightedness for quite some time. So, even in the U.S. and regulated markets, we feel that this is something that can be repeatable. So, we are at the early stages of discussing with other CMOs where we can slowly start to transfer some of our work high

volume but low value products so that we can start to focus only on niche molecules for in-house manufacturing. So, this is the right time probably to discuss about our front-end in the U.S.. Because as a company we have always been very focused towards having control from the marketing end of things, which is what our entire Latin America business is, right.

So, Caplin Steriles U.S.A Inc. is making very good progress at this point. We have already received 27 state licenses out of 50, and we feel confident that over the next two to three months we should be in a place substantially licensed close to all the 50 states. We have another pipeline of 35 products that are under active development that we will be filing over the next two to three years. But now we are also starting to focus a little bit more towards developing very niche global dossier kind of molecules which is something along the lines of GLP-1 products which are your anti-obesity, anti-diabetes kind of peptide injectables.

And we are also happy to inform you that our Line 5, which is an expansion that we have done in Phase 2 of our plant is running very successfully. In fact, close to 50% of all the output that we are seeing in recent times is coming from this particular line. We also have a Line 6, which is a prefilled syringe and a cartridge line, and this is the one that is being qualified right now. In the next one month I think all qualifications will be completed. And our new peptide injectable products for global markets will be manufactured out of this line. We are moving towards a higher level of productivity now and we want to make sure that we have the same level of compliance and even higher level of automation at this point. So, from our facility, we are already completely automated on the QC and microbiology side. We have taken on a software partner that will be automating all of our manual logbooks to electronic logbooks in the next few months. That will be the steppingstone for us as we move towards overall automation, including electronic batch manufacturing and packing records.

Once again, coming to the front end. We are trying to do something a little bit different to the tried and tested model of supplying to GPOs and larger wholesalers, etc. We want to evaluate an opportunity to go direct to hospital, direct to clinic, hospital chains, etc. Even though this might take a little bit longer, this might result in slower top line growth, we feel that this is a much more sustainable and more value accretive kind of a method. And whoever that we speak to in terms of the team that we are trying to build up over there, they seem very excited by it because people by and large in general are quite tired of the amount of consolidation that has happened with the fronting with the GPOs, etc.

So, in the early stages, but we feel confident that with a large portfolio that we are building on, we should be quite successful over there. And this is also sort of a repeat in pattern from what we are doing in Latin America as well. So, that's about what's happening at Caplin Steriles. We remain quite excited with the growth prospects. We are already at, I would say, a mid-sized base, we are no longer very small, but we still expect the coming years to be quite exciting for the company in general.

Now, I would request our CFO to briefly touch upon the financials before we can open up the floor for questions.

D. Muralidharan: Thank you, Mr. Vivek. Good afternoon once again to all the participants who have taken time out to attend this investors' call. This is Muralidharan.

The figures are already available with you on the website and I would say that the revenues have grown by 15.5% and the PAT has grown by 22.4%. How is that we have achieved is on account of two or three reasons. One, the contribution margins have gone up by about 3% and the overall contribution increase to about Rs. 166 crores and Rs. 10 crores there's an increase in other income because interest income has gone up. So, this Rs. 176 crores, we have been very judicious and discrete despite the expansion of the various units, and then investment in U.S.A, investment in new outsource facility and all those things. But still we have been very discrete, and the expenses have gone up to only Rs. 56 crores, meaning that Rs. 122 crores have directly gone into more than two-third of the increase in contribution has flown directly into EBITDA, that has helped in increasing the PBT as such. All the parameters are very good.

And then the PAT is also at 26.19% whereas we have been consistently saying that we will be hovering between 24.5% and 25%, which we have overshot. And then the performance has come about, as Mr. Vivek said, from three areas. One, Steriles has done a very commendable growth, albeit on a lower base, to 51% growth which is about Rs. 108 crores they have grown. And then the new softgel line which we have commissioned in the month of April, has facilitated not only increase in the volume of sales, but also the increase in contribution margins, because these are niche products and most part of our products, we are operating at almost 90% to 95% of the enhanced capacity as of today. And as Chairman put it, we have also cleared the INVlMA audit for this softgel line, and then opening gates for newer markets and larger regulated market, by which time you will also gear up for enhanced requirement.

And as far as the cash and cash reserves are concerned, it is about Rs. 910 crores, and the cash flow from operations is at Rs. 318 crores, which is almost 60% of the PBT. Last year also we had about 60%. The sales are growing, there has been an increase in trade receivables, there has been an increase in inventory. We always believe that inventory closer to the market is our strength and which is being proved time and again, whenever there is a shortage, whenever there is an opportunity, we quickly cash on the opportunity and then the receivables and, though the number of days would have slightly gone up and the quantum would have gone up, resulting in working capital, we are very conscious about what we are doing. And then this will definitely pave way for better growth in the current year and then better margins to flow from the market.

So, this is it from my side. And if there are any questions from the audience, we are more than welcome to take it. Over to you, Vivek.

Vivek Partheeban: Thank you, sir. So, we can open the floor for questions from the audience, please.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of CA Garvit Goyal from Nvest Analytics Advisory LLP. Please go ahead.

Garvit Goyal: Congrats for a good set of numbers. I have three questions, starting with the Mexico side. So, we have six injectable products approved in Mexico, and shortlisted around 25 potential products also

that we are going to file over the next 24 months. Sir my question is, how do you see the things shaping up in Mexico over the next two to three years in terms of our market share in the target market of Mexico and Mexico's overall contribution to our top line?

C. C. Paarthipan: See, we are not going to register actually 20 to 25 products immediately, because softgel capsules which you mentioned, especially softgel capsule it takes time because you will have to go for a bio studies. We will start softgel capsules of OTC to start with. But the product that I mentioned in the form of 21 to 22, they are all actually injectables. And this is going to create another asset-light model for us actually in Mexico as most of the products have come from China. And we, of course, are getting business from Mexico. Mexico now we are concentrating more on the standard business. Once we complete the registration of 25 to 30 products, we will start our own warehouse and then we will get into the private market. Maybe two years from now, we are sure to see actually sufficient business coming up from Mexico.

Garvit Goyal: And sir, can you also comment on the status of U.S. FDA approvals for our facilities, that is for all existing facilities, are these approvals in place? Or do we expect any kind of audit for the softgel capacities that we have commissioned recently?

Vivek Partheeban: Yes. So, our last FDA inspection for the injectable plant was last year. And obviously, there is no set period for when the FDA would conduct the inspections. For example, if you look at the EU, it's once in three years, if you look at INVlMA it's once in three years. But whereas when it comes to the U.S., it is very much up to their own evaluation of when the facility needs to be audited. But we are always following the policy of "being anytime ready". So, a state of compliance throughout, a state of good manufacturing practices throughout is what is needed. And when it comes to the softgel plant, we have just completed the INVlMA inspection, and we are not looking for U.S. FDA for this site. We are focused on Latin America much more from this place. And the question that you were asking in terms of 25 softgel, that would be from this plant into Mexico. But that will happen over a period of time, like Chairman said, it will happen over the next two years.

Garvit Goyal: And just last question, like on your long-term strategy which our Chairman cited in annual report of FY22, of having presence in most of the regulated market by FY28, as a result of which Caplin is aspired to convert top line of FY22 to bottom line of FY28. So, if I look at the last two years, we have been able to increase our bottom line at 22% CAGR, which is also a decent performance, but falling short from our own estimation. So, my question is like, we are doing the potential CAPEX and getting our products approved in the regulated market. So, do you believe our growth trajectory will shift from this 20% CAGR, that is what we have been doing, to kind of 30% from this year onwards, driven by U.S. business started changing of consistent approval of the newer lines in the newer geographies along with these new initiatives like fill-finish concept. So, can you please put some color on it?

C. C. Paarthipan: Let me tell you that currently we are doing very well in the existing business of Latin America. And the one which we are focusing for the bigger geographies, especially Mexico, and the U.S.. And as you know well, in these markets of course, the entry barriers are quite high, the registration also takes a long time. As an asset-light model, we are planning to go for other products in the form of, as I told you in the course of my initial speech, that will also take its own time. Because

once we import the product and do the fill-finish, we are supposed to do the clinical trials, Phase 3 clinical trials. So, all these things, maybe two to three years from now, we are sure to get actually very good business from the market, irrespective of the size of the market, whether it's ROW or the regulated markets. Until that time, we are sure of continuing actually the performance which has been happening for the last seven, eight years. Is it okay or do you want to ask any other question, please?

Garvit Goyal: No, sir, that's it from my side. I will join the queue. Thank you.

Moderator: Thank you. The next question is from the line of Karan Singh from KK Investment. Please go ahead.

Karan Singh: Sir, I have one question. So, we have lots of cash, more than Rs. 900 crores in our balance sheet. So, how are we planning to utilize this cash in the next four to five years once we complete the CAPEX of the Caplin Steriles? So, can you please help me with that?

C. C. Paarthipan: You know there is saying, people always say "Top line is vanity, bottom line is sanity, cash is king". And we keep the cash for future acquisition. If suppose in case you come across a meaningful acquisition, that will definitely increase our top line and bottom line, and cash flow also. That's one of the reasons, in fact, whatever cash which we generate in the form of additional cash, it gets accumulated over a period of time. Side by side, we are also completing the projects, and this is not only used for project completion, but also when we go for various products such as biological products and all that involves lot of money in the form of Phase 3 clinical trials, we will be using it for that also. On top of it, as I told you before, this will be used mainly for the meaningful acquisition at a later date.

Karan Singh: So, are you planning to do acquisition in the next couple of years?

C. C. Paarthipan: It all depends, it can happen after one year, maybe after three years. The reason is, the opportunities when it comes, and if it is a meaningful opportunity, we will definitely go for that one.

Karan Singh: And sir, like we have a good dividend policy, so our company has been giving the increased dividend for more than 10 years now. So, I would like to check if is there any possibility of maybe buyback or bonus?

C. C. Paarthipan: So, far we have not taken any decision. Anyway, we will check with our directors and take the call. Thank you.

Moderator: Thank you. The next question is from the line of Chinmaya Bhargava from Badrinath Family Office. Please go ahead.

Chinmaya Bhargava: I just have a simple question on Caplin Onco. Could you just tell me for the FY24 what the losses were that we are carrying on the balance sheet right now? I know you said it will be profitable in six quarters or so, I just wanted to understand what the losses are currently in the numbers?

D. Muralidharan: As of March FY24, we are carrying about Rs. 2.82 crores for the financial year FY23-24. Because we commenced operations only on the 15th of March, and definitely impact will be in the coming year.

Moderator: Thank you. The next question is from the line of Akshat Vijay from Hem Securities Limited. Please go ahead.

Akshat Vijay: Congrats for good set of numbers. In the last few years, the business has shown some really good performance, but now we are slowing down a bit, right? And I do understand that there is some recession period before we expand into these larger markets and U.S.. But if you can just throw some light on over like what kind of growth we are targeting in the near term, say for the next two years FY25 and FY26, that will be helpful. Thank you.

C. C. Paarthipan: As we told you earlier, we would continue to do the way we have been doing it for the last six, seven years. Slight dip here and there is likely to be there in any company, and it's more like a bend if not an end. So, what will happen considering the amount of money which we invest in the projects and also the business model differentiation that we have committed to you, we are sure that we would to be in a position to do very well, say two to three years from now please.

Moderator: Thank you. The next question is from the line of Dikshant from DB Wealth. Please go ahead.

Dikshant: Congratulations team for a great set of number. The question is to Mr. Chairman. Sir, firstly, thank you so much for the beautiful annual reports that you have written. Our family has been an investor since 2016, ever since you said that our top line will be our bottom line. One of the best annual reports that you have written, the profits have always been better to see. I have three questions, sir.

The first one being, sir, when you say a meaningful opportunity for an acquisition that we might get, I understand that we are preparing our war chest right now so that once we see the opportunity you can strike on that. But could you paint us a picture of what a meaningful opportunity would look like, what is it that we are looking for?

C. C. Paarthipan: Okay, I would like to put it this way. We may not be very keen to acquire a company, we would be interested in acquiring a distribution company. The reason is, you are aware that we always remove the intermediaries and go for the last mile, be it in the form of pharmacy or be it in the form of hospital. Suppose if you are in a position to get some distribution company in the bigger geographies, that will open up the opportunity to understand which is the last mile in this part of the world. So, that one is I feel is a good opportunity for us to go for a meaningful, that's one of the meaningful opportunities. Rest, of course, we will have to cross the bridge when we reach there, because this is one area which I am sure it will be very unique. The rest of it, of course, we will have to see it and after that we will believe.

Dikshant: So, you mean that our forward integration strategy, something like where we are able to get more distribution, so it impacts our sales directly, and we are able to drive more business that way, is that correct?

C. C. Paarthipan: Yes. The idea is not to own our own distribution, but when we own our own distribution, the biggest advantage which we will have been the entire set of people who buy medicines from the distributor will be known to us. Then we will be in a position to get the correct market info from those people who have been getting the products from the distribution company.

Dikshant: The other two questions are related to most of the journey of you as a founder. One is, do you still take any crazy adventures in life? It's a personal curiosity, since you started your business, you used to take a lot of adventures in order to capture new market share. Your stories are very famous amongst small cap investors. Are you still taking any adventures?

C. C. Paarthipan: See, when I didn't have money, I had to go for physical risks. Now we are taking calculated financial risks. So, I do not want to be adventurous at the age of 70. Anyway, at the end of the day, I was telling today in the board meeting, there is expiry to our medicines, but there is no expiry to our dreams and goals. So, we will continue to strive for excellence in our business.

Dikshant: Sir, one last question if I may ask. What is the most recent book recommendation? This is again going to the 2016 annual data; I have read every single book that you have said there.

C. C. Paarthipan: Thank you. You are asking me to mention some books, are you talking about it?

Dikshant: I am talking about, you have always recommended to your readers the books that you are reading at that point of time for your business. Is there any book that you are reading right now?

C. C. Paarthipan: To be very honest with you, the workload has increased, in the process off late what I do is I go for some of the paper cuttings which are very interesting. One such is in front of me where it states, can you handle the truth? It takes a lot of work to **handle truth** it says. This comes in normally if you see in Times of India, you will see some interesting articles. So, like these I find lot of interesting articles in many magazines like Ink, and then Entrepreneur and this type of stuff, so I will always go for these things. And I have not been in a position to read any new books, to be very honest with you. I bought some and I have not been able to read it.

Dikshant: Thank you so much sir.

C. C. Paarthipan: Thank you very much for having invested in us and having believed in us. We guarantee you that we believe in making money with respect and we will continue to be happy for having invested in our company and having invested your faith in us. Thank you. Thank you very much.

Moderator: Thank you. The next version is from the line of Tushar from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, on this OSD facility, which is now expected to commercialize soon or just got commercialized in 4Q. So, what kind of OPEX can be expected from this facility in FY25?

C. C. Paarthipan: Now we decided to do it in two ways. You are aware that we have facility of work in Pondicherry. Recently I even told you that we have completed our INVlMA inspection for softgel capsule, where we are planning to go for a tablet and a capsule facility, which will be used for filing the documents. As you know well, an OSD involves R&D and of course bio studies, which takes at

least one to two years of time before we file the dossier. So, what we will do, we will build a facility in Pondicherry itself and we will leave the facility to file the document mainly to countries like actually Mexico, Chile and other places. And later we will think of U.S. market. And the second one for which we have bought the land and we are planning to construct that facility, that will be for the U.S. market, that of course we will do it in the second stage, probably we will start six months from now. And once we complete the registration in markets where we are very comfortable in the form of Latin America, then we will move to U.S. for OSD.

Tushar Manudhane: No, I was referring to this oncology facility which got completed in four Q4 FY24, the OSD facility.

Vivek Partheeban: Tushar, when it comes to OPEX, we are probably looking at, after the injectable one is also done, we are probably looking at around Rs. 1 crore to Rs. 2 crores maximum at the initial period per month.

Tushar Manudhane: That too after the injectable facility?

Vivek Partheeban: After the injectable one is completed, yes.

Tushar Manudhane: Sir just on this, I guess it is the first time you have mentioned about biosimilars per say. In terms of while we are starting initially with outsourcing the product from China and then trying to do the fill-finish, so any particular investment or let's say R&D which is going to be there more and above?

C. C. Paarthipan: Yes, I would like to give you some inputs on that. See, India is one country you know very well is like a pharmacy of the world where we export the maximum after the U.S.. Actually the maximum amount of products exported from India to U.S. market I think is we are number two after U.S.. Whereas coming to biosimilars, there are only 15 to 16 factories maximum in India, whereas there are around 100 factories in China. Now they have over capacities and underutilization. This is a time for us to go for bulk import. And then the timelines, of course it's not easy to predict at this juncture. It may take in the sense that while importing it takes its own time to decide how exactly it has to be important.

Luckily, we have an injectable facility and we will be in a position to be fill-finishing the same face. But the clinical trials will take time. It depends upon the market where we are entering into, we will go for the ROW market which of course we can even do with Phase 1 trials. If you have to get into a regulated market, then you have to think of Phase 3. But we will never be in a position to think of U.S., because it is a place for monopolies, and near-monopolies. So, we will concentrate on markets where we are comfortable now. We will also go for the second level regulated market, something like Mexico, Brazil, South Africa, that kind of stuff.

The business is huge, but how long it will take and how much we will be able to make, it is difficult for us to say. Opportunity is good because this is one thing which some of the big companies in India have done before. Today companies of our size, I am sure will not be in a position to think of this one because we at least need Rs. 500 crores, Rs. 600 crores to do all these types of business.

Tushar Manudhane: And on the Caplin Steriles side we had a very good traction for FY24 within fact achieved slightly more than what we had guided for. How to think about the business for FY25? And before that, if you could also share EBITDA or PAT for Caplin Steriles in FY24?

Vivek Partheeban: I will request the CFO to give the numbers and then I will take over.

Sathya Narayanan: Thanks, sir. This is Sathya Narayanan here. For the year 31 March 2024, Caplin Steriles had an EBITDA of Rs. 61.2 crores, with the PAT of Rs. 18.7 crores.

Vivek Partheeban: So, when it comes to outlook, obviously we remain very excited about the overall prospects. We expect a few approvals to come through this year that should augment our business going forward. We should also take into account that some of the products that we are doing are slightly more built kind of generic products. So, we do expect some amount of reduction in orders for the older products. So, it's important for us to have a wide enough portfolio that some new products or some other products are going to be placed anytime there is a downturn in other ones. Also remember that by end of the year we will have some sales coming in from the U.S. front end as well. While it might not be very meaningful in the first financial year for us, I think next year onwards we can start to see something a little bit better from our own label.

Tushar Manudhane: So, considering this and considering the current size of the business, the growth momentum will sustain in FY25 and FY26? Or there will be some amount of moderation over there?

Vivek Partheeban: So, over a longer period, I think whatever that we have given out, we remain confident that we can achieve those numbers. Of course, year-on-year as you know there might be some bits here and there, but obviously we have come off a slightly smaller base, right. So, we have grown 50%, if I have to stick my neck out and say, are we going to grow another 50%? That's not going to be possible immediately. We will grow well. It's important for us to keep in mind that we want to grow qualitatively also and not just quantitatively. It is very important, especially in sterile injectable business for regulated markets.

Tushar Manudhane: Understood. And just lastly, if you would want to share overall revenue EBITDA margin guidance for FY25, FY26?

C. C. Paarthipan: We will continue to have the same growth that we have been having, as I told you before. We are sure of achieving what we have achieved before.

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

Anupama: I just wanted to know the revenue for the Steriles business for FY24.

Vivek Partheeban: The overall operating revenue for FY24 is around Rs. 313 crores.

Anupama: Actually, you mentioned EBITDA and PAT already, so that was my other question. Thank you.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: I have a couple of questions on the LatAm business. Number one, I want to understand the competitive dynamics a bit better. So, if you could just let us know who are the major players that you are competing against, what kind of companies, etc. And are they following a similar business model or doing something different in terms of distribution?

Second, we have grown the LatAm business at 25% odd of CAGR for the last 10 years and expect high growth rate going forward also. But in my understanding, the market demand itself might not be growing that fast. So, what has allowed you to rapidly gain market share from the competitors? So, just these two.

C. C. Paarthipan: There are two sets of business actually in most of the markets. One of course is brand marketing, other one is the generic marketing. Coming to generic sales, private and the institution business are the two models which is there in every country, irrespective of the size of the country is bigger or smaller. Coming to our Latin American business, we are mainly into the Central America, as we rightly said.

Coming to their competitors in general business, virtually to be very honest with you, there is no competitor for us, because we are there for the last 20, 21 years, in one or two markets we have been there for 18 years. And recently my eldest son was here for the INVlMA inspection, that time I asked him, can you identify some companies which are prominent, at least with some products, for the last 10 years? And he started telling me one or two products. Then is it not possible for you to compete for those one or two products? He said, definitely it's possible. Then he asked me, is it worth actually to do that one? I said, let me know what the volume is and then I will tell you whether it's worth or not.

In fact, we always try and do a business which is more of qualitative than quantitative one. That's the reason we are in a smaller geography. Although we are in the smaller geographies, we are more monopolies in these smaller geographies. We are very unique and there is an entry barrier in the form of like 20 years, 22 years. Anybody who has used our product comes back and buys the product most of the time. And again, this is a business where people who are like, if you see the disparity between the top companies, most of the multinational companies and us, the disparity in prices is huge. If our products are $2, the same generic which is sold by a multinational company or a big company from Argentina or other areas, at least 4 times to 5 times higher than our product.

Most of the guys who used to buy these products earlier also switched on to our products because we have been there for a long time. If you are any company for that matter, if he is there in the market for 20 years, it is bound to do good. It's true saturation comes, but to handle the saturation we go for variety and novelty. We started with 20, 30 products. I can even tell you it is in front of me. From India today we have registrations in the form of 4,485, whereas from China it is 275. And there was a time we used to be 60% of our business from China, then it got reduced to 40%, now it is 20%.

Now what we will do, once we go to China, when I travel to China, I look for opportunities for the ROW market to start with, because there is no entry barrier. If products are unique and it's going to be accepted in the market, I will open up the opportunity by sourcing from that company. So, like this we change our strategy to suit to the requirement of our customers and market. This is what is taking us to the next level, because we started with increased product registration, then hopefully of registration from normal primitive products to CNS, CVS, diabetics like various ranges we included. Then from tablet capsule, liquid oral suspension, ointment, injectables, suppositories, like that we go. Now we are planning to get into peptides and then go for insulin, go for biosimilar initially for the ROW market where we are currently there.

These are the things which will always make us stay afloat and move to the next level. Thank you.

Nitesh Dutt: Sir, do you see this strategy, which had been working for you in terms of having more registrations, more varieties, etc. Do you think the competitors also might start following similar kind of strategy and the intensity might increase? Because despite having 75% of the portfolio in generics, we make quite good gross margins. So, would it attract more competition? Because if I take the example of India, in the trade generic segment people do not make that kind of gross margins. So, I just want to understand if we talk about five, 10-year horizon, can competitive intensity increase and thereby erode your margins and growth profile?

C. C. Paarthipan: It's not the generic that counts, it is the business model differentiation. Had I sold my generic in India, we would not be talking to each other, to be honest with you. That's the reason I tried my best in Africa, especially in the toughest part of Africa thinking that I won't have any competition. But our own people, we used to stay in English colonies, moved to the Portuguese and French colonies. That was the time I went to countries where I didn't see the Indians and Chinese who are into pharmaceutical business. But once you get into that place, if you prolong for 10 years, what was the period the physical risk was there for the family? And we were subjecting our family to the physical risk and establish our products.

The people who are used to your product, especially the generic, do not go to the doctor, they bring the tablet, they bring the strip and show it to the chemist and buy. And while working in the market, I myself have found and I asked the chemist also, see you have given the product that the customer showed to you, why do not you change the product and give it to him? The answer which he told me is, if I change the product and give it to the customer, the next time the customer will not come to my shop, he will go to the other shop. So, there are so many things which matter in this business, it is not one thing. As I told you before, if the competitor wanted to encroach into our area, they could have done it by now. Our business is getting increased year on year. If they had really encroached into our area, the business would not have increased in the last 20 years. It all started with small way, but the entire business 75% to 80% of our business comes only from six smaller and geographies of Latin America.

So, now that there is a Chinese wall in the form of entry barrier. And even as my son, that's why I told you, once again I repeat. The purpose of asking is to find out how far they have entrenched themselves into our territory. It's not much, it's not easy also. Even if I have to go and do business in a country where somebody else is there for the last 20 years in the form of generic business, it's

can't be easy for me to get into this terrain, it is not easy. That's how the generic model works. The only issue is you have to ensure good quality, affordable prices, then variety, the novelty, you have to increase, keep various warehouses next to the customer so that the customer understands there is no logistic issue. Even if he buys the product, if there is some quality issue, he can return the products to the warehouse. On the contrary, if you want to buy the product, he has to open an LC. Or even if he goes for some other company which has got only 10 products, what we will say is, if you are buying 10 products from my competitor, do not buy other products from me, you go and buy from him. Automatically he will give it and come back to us.

Nitesh Dutt: Thank you, sir, for the elaborate answer. This is really helpful. Last question from my side if you can. So, out of the LatAm business, can you give the FY24 geography wise contribution from your top three, four, five geographies? Thank you.

C. C. Paarthipan: Yes, the major difference comes from Guatemala. See, that's where my son has become a son-in-law of the soil also. And the next one is Nicaragua, equally good is El Salvador. Then comes Honduras, and Dominican Republic, the last one is Ecuador.

Nitesh Dutt: Is it possible to give what percentage of the LatAm business is coming from Guatemala, Nicaragua and others?

C. C. Paarthipan: In fact, I have to check because I will not have. Off late I have been staying next to the factory, which is 60 kilometers from here. I will ask my finance professional to give the percentage of sales mix, and I will send it to you, you can even write to us, it's not an issue. It is there with us. Is there any way you can do it, Mr. Murli? Is it available now? Can you give it right now?

D. Muralidharan: Right now it may be difficult for us to offhand give. We normally track LatAm as one big basket. Though we have figures, it may take a while to collect and then share it with them there.

Moderator: Thank you. The next question is from the line of Mahesh Vyas from UTI AMC. Please go ahead.

Mahesh Vyas: Congratulations for the good set of numbers. Sir, what would be the CAPEX coming in for next two years, let's say for FY25, FY26?

C. C. Paarthipan: I think the 50%, 55% of the CAPEX is completed, except the API of course. The API also one is not a Greenfield. And the exact amount I would request over CFO to give the picture, please.

D. Muralidharan: The current WIP is Rs. 116.6 crores. What is pending is to be invested is on the new OSD facility and then the API facility what sir was talking about. And then the injection, the major equipment injection also major equipment has already been committed, and then paid for. And then residual investment will have to happen there. And whatever additional lines in CP-1 what we are planning have also been set. So, all put together will come to about Rs. 250 crores, Rs. 300 crores over the next couple of years.

C. C. Paarthipan: And I would like to add one more. Since I told you about some of the projects in the form of actually biosimilar and insulin, these are things we will be in a position to understand the exact

picture after I go to China, after I travel to China. So, now I am not in a position to give the exact picture of the investments into these areas, please.

Moderator: Thank you. The next follow up question is from the line of Dikshant from DB Wealth. Please go ahead.

Dikshant: Sir, speaking particularly on Mexico, so there has been recent news from different companies as well that there are a lot of Chinese people businesses that have entered Mexico because U.S. is having a lot of trade issues. And they have had a lot of trade tariffs on China. So, the Chinese strategy has been to go to Mexico to invest in Mexican companies and there are lot of subsidies also that we get from Mexico and U.S. trade relations. My question is that you always look at people of different geographies coming to your competitive landscape and then taking actions that are necessary. Are you seeing Chinese people coming to Mexico and taking some of our business that we have been working towards? Is that a threat that we have right now?

C. C. Paarthipan: It is true it has come in the news that Chinese are moving to Mexico to start from business so that the name Chinese will not appear in their labels. But they are not into pharmaceuticals, they are not getting into pharmaceuticals because off late, my professionals and my son they go to Mexico quite often to find out what is happening there. The message which I received from them, so far, they have not got into pharmaceuticals, they are into other areas. China is the exporter of key starting materials of most of the products for the whole world. So, rather than showing the key starting material which comes directly from China, so we know about what is the situation from the West, you know how exactly they approach the Chinese. That's why they are trying to get into this type of market and these guys themselves fund and exports. But they are not into pharmaceuticals that way.

Dikshant: Okay, so it's not really a threat for us yet, is it?

C. C. Paarthipan: Yes, definitely it is not going to be a threat. I am not seeing Chinese who are very smart in doing private market business. They are good in some technology nowadays. They are good at copying and all those things they are very good at it. But coming to marketing, they have not been that good compared to our Indians.

Dikshant: So, if I were to distill down our edge in the business, it really is our customer relationships that you have been able to build over the years, and that's where we are also thinking of strengthening our distribution system because that's going to be a double strength thing for us. So, coming back to the edge that we have in our business, so we have always been able to have better relationships with the local businessman and local people that have helped us to scale our businesses, even historically. Is that the thought process to have a better distribution channel going forward to improve our edge of marketing and distribution, plus also sourcing at better prices if I were to distill down our edge?

C. C. Paarthipan: Correct, what you say is true, because the edge is it's better to go for a distribution rather than going for something in the form of marketing where we have to invest money and do it. But when we go for distribution of a generic, the most important factor is the differentiation in your business

model. To directly go and copy someone who is already a giant, it's not easy for us to beat it. If you want to be a numero uno, even if it is a smaller business, you cannot run faster than a person in the form of a giant. You will only have to run in the opposite direction. That's what we have been doing in most of these countries also, we are not trying to copy the big boys. We are trying to do something on our own, which we call unique and this works. And that's what the COO also told you when it comes to what we are planning to do in U.S. market also. And mostly it is possible in the private market, not in the tenders.

Dikshant: Okay, got it. So, even in the U.S. injectable business, it's our goal to get private contracts with the same thought process and playbook that we have perfected over the years?

C. C. Paarthipan: Yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vivek Partheeban for closing comments. Over to you, sir.

Vivek Partheeban: Thank you everyone for taking time out and attending the investors con call. We hope to be in touch with you in due course. And once again, thanks to Motilal and Tushar as well for conducting the same. Thank you very much everyone.

Moderator: Thank you. On behalf of Caplin Point Laboratories, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Notes:

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