# "Caplin Point Laboratories Limited Q2 & H1 FY2024 Earnings Conference Call"

November 09, 2023

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**Moderator**: Ladies and gentlemen, good day and welcome to Caplin Point Laboratories Limited H1 FY2024 Earnings Call hosted by Batlivala and Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishikesh from Batlivala and Karani Securities India Private Limited. Thank you and over to you Sir!

**Rishikesh:** Thank you. Good evening to all the participants present on the call. Hope everyone is in good health and I wish Happy Diwali to you all. On behalf of Caplin Point today, we have with us Mr. C.C. Paarthipan - Chairman, Mr. Vivek Partheeban - Chief Operating Officer, Dr. Sridhar Ganesan - Managing Director, Mr. D. Muralidharan – CFO, Mr. M. Sathya Narayanan - Deputy CFO. I would like to thank you and pass over the call. Over to you Sir!

**Vivek Partheeban:** Thank you Rishikesh and Rohit. Hello and good evening to everyone. Welcome to our earnings call to discuss the results of Q2 and H1 FY2024. Please note that a copy of all our disclosures are available on the investor section of our website as well as on the stock exchanges and please note that anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. The conference call is being recorded and the transcript along with the audio of the same will be made available on the company's website as well as the exchanges and do note that the audio of this conference call are copyright material of Caplin Point and cannot be copied, rebroadcasted or attributed in press or media without specific written consent of the company. Now I would like to hand over the floor to our Chairman for his opening remarks.

**C.C. Paarthipan:** Good evening ladies and gentlemen. Welcome to you all to our earnings call. As you know well today's sustainable business is all about maximizing the revenue and profit, minimizing the cost and risk. You are aware that our profit does not sit in the books, but in the form of cash and cash equivalents. Our way of reducing the cost is to follow our asset light model in the form of outsourcing from India and China for products that are pure vanilla generics; here the overhead is also very, very low. When coming today it is true that we should not attempt anything such as blind race while deploying our funds, but again it is the physical risk that made us to notice the unnoticed in the smaller countries of Latin America and you know the outcome is our benchmark in cash flows and profits. The three reasons for our increase in Q2 EBITDA and PAT are as follows: A. oncology sales outsourced, B. soft gels sales increase, C. reasonable increase in the revenue of Caplin Steriles. Now let us look at the growth drivers for the next three years. A. in the financial year 2023-2024 outsourcing of onco business has continued to contribute our revenue and profits, B. CSL line 5 which is a new line which increased the capacity, C. the new registration of soft gels will also contribute to the top and bottomline of our current financial year. We are sure of maintaining current metrics such as EBITDA and PAT in financial year 2023-2024.

Coming to financial year 2024-2025 again CSL line 5 and line 6 will contribute to our growth which COO will explain in detail, number two increased ANDAs, number three replacement of line one with a high speed lines, number four completion of onco OSD such as tablet and capsule will also increase the revenue as we can guarantee the deliveries by handling effective supply chain challenges. For FY2025-2026, we expect completion of onco injectables in addition to OSD to expand OSD general facilities for the new markets. New and larger geographies of various countries such as Mexico and others where the increase in registration will also contribute to our growth. Let me assure you that all our expansions such as API in Vizag, Onco facility in Kakkalur, Thiruvallur and the new OSD general facility in Gummidipoondi and line 6 in CSL will be completed between 12 to 18 months without fail. Further, our conceptual framework of catering to the bottom of the pyramid has been the bottomline enabler for growth. Our goods next to the customer and the warehouse have created a new ecosystem of preventing the supply chain challenges. Hence, the customer next to our warehouses buy quality products at affordable price, further you are aware that we do not have any intermediates, which avoids cash flow issues and price erosions. Here since we do not have any intermediates, that helps to increase the company's profits and also get the best price which is also affordable price to the customer. Let me also highlight the noteworthy new initiative of Caplin Point's stall in CPhI Barcelona and the benefits of it. Although CPhI is a platform for all small and big companies there are very few companies of our size who will have the entire range of products in addition to various R&D's and CRO. This has opened up various possibilities of entering into new markets which we have not visited before. Further we also have opportunity to import biosimilars and insulin in bulk and do the fill, finish and sell locally and export after completing the phase three clinical trials for which we have our own CRO that is approved by USFDA. The full and finished business was done by many big companies in the initial stages and later they went into their own manufacturing. It is also time for us to understand how many of our people will become the perfect soil in many ways for the company. Hence, we conduct interviews with our shop floor people to maintain their discipline, which alone will eliminate the deviations. We also have created a kind learning environment where the rules are fixed, players are known, feedback is timely and accurate, practice and relationships are predictable to ensure integrity, quality, safety, and productivity in our factory. Finally, a quote before I finish. The ordinary gives the world its existence, the extraordinary gifts its value, and the value comes from grit, gut, gumption, and glory. Caplin is shrewd to achieve the glory and contribute the best to all our stakeholders. Thank you. Thank you very much.

**Vivek Partheeban:** Thank you, Chairman. So, I would like to give a little insight into specifically Caplin Steriles but before that our Chairman always talks about identifying patterns whether it is in work or in personal life when you identify patterns it so happens that patterns tend to repeat themselves so as long as we are able to identify them they can become measurable potentially manageable also. So as a company earlier we were known as a company that was able to convert the topline into the bottomline every six years, in fact I believe we have repeated that twice, so sticking to something similar has come up recently, which is basically the Q2 sales and profits of this current quarter is higher than the full year revenue and profits of 2016-2017, which is 6-7 years ago and a similar pattern also has sort of emerged from Caplin Steriles where the first half sales of Caplin Steriles this year is greater than a full year sales of the entity just two years ago. So, consistency has always been key to our operations and we are happy to present another set of consistent numbers this quarter. When it comes to Caplin Steriles the important news is that we have already established our front-end subsidiary in the US in New Jersey it is called Caplin Steriles USA Incorporated. Again, speaking on patterns what we have done over a long-period of time in Latin America was when we started we were catering predominantly to the smaller and midsized warehouses over there, but over a period of time what has really strengthened our company's stickiness and also bottomline strengthening is our move towards supplying directly to retail. So, if you sort of draw a parallel, our Caplin Steriles business has been 100% B2B. Now with this front-end we will be starting our potential B2C as well because we will be catering directly to the buyer, so obviously what we did over a period of time in LATAM was to make sure that this balance was very finely articulated so that they are not disturbing the existing business as well while catering to the next stream of revenue, so that is what we are going to be trying to do in Caplin Steriles USA as well. We are applying for all 50 states licenses at this point and in the next 6 to 9 months I think we can start to look at some sort of revenue using Caplin Steriles its own label. Year two is likely to be more meaningful rather than year one, but we will obviously keep you updated as and when things progress.

The next point is on capex as Chairman is explaining our phase two of Caplin Steriles capex is completed and line 5 which is the Bosch line as they call right now. This line is already running commercial batches over the last couple of weeks. In fact, this machine runs at a speed which is more than double of the existing line in fact it is higher than both the lines combined together. So soon enough we will also be replacing line one which is a legacy line and in our facility with another Bosch line thereby more than doubling our existing capacity. Within the same phase two we also have a prefilled syringe line for which qualifications are ongoing right now and we will be in a position to complete that before end of this financial year. When it comes to approvals and revenues we are expecting another two to three ophthalmic product approvals in the next three to five months, which should boost our bottomline for Caplin Steriles because obviously that being line three, the expenses of the line three is already factored into our current operational expenses. So, we expect revenue and bottomline to be strengthened as and when these approvals come through in the coming quarters. Our order book continues to remain healthy, continues to grow, we just need to pick and choose what makes maximum sense for the company in terms of the right product mix. In terms of approvals we have 24 approvals so far from the entity of which 18 belongs to Caplin's name, another 13 are under review with FDA at this point of which again 11 are in Caplin Steriles name. This comprises of around six ophthalmic products, four premixed bags, which is a niche area without too much competition and three injectable products of which one is a complex emulsion. In the next six months we will also be filing a good range of niche differentiated products for which exhibit batch etc., are all completed and they are all waiting for dossier compilation. This mix includes injectable emulsions, injectable suspension, ophthalmic emulsion, and also injections in plastic vials, which is another niche segment without too much competition. So overall the pipeline remains robust, we will be filing another 20 odd products in the next 2 to 2-1/2 years. Going forward we will be developing on filing products based on global sales and not just US and this includes evergreen products such as Propofol and Enoxaparin, etc., which are all well received in most countries around the world and we have our own API developed for this and once our API plant goes live this will be one of the first few products that we will be looking at filing. We obviously have a very sharp focus towards the larger markets of Latin

America such as Mexico and Brazil and we will be targeting these countries for product filling and we already have several products filed in Mexico. So this brings me to an interesting concept which Chairman also touched upon, which is CPhI, the fair that we all attended just a few weeks ago. This is a global fair very well renowned and happens in Europe once a year. We created a very nice looking stall over there it was very well received, in fact it brought an almost 1000 new contacts and many of them in geographies where we are not present. How we look at it is even if 1% of these convert into business that will be very good additional streams of revenue for the company. Of particular interest in these are countries like Brazil where we do not have a presence yet and also MENA region where large markets such as Saudi represent high potential for our company especially as an FDA approved plant which enables us to fast track some of our outdoor sales there. I believe from whatever information that we have received our own pipeline for Saudi itself could be worth as much as $80 million and all in all I believe it is going to be a very crucial and exciting next few years for Caplin Point and Caplin Steriles with many of these new initiatives that we are embarking on. Most important of all is to ensure that we are maintaining adequate fiscal discipline, stay debt free, focus on our cash flow, bottomline and topline in that particular order in all of our areas of expansion. I would like to just hand over the floor to our CFO for a brief highlight of the figures before we open up the floor for questions. Thank you.

**D. Muralidharan:** Thank you Mr. Vivek. Good evening to one and all who have taken time off to participate in this investors call. Good evening once again. Wishing you all happy and safe Diwali in advance. As far as the financials are concerned it has been a very good quarter, not only very good quarter very good H1 I would say and all the parameters we have fared much better than the last year corresponding period gross margins from 54.3% to 57.4% and we were EBITDA 32.4% to 35.4%, EBIT 29.3 to 32.6% and PAT 24.2 to 26.3%. Our Chairman has already explained the reasons for the increase in the contribution margins on account of niche products. There are two kinds of niche products as we mentioned Softgel line two has been operational and then there are value added products and we have got some good order for all oncology products which has also added much value both in terms of topline and the bottomline. Apart from what we have explained in the press release apart from hitting the 2016-2017 turnover and PAT in one quarter which is Q2 we have also realized that without understanding or realizing we have achieved the entire FY2020 revenue and PAT in H1 of 2023-2024 that is INR 863 Crores was our revenue for the entire year FY2020 and INR 215 Crores PAT for the entire year 2015 whereas the standard 838 which is very close to FY2020 in terms of revenue and in terms of profits we have already surpassed. We are at INR 219 Crores as against 215 Crores. So as Chairman said we are hopeful of continuing the same and only one caveat is that gross margin of 57.4% I think may not be sustainable in the long run. We will always hope it should be anywhere between 55 and 56% and PAT of about 24 to 25%. That will be a realistic estimate or target that we would set ourselves and we would always work towards under the guidance of Chairman and management team to surpass the target what we fix to ourselves and as per our line of thinking that the inventory closer to the customer our inventory has gone up and which may temporarily result in the cash flow from operations taking a dip, but that does not matter because the yearend would be the same. We have about INR 95 Crores of inventory in transit over various subsidiaries which would get converted into the sales in Q4. So, these are conscious decisions and then receivables also are slightly higher due to two reasons CSL has surpassed the entire year revenue of H1 current year and the payment will get realized in the month of November and December. For the information of the audience present we have already received about INR 110 Crores in terms of collections in the month of October and till date in Q3. So, though the receivable days have slightly gone up from 97 to 103 days to be precise so there is no cause for concern, there are no bad debts or unrealized amount from customers. The same is the case with our inventory where there are no expired goods or obsolete stock which we carry which are very minuscule percentage of our entire inventory and the results are there for you to see and then I leave it there and then if there are any questions specific on the financials we would like to take them and address them. Over to you Mr. Vivek

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

**Moderator**: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anika Mittal from Nvest Analytics Advisory LLP. Please go ahead.

**Anika Mittal**: Good evening Sir. Congrats for a good set of numbers. Like in your commentary you mentioned the inventory has gone up and the receivables are also higher can you please repeat the reason for these two things?

**C.C. Paarthipan:** Whenever the inventory is high actually in a model that we have this is an opportunity to increase the cash flow and sales. The reason is the inventory is not lying in the head office; most of the inventory lies next to the customer and the warehouse and the rest of it are in transit. The amount of inventory which is there in the head office is very, very minimal, so rise in inventory does not cause any issue actually to us. Coming to receivables and inventory our bad debts and inventory loss are very, very minimal because any customer who buys our product always comes back because of our range, volume, variety and novelty. For example, we have registered 550 to 560 products in six to seven countries of Central America and Caribbean, so when the customer has to come back to you he will definitely pay you, otherwise he will not get actually the goods which he has to sell on a day-to-day basis. That is the advantage of having warehouse next to the customer. That is the reason in course of my actual speech I also told you there is no intermediaries in our business. We are the manufacturer importer also in many areas we are the whole sellers.

**Anika Mittal**: Trade receivables will remain at this level or we will further come back to the normal range?

**C.C. Paarthipan:** We will continue to actually have the same metrics.

**Vivek Partheeban:** So just one point I think industry average is anywhere between 90 to 120 days, so I think we are still in very good shape and as you would have seen our increase in cash flows over the last couple of years it is testament to the fact that we have a very strong hold on this and as Chairman said inventory in our position cannot be comparable to another company in the same because actually inventory and our warehouses in Latin America in other places, so it is not that it is sitting in our factory, so obviously this can be liquidated very quickly.

**Anika Mittal**: I agree. I was looking towards CFO divided by EBITDA ratio of Caplin. Caplin has always been maintaining such higher ratio and this time I think H1 it is somewhere around 42% so that is why I was asking from the cash flow conversion point of view like EBITDA means this ratio will further improve or how it is going to be, means you must have tracking internally also this ratio going down, right?

**C.C. Paarthipan:** We are comfortable. In spite of it actually dipping a bit I would like to tell you also it is because of certain political issues in Guatemala, 10 to 15 days there was nothing actually happening; however, eventually the sales was increased to 3.8 million which we normally do in every month and slightly there is a dip in collection which you would see actually as increase in this month. Number two in Dominican Republic there is actually issue between Dominican Republic and Haiti; however, the sales has increased, the dip also is not actually very bad, it is very, very narrow, so this type of issues happens to every company. The cash flow if it is not actually that good you would not be in a position to have INR 825 Crores as cash and cash equivalents. I hope you would agree with me.

**Anika Mittal**: There has been a delay in our expansion of injectables in oncology like from Q4 2024 earlier to now it is Q2 2025 so similarly there is quarter delay in oncology API as well so is there any specific reason for the delay?

**C.C. Paarthipan:** Oncology tablet and capsule, I am sure we will be able to actually start the commercial production in the next six months. Although I told you in general everything will be completed in 12 to 18 months that one is applicable for a factory as a whole because if you look at oncology there is tablet, capsule, injectable and API and the API in Vizag will also be completed in six to eight months or maximum nine months. The rest of it like OSD in general and in addition to onco, OSD or onco injectables and all the machinery is on the way that will take a little time. See anything which is going to actually cost a little delay will not have any impact actually on our fundamentals.

**Vivek Partheeban:** Correct and in addition to that just one more point is especially on oncology there are two points here. Number one is we are not denying the company any opportunity to create this because we are currently using outsource manufacturers for some of these oncology orders that we are servicing. Number two is the API piece of it being delayed does not really impact us too much at this point because there is API available from outside, so it is still status quo. When our own API comes in our cost control and our compliance and everything gets even better it is not the other way around.

**Anika Mittal**: Can you give a number like where we will end in FY2024 in terms of consolidated revenues like line 5 and line 6 will also come in Q3 and Q4 so what is the expected internal number that we are targeting for FY2024?

**C.C. Paarthipan:** Let us not actually quote the numbers, you know it is a public company it is better to under promise and over achieve. Thank you. Thank you very much.

**Anika Mittal**: Thank you and all the best.

**Moderator**: Thank you. The next question is from the line of Rishikesh. Please go ahead.

**Rishikesh**: So regarding your aspirations for new markets of Brazil and Mexico, so how has been the progress for those markets and probably what sort of product portfolio would we be taking there like you will be leveraging the US injectable pipeline to the Central American portfolio so what are your thoughts on that?

**C.C. Paarthipan:** I will tell you all about the rest of the world and South America coming to the US I will ask the COO to explain everything. New markets, as we told you before, the bigger geographies involves long time for registration; however, there are emergency orders which of course we also cater to and we have been exporting that way and our registrations in Chile has reached to a level of 100 plus and shortly we are going to open a warehouse there and coming to Mexico there are two ways to do business here one is private market other one is actually the institutional sales, the tender business. Most of the people who do standard business in fact they come and meet us actually our people in CPhI. In fact, my elder son is in Mexico and he is meeting all those people. The advantage of going through actually this type of people for tender business is they have the extraordinary contacts actually in that country and moreover being a foreigner especially in tenders we do not want to go directly into that area because there are certain issues which may affect people personally. So coming to this business especially in South America and various countries we are doing the registrations which really helps us is the expansion of projects in the form of soft gel capsules and next year we are planning to go for actually a PFS and double-barreled syringes. These are the things which will also increase our revenue. The registrations, yes, in the newer geographies it takes time unlike the RoW market. Now I will ask COO to explain about the US.

**Vivek Partheeban:** So your second question was around the portfolio and I will just explain. So obviously there are three things that we are targeting number one is like you said the Caplin Steriles portfolio itself I think whichever product that makes sense for Mexico and Brazil we will focus on that, in fact several files have already been submitted and now that INVIMA approval has also come through for Caplin Steriles we will be filling more wherever those things are ready. Number two there is something else that we realize which is there are many EU-GMP and other high regulatory body approved facilities in India that do not really have any sort of a presence in Latin America especially in Mexico. So we identified two or three of these companies, in fact two from India and one from China as well who have been giving us their dossiers to file in Caplin's name and in due course of time when some of these products get approved we will start outsourcing. It is very similar to what we did in some of the smaller markets of Latin America and finally our own OSD facility hopefully which will come through in the next 12 to 18 months like Chairman said will also be used to cater to this market. So it will be a wide portfolio of injectables, ophthalmics, outsourced manufacturing products and in-house OSD products, so we will be targeting a wide portfolio as explained.

**Rishikesh**: Sir would we require a front end sales force on the ground in this market?

**Vivek Partheeban:** So obviously our mantra has always been remaining close to the customer, right. So in fact as Chairman was saying my brother is in Mexico as we speak he has made 10-15 visits over the last one year itself, we will be assembling a very good field force over there, very similar to what we have done in other parts of Latin America. Of course, in the earlier stages we will be focusing much more on the product registration because this will obviously take around 9 to 12 months' time in most cases while we lay the groundwork, we will be meeting all the distributors, existing parallel markets, etc., that are over there, but yes we will be certainly having our own front end presence over there.

**Rishikesh**: Is it fair to say that these regions which start contributing post FY2025 or around FY2025?

**Vivek Partheeban:** In the next 18 months I think we can start to see something meaningful. We already have over a million-dollar business in Mexico from last year itself, but yes if we are looking at some meaningful numbers I think you can expect in about 18 months and beyond.

**Rishikesh**: Sure. Thank you and that is it from my side.

**Moderator**: Thank you. The next question is from the line of Gaurang Shah from Kotak Mahindra Bank. Please go ahead.

**Gaurang Shah:** So my question is to the CFO. I think a bit of cash on the balance sheet in September and this was basically if I look at the breakup it is in the form of bank balances, now I presume if it is in a current account it is not only the interest how do we manage this, do we keep company some of investments and also in terms of the ROEs, the ROEs, and ROCEs have been dipping probably the reason could be they are good product to have to private company generating cash, but what is our large ticket plans or the big ticket plans of capex or do you plan to do some buyback at some point of time?

**D. Muralidharan**: Actually the bank and bank balances they are not in current accounts just to confirm they are in the form of fixed deposits, in the accounting standard which comes in the form of Ind AS is cash and cash equivalent of INR 825 Crores is figuring in about four to five places in the balance sheet it is not in one straight line and there is no fund which is idle and this is not yielding you an interest, so even the balances in Hong Kong it is not giving very good returns now it has started giving me a return of 5.5-6% tax free. Okay pre-tax it will be equivalent of 8% in India terms, so that is as far as the deployment of funds is concerned. Secondly as per the ROE and ROCE as we have been in the expansion mode for the last three years which will all bear fruits in the coming years. Just for the information of the audience in the call we have spent about INR 459 Crores to be precise in the last three years in various projects and another INR 370 Crores is identified as you see today, which is very visible to be spent in the next 12 to 18 months as our Chairman explained. So as we have told in the past, keeping our ears and eyes open for any opportunities that are available in the market so it is always better to keep cash which is yielding. If you see your other income, the interest income has gone up substantially so that means that we have been deploying at more productive assets and we are not keeping anything idle I would say for sure and these are funds kept for capex and also for any other opportunity that may come up in our way. So our focus has been cash flow and cash flow, cash flow. The three if can repeat three times. Chairman's primary objective is to grow cash flow and no borrowing.

**Gaurang Shah**: Thanks.

**Moderator**: Thank you. The next question is from the line of Sachin from Svan Investment. Please go ahead.

**Sachin**: Thank you for taking my question and congrats to the entire Caplin team for showing such good numbers. I had few questions. Sir one was on the US business the Caplin Steriles business so we had guided for INR 200 Crores of revenue for the current financial year, but I think the current momentum is very strong so what type of numbers now we are looking for the current year and secondly for the next financial year if you could give us some type of sense what type of work we are doing and we had also desperation to reach $100 million revenue by FY2027 if I remember in FY2026 so if you could just also comment a bit on that aspiration of $100 million in revenue for Caplin Steriles?

**Vivek Partheeban**: So I think the INR 200 Crores that you are talking about, we already achieved that last year. What we said was we will grow well of course obviously it is coming off a smaller base. We will obviously be growing well this year we do not want to put a figure to it, but definitely above industry average figure is what we will be targeting for Caplin Steriles this year and when it over the next three to four years targeting 2027 $100 million figure is something of a benchmark for us. We remain confident that we can get to this figure or get very, very close to this figure and we are putting in all efforts to make sure we get there.

**Sachin**: Sure but in terms of your EBITDA margins at Caplin Steriles what type of offset do we see from the current level and the 70:30 mix that is there currently between milestone and revenues how do we see that changing over the next 2-3 years?

**Vivek Partheeban:** I will answer the second question first so milestone and profit share I think this is a very healthy mix because if you see we are not a company that is a pure placed CMO and we do not do any development for other companies either, so we are a company that develops and tries around products and so far has been licensing our products to front end partners such as Baxter and some of these people. Going forward I see that tilting a little bit more towards the product revenue because we will be having our own front end and we stopped doing exclusive deals for a few years ago itself, right. So as long as our front end gets established we will have lesser and lesser inclination to do licensing deals with others because we want to be selling all of it by ourselves. This is going to obviously strengthen the bottomline as well because all of our B2B business that we do right now there is a profit share to our front end partner so obviously without giving any numbers away that 70:30 will start to tilt much towards the product revenue and lesser towards the milestone and profit share revenue in the years going forward.

**Sachin**: Over a medium term we need to stabilize it will be like 80:20 or to be like more like 90:10 over the next two years where do you see it stabilized?

**Vivek Partheeban:** I would safely assume 80:20 would be a more reasonable figure at least over the mid-term.

**Sachin**: Sure and on the EBITDA margins most of the high quality?

**Vivek Partheeban:** EBITDA margins especially for us you will have to look at it a little bit differently compared to others because of the fact that again I repeat we are not CMO we develop and file our own products so our costs right when we are talking about the fees, the filing fees, A&D fees, facility fees, all of these are significant for a company our size, but as the revenue continues to grow, as the bottom line will get strengthened and our EBITDA number if you took away all of our R&D expenses, etc., that we do not capitalize we expense out our EBITDA numbers are actually very similar to the parent companies number. So this will start to reflect as the revenue catches up a little bit more and our filing starts to go down and we focus a little bit more towards complex products alone. Today we have a lot of simple solution products so the numbers in terms of number of vendors we are finding and all that is higher compared to what we would be doing let us say 24 months hence, right. So a shorter answer to your question is if we remove all of these heavy RMDCs and everything, our filing fees and all that our numbers are very similar to our parent company number.

**Sachin**: Sure I understand that our accounting is far more conservative, but that is the way I think we have chosen to be so in that scenario when do you expect that our reported EBITDA margin should start to run and will it take another 2-3 years or you think that could happen much faster going by the type of traction we are seeing in the market

**Vivek Partheeban:** It would be safe to assume two years because I think this year already we are profitable, in fact last year also we have turned around the profit despite the heavy expense out, but two years hence I think could be something for us to look forward to.

**Sachin**: Sure my next question was for the CFO. On this slide #18 that is mentioned the capex of INR 600 to 650 Crores where we outlined six projects so if you could qualify Sir how much of the INR 600 to 650 Crores has already been spent and how much is pending completion?

**D. Muralidharan**: As I just answered the previous queries as explained that INR 459 Crores has been spent since last three years and as we speak today INR 370 Crores we have visibility, not everything is crystallized, we have visibility about INR 370 Crores of which about INR 200 and 250 Crores is crystallized. For example, API onco which we said will take some shape over INR 50 Crores is the plan we have for that and the OSD general what Chairman said we will consume about INR 150 Crores over the next 12-18 months, 650 and 700 is inclusive of what we have spent and then what we see in the next 18 months' time so that what we would have spent in the last three years plus next 18 months.

**Sachin**: This is little confusing for me on this slide #18 of your presentation, you mentioned that the Caplin has allocated INR 600 to 650 Crores and you have mentioned six projects, so of this INR 650 Crores of this six projects that we have outlined how much we have spent is it that 250 the number that you are mentioning is instead of the six projects?

**Vivek Partheeban:** I will just clarify you Sachin Obviously if you are looking at whatever capex that we started from 2020 itself this is going to be close to INR 800 Crores figure, right so some of this was Brownfield, so we took away that Brownfield figure out and then for most of the new initiatives including phase two and phase three of Caplin Steriles we mentioned that INR 600 to 650 Crores, a shorter answer to your question is more than half of which has been already spent and the remaining half will be spent I would say over the next 18 months as Chairman was saying 18 to 20 months.

**Sachin**: But as per the presentation all the projects will get completed by Q3 FY2025, which is like 12 months from now?

**Vivek Partheeban:** So we want to be conservative when we see. So some of these are very, very close to completion like the onco facility is around three months away from completion and there is an opportunity for us to fast track our OSD facility as well, but again we want to be a little conservative because some of this requires qualification, timelines and everything, right. So capex completion is only one part of it, in pharmaceuticals you need to qualify all the equipment to start commercialization as well and some of these areas that require licenses are going to be received. So Capex completion is only one part and then there will be definitely a six-month period which will be what will be required for us to ramp up to commercialization so that is how you need to be looking at this rather than black and white and do what numbers alone is being mentioned over there.

**Sachin**: Sure and what is the type of peak revenue we can achieve once fully utilized this INR 650 Crores of capex can generate for us?

**C.C. Paarthipan:** See the most important here is one area, which is two more completion of the facility; second most important area here especially in OSD onco and OSD general you will have to actually invest on the bioequivalent and bioavailability it is not the question of money it is a question of timelines. We have to complete the R&D first then go for the registration. Then the third issue is we will have to file the dossiers. So especially in the regulated space it takes long time. Luckily, we have been very successful in the RoW markets, especially in LATAM so we will start the business to start within the LATAM market that alone will give us a very good actually returns so we are sure of actually continuing the same EBITDA and other things going forward and exact numbers today is not easy to predict.

**Sachin**: Just a ballpark estimation this INR 600 Crores will give us INR 1,000 Crores, INR 1,500 Crores a very ballpark number?

**C.C. Paarthipan:** If you ask me in five years from now we should aim actually at least INR 4,000 to 5,000 Crores but if you ask me what will happen actually in 2024-2025, I am sure we are aiming for a sale of actually INR 2,000 Crores that is the only one I can tell you.

**Sachin**: Sure and Sir one question was in some of these new large market that you have been talking about Mexico, Brazil, Chile what is your vision for the next 3-4 years there and how large do you think they can be for Caplin as a company overall?

**C.C. Paarthipan:** When you are thinking of opening up your own company as a subsidiary company, the number of registrations which are in the form of like 20-30 does not give you actually big volume we should reach to a level of say 100 products. If it reaches to a level of 100 products in Mexico it will take at least two and half year or maybe three years that time we think of actually like something extraordinary. It can even go up to $75 million to 80 to 100 million, also the reason being half of the business which is in the form of tender business we will not be directly involved but we know people who can influence the decision makers and then sell the product. There also they are interested in quality product and they know we have been selling our products in Central America which is much closer to Mexico. Guatemala is just one-hour drive by flight actually to Mexico and again cross-border business, although we are not interested in that one people who live in the borders, they come actually and buy and go also. So most of the people they are aware of our quality of the product also. So once we complete actually different buckets of products in the form of oncology then general products injections, various injections in the form of liquid injections and then you have ophthalmic products, bags all that put together I am sure we are aiming for something extraordinary, but again this is what I could say, say if you ask me, 2024-2025, yes, we will target Rs 2000 Crores again, there is a market in Mexico which takes time. Sometimes it may be sooner, sometime it may be later, but not actually whether we can do it and it is something which is done or in the process of doing it. It is a possibility but the question of timing ranges between two and half to three years' maximum to do the maximum distance.

**Sachin**: So basically next two or three years will be slow and steady we have to get more products registered so FY2027 or 2028 is when we can see larger contributions from this one.

**C.C. Paarthipan:** Exactly that is one way of looking at it. The second way is in Mexico there is a lot of opportunity to acquire companies, but the meaningful acquisitions also will add value to us at the same time now we are focusing more on completion of the projects. We do not want to add one more facility outside the country and that is why we are not interested to go for anything in the form of acquiring a facility in places like Mexico or Brazil also. We will complete everything here then we will have to consolidate our efforts whatever the balance between consolidation and expansion also has to be very meaningful. There are opportunities, there are challenges, but at the end of the day the people really back us also. There are things which can be delegated as removal, the promoter creates it and the professional comes to protect it and today after COVID the environment, the ecosystem has not been that extraordinary, you will have to understand the people well, you have to take care of them very well and we will have to wait for that to happen also. You cannot be in a position to rush and make things happen. It is not that easy, to be very honest with you.

**Sachin**: Sure. Thank you and wish you all the best.

**Moderator**: Thank you. The next question is from the line of Nikhil Jain from Galaxy International. Please go ahead.

**Nikhil Jain**: Sir this question is related to the US market, the Caplin Steriles so congratulations on getting the approval for Rocuronium through Lupin or let us say Lupin is the marketing partner I just wanted to understand our philosophy of let us say partnering in the US market because I understand we are still doing nonexclusive deals we are also having our own distribution setup where we are targeting let us say not the most competitive distribution part of the chain and we are also having our own label. So how are we ensuring that there is no conflict in the chain and the customer is not confused because the same product should not be offered by multiple entities, right, cutting themselves or looping or some other partner or whatever?

**Vivek Partheeban:** So I will answer this in two parts. Number one is you spoke specifically on Rocuronium Bromide that was probably because Lupin came out with a press release for that one. Now obviously these are nonexclusive deals and Lupin is not the only company that we have licensed the product too there is one more as well but at the same time these are completely nonexclusive on both sides right so whenever Caplin decides to enter the market with its own label we are free to do so. In every one of our agreements that we have signed so far over the last five years we have ensured of this. Now number two is again drawing a parallel to what we are doing in Latin America. We do not want to go to the very large GPOs and distributors and then try and sell our product because that is a space that sort of crowded with big boys, right including the Lupins of the world. What we want to do is there is a certain amount of markets and depending on who you speak to, it could be anywhere between 20% to 30% that is outside of these large GPOs and IDMs and stuff where we can actually sell our product even if it is smaller volumes we can actually sell it to for higher margins and it could become a very sticky business as long as your supply continuity is maintained, right. So that is what we will be doing and we will not be competing in the same channels because we will not be operating in the same channel. Even the kind of people that we recruit in the US we are very clear to them that we going the tried and tested model of going to a GPO, crashing prices and then entering with our label that is not what we want to do and even in Latin America as you see we never went to the largest distributor over there and then tried to give him anything exclusively. We went to smaller distributors. We want to smaller wholesalers, we went to retail directly. So we want to sort of try and replicate something similar in the US as well.

**Nikhil Jain**: Right but how do you ensure that there is no conflict, right so because you are trying to cover all the distribution channels some through partners?

**Vivek Partheeban:** That is what I am trying to say. Number one even if there is a conflict there is nothing that prevents us from doing anything even if we choose to do with the GPOs but having said that, what I was trying to say in my earlier response is that we are not going to be operating in the same channels where some of these larger companies operate because they typically go through very large GPOs and healthcare networks. We want to be playing basically in Tier-2 and Tier-3 spaces so by default there will not be any conflict.

**C.C. Paarthipan:** One more thing actually I would like to add here. I hope you would agree with me in war and business definitely there will be conflict. We will cross the bridge when we reach there in the form of a conflict resolution that is the only way out. You cannot predict everything actually now itself. I hope you would agree with me on this thing.

**Nikhil Jain**: Fair enough. Thank you.

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

**Chirag**: Hi good evening Sir thank you so much for the opportunity and congratulations on continued execution. I had one bookkeeping question and a larger question. I will first take the bookkeeping question. If my numbers are correct we did around INR 46 Crores of sales in the first quarter for Caplin Steriles and INR 75 Crores of sales for Caplin Steriles in second quarter so both quarters could you tell us the EBITDA for Caplin Steriles?

**Sathya Narayanan**: The EBITDA for the current quarter Q2 of 2024 is INR 10 Crores and for Q1 it was around INR 2.5 Crores so please look at it in the manner which was explained by Mr. Vivek that this is after charging off all the R&D expenses and the ANDA registration fees, everything which we expensed out immediately on incurrences? Thank you.

**Chirag**: Sorry Sir, I could not hear that number. Could you repeat that number again, INR 2.5 Crores you said?

**Sathya Narayanan**: Yes perfect.

**Chirag**: Understood and the second question is little bit broader I would love to hear the Chairman's view on this is that we have a bunch of expansion plans going on, right, we have oncology, API backward integration, sterile, there is an expansion in Latin America we are doing geographic as well as product expansion. In all of these 4-5 areas where is it that the team feels there is the most amount of stress or the most amount of sort of delay or the most amount of uncertainty and where is it that you feel that we are very close to conceptually where we were we very close to the end?

**C.C. Paarthipan:** I would like to actually say a few things of course this will help to understand where we are today. In general, I hope you would agree with me. What is important, what cannot be cured must be endured and endurance is the key. When we have the great, definitely whatever delay which happens actually eventually it will be complete not that I do not want to say there is no delay in the form of actually projects, project overrun or cost overrun is part of any business, but at the end of the day we have not been borrowing money from any bank it is all happening from our own internal accrual. Second, the biggest challenge that we face actually is getting the licenses and the other issues, sometimes people issues, this of course you cannot change. We live in a world where the pedestrians walk on the road and the motorist drive on the pavement with impunity. So these are the individual liberty which comes in the form of social anarchy what we can do to avoid that one? So anything that we do I would put actually this way as long as you have the grit and your model is not in the form of borrowed money and borrowed system, we are sure of completing it when we complete it yes, it takes time, it takes actually a certain amount of pressure to the promoters of the companies. Eventually when we make it we will also achieve it. Whatever we believe we will achieve it.

**Chirag**: Understood. Anything in specific amongst these 4-5 where there is the most amount of stress oncology, backward integration, steriles or the geography?

**C.C. Paarthipan:** I read one this year and I would like to convey this. This is a research which happened in 2014 where they have understood that poverty runs in generations, poverty actually incorporates the cognitive issues and the lack of awareness in the genes, henceforth, with the result into few generations so anyone who starts his life as an entrepreneur from a family which is not part of business community is bound to see pressure but the pressure that we had when we did not have money is much more than actually the pressure that we have today. When we have money in the bank and that to the money is not borrowed money it is taken one as I told you, borrowed this term in the sense that unless and until you understand something which not many people know you will not be in a position to do things actually, which will be affected. So it is not that stress or pressure is going to break you but it how you take it. What you make of it and how you take it that really matters that is what I would like to convey to you.

**Chirag**: Thank you.

**Moderator**: Thank you. The next question is from the line of Alisha from Envision Capital. Please go ahead.

**Alisha**: I was just trying to understand that if I compare this quarter versus last quarter, which is Q1 there is a dip in the LATAM revenue, it was about INR 350 Crores in Q1, which has now become INR 335 Crores just wanted to understand what caused this dip are we seeing any slowdown pressures, any logistical issue causing this delay anything?

**C.C. Paarthipan:** There is not a major issue, but again you must have seen in the newspapers the incumbent President and the new President there are some issues in Guatemala that has come to a grinding halt for about 10 or 12 days of maximum 15 days but again, people have to buy medicine, they would prefer to buy medicines only when the medicines are next to them and the warehouse. With the result now that 15 days of work loss actually has not caused major issue and in fact now we have done more business than before, slight dip in the receivables that also is not in the form of actually 50-60% reduction it is in the form of 10 to 15% which will happen actually in the next month and coming to what you said in the form of Q1 versus Q2 I would request the CFO to clear the air.

**D. Muralidharan**: The reason is already answered by our Chairman and there is a concern it is very marginal this thing and that will be more than made up in the current quarter.

**Vivek Partheeban**: Alisha just one point I would make in pharmaceuticals especially when you are doing business with multiple geographies and stuff I think comparing quarter-on-quarter is a bit of a misnomer. Year-on-year is much more in fact if you ask us internally we look at ourselves on the three to five-year basis so quarter-on-quarter there will be minor dips or increases here and there but I think like CFO that much more or a rounding rather than anything else.

**Alisha**: No Sir I absolutely agree with you that it should be Y-O-Y and it should be on a more medium term basis. It is just that all the newer initiatives that we have been talking about the same kind of stage and hence I thought of clarifying it. My next question is just being it right to understand that the next step up in the LATAM business will now only come once some of the capex that we have been speaking about will come on stream which will be towards the end of the year, early next year?

**Vivek Partheeban**: So obviously with many of the initiatives that we are taking up right now there will be a gestation period right, but there are two ways in which we are tackling that. Number one is if you look at the oncology space we are not exactly waiting for our facilities to get ready at that start registration then. We have actually started registering many of our products several quarters ago, which is why over the last almost six months or more you can see that there are several oncology products that they are supplying to emergency tenders were actually supplying to private markets also in one or two markets and so we are not denying ourselves an opportunity to fill that gap over there as and when our facilities come through this is going to enhance the business, this is going to enhance the supply chain. Number two is we have a breakup of course not everything can be put down and opened up the public as many of this is confidential information, but we have actually been able to grow quite well with the existing markets with the existing products but little bit of tweaks to our offerings such as pharmaceutical soft gels, pre-filled syringes and everything. So it is not that all of the growth will depend only on the new capex coming in that will be augmenting our growth rather than depending entirely on it.

**Alisha**: Got it and just one last bookkeeping question. There is a spike in our other expenses and it is quite sharp sequentially what would this be with respect to?

**D. Muralidharan**: Are you referring to the current quarter versus sequential or the H1 itself Madam?

**Alisha**: No, Q2 of this year versus Q1 INR 73 Crores versus INR 55 Crores.

**D. Muralidharan**: As we have said we have filled with more than three ANDAs as compared to the last quarter that each ANDA costs about INR 2 Crores and the R&D expenses have also gone up, these are the primary reasons for increasing expenses.

**Alisha**: Got it. Thank you so much and all the best.

**Moderator:** Thank you. As there are no further queries from the participants I now hand the conference over to Mr. Vivek for the closing remarks.

**Vivek Partheeban:** Thank you everyone for joining and then taking time off and understanding our company and your wishes mean a lot to us. Once again thank you all and have a very Happy Diwali and we will be in touch with you. Thank you.

**C. C. Paarthipan:** Thank you all and wish you all a very Happy Diwali.

**Moderator:** Thank you. On behalf of Batlivala and Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3. 