"Caplin Point Laboratories Limited

Q1 FY25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Caplin Point Laboratories Limited Q1 FY25 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Rashmi Shetty. Thank you, and over to you.

Rashmi Shetty: Thank you, Lia. Good evening, everyone. I, Rashmi Shetty, on behalf of Dolat Capital, welcome you all to the Q1 FY25 Earnings concall of Caplin Point Laboratories. I would like to thank the management of Caplin Point for giving us this opportunity to host the call. Today, from the management team, we have with us Mr. C.C. Paarthipan, Chairman; Mr. Vivek Partheeban, Chief Operating Officer; Dr. Sridhar Ganesan, Managing Director; Mr. D. Muralidharan, CFO; and Mr. M. Sathya Narayanan, Deputy CFO. Over to you, sir.

Vivek Partheeban: Thank you. Welcome to our earnings call to discuss the results of Q1 2025. Please note that a copy of our disclosures are available on the Investors section of our website as well as on the stock exchanges. And also, do note that anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

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. Also do note that the audio call is copyrighted 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 hand over the floor to our Chairman for his opening remarks, please.

C.C. Paarthipan: Thank you. Good evening, ladies and gentlemen. Welcome to our investors' call. Year 2024 is the 30th year of Caplin Point as a public listed company, and some of my learnings are as follows.

If you are the Chairman or CEO of the company, you have to reinvent or remake every 3 months to present your quarterly results. Number two, the management's job is to ensure cash flow and profits comfortably. Number three, it's all about carrots and sticks. Number four, you should not forget the fact that "You don't own the business, the business owns you."

Now let me come to some of the specifics. First, the comparison of the annual reports of year ending 2014 versus year ending 2023-2024. The top line of 2014 was INR177 crores, it has increased to INR1,761 crores now.

The PAT of INR26 crores, which has increased to INR461 crores. And then the cash reserve was INR27 crores, which has increased to INR969 crores. The market cap of INR292 crores, which has increased to 12% growth, and the liquid assets stands at INR1,850 crores in the last 10 years.

It will not be out of place to mention that Caplin is a turnaround story. And in most of the turnaround stories, the promoters promotes more of their wealth, but we chase the excellence and create a profit cash flow to Caplin Point. We are able to build the company from nowhere to now here in the last 10 to 15 years successfully. We took the sticks and offered the carrots to our stakeholders. When I say that we took the stick, I mean, that it is the physical risk by traveling to the war zones and created the benchmarking cash flows and profits for our company.

Since we could sustain and scale up the cash flow and profits, we are definitely delighted to present our quarterly report. Our unique ideas and business model differentiation has the potential to change Caplin Point to the next target. We also promise you that in next 5 to 10 years, we will create the purple patch to Caplin Point. We had the courage to walk in the dark, now we will follow our walk with the talk.

As you know well, today's business is to know 99% about 1% of something that really matters for a phenomenal growth. The rest is survival treadmills are done through journey. What matters here are the few business essentials and we focus on these essentials.

The business in our Latin American market is a choice coupled with our first-hand experience at the bottom of the pyramid. Today, we live in the world of 1% people creating monopoly goals and monopoly wealth and it's time for a company like us to create the value monopoly in areas where the big boys do not have their playground with their playbook. The following quote talks for the uniqueness in the form of only one. The moon looks upon many night flowers, the night flower sees that one moon.

Let me share how Caplin is trying to be unique architect in the form of building business from the ground up in our Caplin Steriles USFDA facility. Let me also share my last 2.5 years to 3 years of exposure of managing Caplin Steriles factories in the form of building from ground up.

The basic levels of people in many USFDA facilities are the shop floor people and the QC analyst. If one can ensure discipline and skill set in the two areas that is most important i.e. in the shop floor and in the QC, issues will be totally eliminated over a period of time.

Due to my preference in the last few years, I learnt the 4 non-negotiables. One is integrity, two is quality, three is safety, and then productivity. We also understand the importance of these 4 and the inevitables for the factory. One is automation and the other one is digitization. The third is machine learning and AI.

Of course, the first 4 non-negotiable and the 3 inevitable are already there, and we are very skilled to ensure that all these non-negotiable are regularly implemented from bottom to top. And then we are currently automating and visiting and digitizing our USFDA factory, which we will do in all our factories in future, too.

Turning to U.S. business is managing the manufacturing with the 4 non-negotiable which is very, very important compared to the marketing in U.S. The reason is there is no marketing for a generic, it is only distribution.

Now let us look at our own front-end persons in U.S.A. and the new features that we have planned to inculcate in our distribution model in U.S. market. We have 24 ANDAs, which are ours and will be marketed through our own front end in addition to partners who are doing business currently. The focus will be more on distributing our own products effectively in the future.

The new concept would be to source and outsource with our current resource, which is our cash reserves, source the products from the CMOs of India and other countries buy and sell the products to the wholesalers of USA, which has the effective second layer of distribution hierarchy. There are virtual companies who do big business without even having their own ANDA base. Their model is to cater not only in the U.S. market but also supply the shortage products in U.K., Europe and other places of regulated market. We will definitely have an upward edge compared to virtual companies as we are building our own pipeline of products.

Our business of LatAm on the expansions: Recently, we created a warehouse for our Chilean business and the capital of Chile. We have registration to the tune of 72 products. Business from Peru, Costa Rica and Mexico is improving slowly based on the registrations, generating more ads for our onco products from the institutions are also guaranteed. And we also started one more warehouse in Guatemala, which we are sure will increase the cash flow and profit. And we also started a branded generic business which is increasing in 3 major countries of Central America, which is Guatemala, El Salvador and Honduras. Focusing more on the registration in Mexico and Chile, which is also one of the key areas for our future business. Brazil audit is likely to be started in the next week, which will also open up more opportunities.

Coming to projects. We'll complete Caplin One onco injectables by March 2025. The OSD has already started. The remaining 3 Caplin One facilities, especially the injectables, onco API and OSD are still a work in progress. Once we complete all these Caplin One factories, we will enjoy a tax benefit of 8% which will also help the company to increase the profitability.

we finally selected senior executive by name Mr. Mani from Olam International, which is considered a Fortune 500 company. He is here to develop our own software logbooks, BMR and BPR to start with, which will be a unique achievement for a company of our size. This will not only be useful for our own factories, but we will also use it for the marketing tool with companies in China and Mexico for their digitalization. We'll offer our software and pick up their exclusive distribution of some of their unique products for regulated markets of South and North America.

The last but not least, our own employees in our shop floor on the factory and also as analysts in QC. Caplin is always a voice of the voiceless such as we cater to the bottom of the pyramid in Latin America. We are building the bottom of architecture in our USFDA facility. Our 3-wheel IRS not only comes from the deep BOP also from the middle of the pyramid by offering quality medicines at affordable cost. We understand that catering to the poor is also a strategy if you have a right model of cash flow on top, this is happening, and it will continue to happen. Thank you. Thank you very much.

Vivek Partheeban: Thank you, Chairman. I will just give a little color into the U.S. business before I hand over to our CFO for the finance highlights.

We had another good quarter in our growth in the U.S. We were able to beat last year's quarter by almost 70%. And we were able to keep the same split of 75:25 in terms of product revenue and milestone but albeit at a higher base, which shows that our productivity is indeed going up.

We were able to put our expanded capacity to good use with our Line 5 output being higher than Line 1 and 2. We've been able to streamline further the whole manufacturing process and we are dedicating soon enough injectable lines in line with the way they are sterilized. So, they should augment our output even further in the coming year.

We're at a high level already in terms of automation when it comes to our quality control, the microbiology divisions where we are nearly 70% to 80% paperless. We are in the process of converting our physical logbooks across the site, which are several hundreds in number, to digital log books, which is a precursor for conversion of all of our batch manufacturing and packing records also to be converted to electronic formats.

This is where we will go as close as possible to a paperless facility, which is something in line with what we formulated in line, which is our 4 pillars of non-negotiable since the Chairman mentioned that is integrity, quality, safety, and productivity. And our new CTO, Mr. Mani, will be spearheading maximum methods in this.

Another important update from our side is the progress that is being made in terms of our front end of the U.S. We already have 5 people on board from reliable and trustworthy and successful companies that they worked at in the past.

We've received already 45 of the 50 states licenses, and we are on track to receive the next 5 in the coming few months. We plan to come to market with our own Caplin Steriles label by October or November of this year, and we plan to launch around 30-plus products within the first 12 to 15 months.

Sticking true to our parent company's success mantras of taking the road less travelled, we are replicating the same in the U.S. by targeting the smaller warehouses and IDMs rather than the big 3, where we feel our pricing and consistency would be much better established even if the growth in top line is a little bit slower than what some of the larger companies have done in the past.

The other mantra for Caplin is also being pro-outsourcing, which we have done in the past from China and we continue to do. This is something the Chairman also touched upon, where we are looking to in-license products from other highly quality conscious companies which will further augment our offering to the market.

We feel that our U.S. presence will eventually be known for our strength in distribution and range with a back end supported by high-quality contract manufacturing.

Thank you. And I request Mr. Murali to throw some color on the finances for this last quarter.

D. Muralidharan: The saying that "What is well begun is half done." We are pleased to say that we have begun the year well with very good results, with registering 17% growth for revenue, 20% growth on the PAT, as Mr. Vivek also said it CSL also contributed -- with contribution of 11% in terms of revenue the last year, they have contributed to 16% of revenue in the current year of high margin. That is also reflected in the gross margins going up from 55.3% to 59.6%.

We have been promising 55% margins at the gross margin level. But consistently, we have been keeping it above 55% to 56%, whatnot, we hope to continue that. And added to that, this year, we'll have one more unit, which is Caplin One Lab, which has just begun commercial production, will also be contributing in terms of both revenue and contribution as they are highly valued products, niche products, cancer products.

They will also contribute to the growth in revenue and contributing to the ensuing quarters and year end as well. And just to touch upon the numbers which are already there in the Press release and Investor presentation. Our margins have been very good. As I said, the gross margin rose to 59.6%. And the free cash flow is INR59 crores and then the PAT is INR125 crores and PAT margin 26.2% and we have a very good cash reserve of INR9569crores as of June.

And as Chairman puts it, we have already lined up projects which are in the pipeline, all of them will be funded through our own resources, and we hope to accrue the cash year-on-year and then we would take on any opportunities that come by our space. So, this is it from my side. If there are any specific queries on finance, I will be glad to take.

Over to Mr. Vivek.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of CA Garvit Goyal from Nvest Analytics Advisory LLP.

Garvit Goyal: Congrats for a good set of numbers. I have 3 questions. One is on the U.S. side. Can you provide some insight into the factors that contributed to decrease in revenue for Caplin Steriles from INR100 crores last quarter to INR80 crores in this quarter?

Additionally, can you also share expectations of growth guidance for Caplin Steriles in FY25 over FY24? That is my first question.

Vivek Partheeban: I think there might be some confusion, Garvit. We've actually increased our revenue by almost 70% from last year.

Garvit Goyal: I think you are talking about Y-o-Y. I'm just talking about Q-on-Q.

C.C. Paarthipan: Yes. He is talking about the previous quarter, not the year-on-year.

Vivek Partheeban: So, I think when it comes to Caplin Steriles, you can imagine that this is still a very nascent stage for us. We wouldn't like to compare ourselves on a Q-on-Q basis. And typically, what happens is the second half of the year is always larger. If you see in the last couple of years also, that would be something that you would see as a pattern. And sorry, what was the second part of your question, please?

Garvit Goyal: Growth guidance for Caplin Steriles, like last time you mentioned INR300 crores by FY24. So, what is the guidance for FY25?

Vivek Partheeban: Yes. So, we are confident that we will do well this year. We don't want to be very specific on a particular set of numbers. But certainly, we will beat last year comfortably. That's all we are able to say at this point.

C.C. Paarthipan: I would like to add one more thing here. More than the top line, now that we are planning to go for a front end as I told in course of my speech, we will not really market our products in the sense we will distribute our products. We'll also go for outsourcing of other products, which is an asset light model.

In addition to that there is something which is very unique in U.S. market. Many companies, especially the trading companies, they buy and sell. They buy the product and sell that. This also will contribute to our business.

Here, the most important factor is the visibility. Most of the time, our visible metrics have come from the invisible opportunities. So, what is important to us as with regards to U.S. business is the front end which we've started. We currently have been stating this for the last 3 months. I understood what is about the most important thing in the form of taking care of integrity and quality in addition to automation and digitization. Thank you.

Garvit Goyal: Understood, sir. My second question is on our standalone business that has been muted this quarter, both in terms of top line and bottom line on Y-on-Y basis. I want to understand the reason as even if I look at last 5 years number, our top line CAGR is nearly 3%. I understand we are focused on building a profitable franchise and we are doing it on consolidated level in a very better way. But as an investor, we would like to understand from you why a particular segment or a portion of our consolidated business is not on the track of scaling up in the terms of revenue, sir.

C.C. Paarthipan: I would like to tell you this. See, what is important in any company, this is how I look at it. I hope you would also agree with me. See the cash flow and then profits. And every year, we're in a position to create the cash flow of INR300 crores after completing the projects.

I would request you to look at the company of our size and see, especially the one who is doing simple generic business, not in the form of more complex injectables, some technocrats who are capable of creating one product, you should create huge revenue or somebody knows a team which has created the brand marketing and Indian market asset. So, we are totally different. We have created a unique business model for generics with a result now we have been growing. The priority to us is the cash flow and profit. I think in all humility I can say that we have been giving you the results which is fairly convincing to the investors.

Vivek Partheeban: So, in addition to that also, Garvit, if you look at us as a company, the stand-alone is certainly not the way to look at us because, number one, we have acquired all of our distribution over the last 5, 6 years, right, more than 5, 6 years, through Subsidiaries. And in addition to that, we have Caplin Steriles also which is a high-growth entity, that's also subsidiarized into a separate entity. So, all of these will be part of the consolidated business only.

So stand-alone by itself, I think, would certainly be the wrong measure to evaluate. And of course, you answered many other points with your question itself, but I don't think the right barometer is stand-alone for us to be compared.

Garvit Goyal: Then lastly, on the effective tax rate. This quarter, tax rate is more than 19%. So, what is the expected tax rate for full year, sir?

C.C. Paarthipan: I will request our CFO to do it.

D. Muralidharan: Can you please repeat the question?

Garvit Goyal: The effective tax rate.

D. Muralidharan: As we have been maintaining, it will be hovering at 20% on a consolidated basis.

Garvit Goyal: 20%. I think last year, it was 18%, right?

D. Muralidharan: That's okay, yes. This is all it is. When the units are making losses, we have created deferred taxes leading to lower effective tax rate. Now whether you want to make profit or be at a lower rate, it's a decision we have to make.

Moderator: The next question will be from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, on Caplin Steriles, will it be possible to share the gross margin, EBITDA margin?

Vivek Partheeban: Request CFO or Sathya to take this, please.

M. Sathya Narayanan: This is Sathya Narayanan here. The EBITDA of Caplin Steriles for this quarter ended June '24 is INR19.3 crores.

Tushar Manudhane: INR19.3 crores. So, sir, and gross margin, how much?

M. Sathya Narayanan: The gross margin would be around close to 55%.

Tushar Manudhane: Sir, how much?

M. Sathya Narayanan: Yes. So, the gross margin, we have both the components of export sales and milestone. So, for tracking purpose, EBITDA would be a better number. But the combination of sales and service income will keep varying, so the gross margin, to share is 73% for the quarter.

Tushar Manudhane: So, is it the U.S. business which has helped us get better gross margin both year-on-year and earlier quarter-on-quarter? Or is it the US business also which has been implementing the gross margin??

Vivek Partheeban: Sorry, your line is not very clear. We are not able to hear very well.

Tushar Manudhane: Sir, is it better now?

Vivek Partheeban: Yes, a little better, please. Please repeat your question.

Tushar Manudhane: Just trying to understand. This quarter, we had one better gross margin, both quarter-on-quarter as well as year-on-year. Is it driven by the Caplin Steriles? or the LATAM business?

D. Muralidharan: As I mentioned in the opening remarks, contribution of CSL in the total revenue has gone up from 11% last year to 16 % this year. This has also helped overall gross margin going up from 55 to 59 %

Tushar Manudhane: Understood. So, if you can't share any of the progress on the Mexico business, both in terms of registration and then front end?

C.C. Paarthipan: Yes, the registration is in progress. And of course, we have to complete. This is a country where the registration takes a long time. And we are very confident that we will be able to complete at least 25-30 products in the next 1 year. We will not be in a position to start business in a big way. We are getting our business in bits and pieces from Mexico. A lot of products are being filed and there are products which are in the pipeline also and some products are in the Ministry of Health. Hopefully, in 1, 2 years, we can do very well in these bigger geographies of Mexico and say, Brazil and Chile.

Tushar Manudhane: Understood. When do you see the approvals for registering product?

C.C. Paarthipan: Vivek, can you take over? I could not hear the call.

Vivek Partheeban: Yes. I think, Tushar, if I'm not wrong, you are asking how long it will take? Because your line is very muffled, we're not able to hear.

Tushar Manudhane: Sorry for the disturbance. I mean to ask the products which are already registered. Tentatively when do we see the approval coming through for those products? And so subsequently, the commercialization?

C.C. Paarthipan: Yes. That's why I said, see, we'll not be in the position to understand the exact day because it is in the hands of the Ministry of Health. That is why I said, as and when the service registration comes, we start our business, but the warehousing model will not be able to start unless you have 20 to 30 products at this stage. So, it will take 1 to 2 years. That's what I said.

Tushar Manudhane: Understood,. So, tell me on this API facility which is now expected to get started in the second quarter. So, how do you think about it? Maybe in terms of captive consumption or external sales, will it require for the exhibit batches to be done? So, any timeline or any color in terms of how it is going to help either in the sales or in the profitability?

Vivek Partheeban: Yes. Now we are going ahead in full steam with regards to our general category API plant at Vizag. And hopefully, by end of the year, we should be in a position to start taking trials. But I would say that we are probably around 15 months to 18 months away from filing BMS from that plant.

Again, the thing is we need to focus our attentions and priorities on what are important and urgent, right? So, for us, that is expansion of capacities in Caplin Steriles, that is making sure that our onco site continues to breakeven as quickly as possible.

The thing about API is it's really certainly a good to have and not a must have, right? Because we have multiple API sources that we can buy from outside, and I think anyway at a decent level. So, this will be much more in terms of augmentation of our supply continuity and margins, et cetera. But if it gets delayed by another couple of quarters, it's not going to affect the company in any way or any shape or form.

Tushar Manudhane: Understood, sir. And lastly, given the kind of cash the business is generating and the capex is already coming back through internal accruals, what is the thought process on utilizing the cash that is available in the balance sheet?

C.C. Paarthipan: Can I go ahead? Coming to the cash reserves. See, ours is a company, we, in fact, of the 2 or 3 meaningful acquisitions, probably this can happen over a period of time are, A) brand marketing company and B) distribution company, which has got a very good network of supplying to various institutions or pharmacies, which are at the bottom of the pyramid. C) we will also go for some brands, if it is, meaningful. And if everything goes well, there is a possibility of acquiring from ANDA also. So, it's better to keep the cash as a reserve to go for more acquisition advantages.

Moderator: The next question is from the line of Aman Soni from Nvest Analytics Advisory LLP.

Aman Soni: Just one question. Do you see any kind of headwinds coming in that may prevent us to achieve our target for this year that what we had earlier anticipated at the beginning of the year, sir?

C.C. Paarthipan: We'll continue to achieve what we have been achieving. See, in any business, there are complexities, challenges, logistical issues, as you know well. But when you have your own business model in the form of keeping the stocks closer to the customer, the challenges become opportunities.

If there is a rise in freight, what will happen, many companies, especially smaller companies, they will hesitate to send the consignments because their profit will be reduced to minimum. That's the time we'll have opportunities to sell more goods at the higher price also in the market.

So, like that, every challenge has got an opportunity also. See even that the worst thing which has happened in the last 100 years is COVID. COVID also improved the sales in pharmaceuticals. So, we will not allow the crisis to go waste. That's how we'd like to take it. Thank you. Thank you very much.

Moderator: The next question is from the line of Nirvana Laha from Badrinath Holdings.

Nirvana Laha: As far I want to understand in more detail about our front-end plans for U.S.A. I tried understanding it from the various calls we've done before. But as I understand, in the U.S.A. there are 3 or 4 large wholesalers, pharmacy benefit managers, even the pharmacy chains are highly organized and very large, like Walgreens and all of those. So, if you can explain exactly what we are planning to do there right now. And how does it compare with the larger generic players out of India? What do they do different? And how are we going to be different?

C.C. Paarthipan: Yes. Go ahead, Vivek, first and then I'll add some colour later.

Vivek Partheeban: Yes, yes, Chairman. So, I think on paper, what you said is absolutely right. I think there are 3 very large GPOs and wholesalers and stuff, and they control most of the market. But the truth is there is a high amount of noncompliance out there because people are unable to supply product or maintain supply continuity for various reasons, primarily being the prices coming down to an unsustainable level.

So, if you look at Caplin Point as a company, we've always been taking the road less travelled and we've always looked at what is hiding from plain sight, right? So, we understand that the other side of the market, which is not covered by these very large players, are still significant enough. And given the right kind of value proposition, with sustainable pricing and supply, there could be a fairly decent business model to be established.

In addition to that, if we also take another leaf out of Caplin Point's book, which is to outsource some products from highly quality conscious companies, we can really expand our offering from our current number to even twice their number within the next 2 to 3 years.

So, we will not be going after very large contracts or anything like that because that will be sort of a race to the bottom when it comes to pricing. So finally, what I would say is we cannot really compare this to some of the very large companies because typically, what happens is they will always be chasing top line. And if you want to be chasing top line, I think you need to go to some of the very large players irrespective of what kind of margins they offer you, what kind of draconian clauses in the contract that they offer you. So, we would be threading the road less travelled here as well with smaller accounts.

C.C. Paarthipan: Okay. I would like to add one more. Products available next to the customer becomes valuable. The reason being most of the time, the customer wants immediate supply. If they place the order to the customer who is in India, if he has to export it from India, it takes a long time. That's one of the reasons if you look at all the successful communities starting from Jews to others, they all migrated from one country, like 2 generation, 3 generation before.

And today, they control I was told 33% of the business or 33.5%. Where did they do all these things? They learnt only from the market. They know struggle, they face the issues and then they understood the reality and they worked with the reality and created what exactly is what they conceive and believe they have achieved.

See that the same ways look at companies which are into U.S. market, there are 3 types of companies, I'm sure you will be aware. The small one most of the time is the CMO, is a contract manufacturing facility. The big ones, they only look for the cream layer. They are not very keen to focus on the poor. And they are under the impression that change is the only thing which is permanent. Poverty also is permanent in the world. And only the poor is not pro-prosperity, is pro-poverty, unfortunately remains poor.

But if you have where we try to cater to the poor, I'm sure again you can create the cream layers for your company. So, we will not focus on the big boys' domain. We will position ourselves in a place which is ignored by the big boys, and which is not reachable to the smaller companies. That means for a smaller company to become a big entry barrier. For a big company, it's a very small business. That is exactly what we have done in Latin America, market is a market, whether it's Africa or Latin America or North America.

Nirvana Laha: Got it. Sorry, sir, just to ask a follow-up. So, with our front end in U.S.A., are we planning to, therefore, target certain independent pharmacy chains? Or is this geared towards more institutions?

C.C. Paarthipan: Got it. I will not go for independent pharmacy chain. We'll only cater to bottom of the business pyramid. See, the pharmacy chains also in U.S., you know very well is monopoly. But that doesn't mean they control entire 100%. There are some like in a huge market, which is considered as a signature destination. There are least 10% of the people if you could cater or 1% of the people if you cater, sorry, 10% maybe individual pharmacies. I don't know how much the percentage is. If you could cater even 0.5% of it, then that itself will strengthen your bottom line.

Nirvana Laha: That is what I'm asking. Sorry, sir. That's what I'm asking. So, you're planning to target independent pharmacies, right, 1, 2-unit pharmacies?

C.C. Paarthipan: No. There are 3 sets of people you have to target. Being a injectable company, you have to target the hospitals, home care clinics, these are the ones. And now what you will do maybe today, we have 24 products. Again, if you think that we can go crowd sourcing, I don't want to mention the name of the company, it's number 1 company in injectable. They're ready to give their products to us.

To him, what is the business to multinational or to Caplin Point is one and the same because they're not our friend. Then the next set of people, many of them are CMOs. There are some CMOs, they are ready to give their product. What we have done in China for the ROW market, we can even do it in America. Only thing we will have to be very careful in selecting our partners.

And then coming to quality of the products here, nothing to worry here because the quality of 100% is managed by the USFDA, there won't be any issue that way. The system is very efficient. If there is an issue, you know there are a lot of other issues, which takes care of the quality. There are lot of measures. So, my other is the business model, which is very important.

Nirvana Laha: Sir, your sourcing capabilities, we have seen enough evidence of execution. I was more trying to understand the front end in a market like U.S.A. But okay, I will also take the top line with you, sir, if you permit.

My second question is on API. So, I think Chief Operating Officer, sir was saying that API can wait because they are not an immediate need for the business. So, what I wanted to understand is when the oncology and OSD APIs, everything comes on line, what percentage of our own manufacturing will get backward integrated? Like out of 100, how much will get backward integrated? And what kind of margin effect can we expect from that?

C.C. Paarthipan: To be honest with you, at this juncture, it is better to focus on our metrics as you rightly said, urgent and important. So, what is going to create more revenues, more cash flow to the company? As I told you before is the business model. And we are not a company where it is -- or the promoter by technocrat. And when you are from a starting -- or low starting point, it's not easy to attract the talent, which is like the way we see in other cities like Hyderabad or Vizag or in Bangalore or in some parts Ahmedabad or Mumbai.

You know very well, Tamil Nadu, the ecosystem for pharmaceutical has not been extraordinary. We are trying to create an ecosystem internally. It takes time. So, what we will do is the priority. The priority is to focus on major areas. One is today Latin America, of course, continue to grow. We don't focus so much on Latin America. We want to focus on U.S. because U.S. is the gold standard for any company, if we can really make it happen in the U.S. So, the role of API coming to U.S. business is very minimal in terms of profit and cash flow. The role of your business model is much more important than the presence of other areas.

Nirvana Laha: Okay. Sir, what is the total capex amount going towards our API facilities?

C.C. Paarthipan: I would request the COO to answer to your questions, please. He knows.

Vivek Partheeban: Yes. We are targeting probably another INR20 crores in total for our Vizag facility. And for our oncology API, it's probably around INR60 crores to INR70 crores at max.

And to your earlier question. I think if you are fine, we can throw some light on it, would be a lot more backward integrated when it comes to oncology products compared to general category, just purely by way of the share number of products that we do in general category compared to onco. And also, onco APIs are much, much more expensive compared to the general category ones.

Nirvana Laha: Sure. So, you said INR80 crores incremental. And has anything already been spent? Can you quantify that amount on an API facilities?

Vivek Partheeban: On Vizag, all put together, I think we've already spent close to INR40 crores, if I'm not wrong.

Nirvana Laha: Okay. Yes, about INR120 crores total. Okay. And last question, just from my side. You have so many of your lines coming online now. You have Steriles new lines coming online, oncology, OSD, et cetera. So, if I look at the company from a 3- to 5-year perspective, you have shown a very, steady growth trajectory of 20%, 25% every year. So, will that trajectory continue? Or will there be a fair jump in revenues in the next 3 to 5 years at some point?

C.C. Paarthipan: The current growth will continue, we are very confident about it. In 5 years from now, we will be one of the best companies of India. We are very sure about it because we are spending money. We are not putting money in areas which are not great in total. We are putting our money on one side, asset creation. Most of the assets that we create that will start fructifying and it's more a vertically integrated model like any of the big company.

And on the other side, we are also creating new revenue streams with asset-light models and we also have plans to reach some products in the form of insulin and other products directly from countries where they are manufacturing and they don't have the capabilities to selling in ROW market. We will take it up. We will not focus for biosimilar and other insulin, that kind of system. We will not think of taking it to U.S. market because it's not easy for us to do that kind of a business.

But we will sell it. We will sell in countries where we are there for the last 20 years. And we have the right connection. And people also trust the quality of our medicine. So, these are various measures that will contribute to our capabilities.

Moderator: The next question is from the line of Adityapal from MSA Capital Partners.

Adityapal: Yes. Many congratulations to you and the team for this phenomenal quarter. Just wanted to understand. So, when I look at ex Caplin Steriles revenues, over the last 2 years, that is FY22 to FY24, it has been in high single digits. Any particular slowdown you are seeing or we are just getting ready for steeper jump by distant products in the larger LATAM region?

C.C. Paarthipan: Single digits you're talking on the top line, I believe. Am I right?

Adityapal: Yes, sir.

C.C. Paarthipan: I'm sorry to say “Top line is vanity. Bottom line is sanity. Cash is king.” That's what they say. So, where you want us to focus more on the top line. Are you not happy with the bottom line and cash flow?

Adityapal: No. You were doing a phenomenal job. Just I wanted to get the colour because I'm a bit new to the company.

C.C. Paarthipan: To be very honest with you, it's not that we need to do on all fronts. The reason being, we have to focus on areas where we are capable of at least strengthening the bottom line and cash flow. And we think of top line, to be very honest with you, there is a possibility of selling our generics in credit. That will affect the cash flow, which will also affect the profit.

Because profit in the books is not the real profit in the bank. So, you know very well. So as a result, what happened now, we are trying to build the facility on one side and on the other side, focus on our own core competence in the form of our Latin American business. And most of the companies, as you know very well, they consider U.S. is the landmark, it is best market in the front of the world.

So, we are also trying to get into that gold standard business. It will take time because we are little late bloomers in that area. There are companies which went into the market 20 years ago. Our first ANDA came in 2016. Now that we have around 24 ANDAs, we are sure of doing good business in South and North America. After 2, 3 years, again, we will also increase our profit, which is for sure.

Adityapal: Understood. Just one question that I have on gross margins. So, another phenomenal quarter for you on increasing gross margins as well. But going forward, with the addition of our oncology products, do you see the gross margins further expanding?

D. Muralidharan: As we mentioned in respect of CSL, the gross margin today is a combination of 2 or 3 streams of revenue. Product revenues have different margins and we secure profit in terms of service income like milestones and the profit share, this is 100% margin. So, it depends on the mix.

Oncology, I mentioned, because they are all niche products and there's a possibility of increasing the gross margin level. And that's depends on the mix. So, we are looking as a company, as said, total composite mix. What Caplin One Labs will be able to contribute in terms of the total mix for the sales , the company will definitely determine how much basis point the contribution margin will go.

As you said, the CSL is a positive point. I mentioned 11% to 16% of growth it is contributing. And the contribution of One Lab has to mature to some level, at least to double-digit levels, whichwill move up the overall contribution margin.

Because the base being high with still 80%, 80-plus, is coming through the Latin American countries. While on a stand-alone basis, oncology product will have a very good margin, Steriles will have a very good margin. But how much they contribute to the total kitty i will determine the improvement in the overall margins.. Have I answered it?

C.C. Paarthipan: One more thing is the 2 major indicators to us are the free cash reserves, which is INR969 crores, and the total liquid assets stands at INR1,850 crores. And I would request the CFO to tell them what is the payables, please?

D. Muralidharan: Payable remain the region of INR100 crores to INR150 crores, which is more than offered by other current assets in the form of statutory receivables and other things. So, we will have more than paid for.

C.C. Paarthipan: So, I only request you to look at other companies of our size and see the free cash reserves and the liquid assets also. Then probably, you'll be in a position to understand our company.

Adityapal: No, definitely, sir. You have very quality cash reserve. My last question would be if we're going to spend incrementally INR200-odd crores on capex. If you can give me the figure, how much would be towards the Caplin Steriles?

C.C. Paarthipan: Vivek?

Vivek Partheeban: Yes. So, at this point, what we are planning is we are planning the next round of capital expansion in the injectable side and the Caplin One Labs. There's a multitude of factors as to why we have taken this decision. But there is a Phase III of Caplin Steriles that will be actually under Caplin One Labs, but also catering towards the U.S. We expect this to be around INR220 crores to INR230 crores kind of an investment over the next 2 to 3 years.

Adityapal: Understood. That's it from my side. I'm wishing you and the team best of luck.

Moderator: The next question is from the line of CA Garvit Goyal, which is a follow-up question from Nvest Analytics Advisory LLP.

Garvit Goyal: Sir, can you please repeat the amount of capex for injectables that you just mentioned to the earlier participant?

Vivek Partheeban: Yes, around INR220 crores to INR240 crores under Caplin One Labs is what we will be spending, which will be the Phase III of our Caplin Steriles unit.

Garvit Goyal: Phase III of Caplin Steriles only, right? It is for injectable?

Vivek Partheeban: So, no. The thing is, again, I don't want to get into the nitty-gritty of it. So, this is Phase III of our injectable division that is focused on the U.S. but we will be doing this on the Caplin One Labs, and this will happen over the next 2 to 3 years.

Moderator: The last question today is from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: A couple of questions.

Moderator: So, sorry to interrupt you. Alisha, can you speak a little bit more louder?

Alisha Mahawla: Sure. I hope I'm audible.

Moderator: Yes.

Alisha Mahawla: What is the number of products that are registered in Mexico and Chile? And how many of those are launched?

C.C. Paarthipan: Chile, we have around 72 products, 70 to 72 products. Mexico, I think Vivek knows the exact number.

Vivek Partheeban: Yes. We have around 8 to 9 products at this point. We have launched a couple of them. Some of these are very tender-oriented products. So, we actually, like Chairman said, until we get to about 25, 30 products, we don't plan on launching our own warehouse and front-end sales in Mexico until we hit the right kind of portfolio. So probably another 18 to 24 months is what we are looking at to have day-to-day sales over there in Mexico.

Alisha Mahawla: And Chile, of the 72 products that are registered and approved, how many have we launched?

C.C. Paarthipan: Yes. We, in fact, started our warehouse recently. One Indian guy is stationed there. And the market is 70% government and 30% private market. Currently, we are going to focus on the private market because of the volumes, given the volume is lesser, the profitability will be higher. And we will also get into the, what we call, an institution business over a period of time.

We are registered overseas by using our CRO, we completed the BE study. So next year, we are sure to get very good returns from the Chile market.

Alisha Mahawla: Understood. And the sharp increase in other expenses, INR82 crores in this quarter versus INR55 crores in Q1 FY24. What would be the reason for almost a 50% jump?

D. Muralidharan: There are a couple of them contributing that. One, the filing of ANDA will vary from quarter-to-quarter. We have filed 3 ANDAs in the quarter, which is about INR6 crores that is attributing to that.

And as you have been following our company, last year, mid we took the call to migrate to CIF for our subsidiary for achieving the optimal freight rate and container availability. So, the freight rate expenditure in some of the account Caplin as against COGS for the subsidiaries. That is another reason rate has gone up.

And we have been taking part in the market promotion expenses that have also contributed to that. And while we say sales have grown up by 17%, 18%, your Power & fuel and other expenses relating to the manufacturing has also gone up. Though not in tandem, they have gone up. These are the basic 2, 3 reasons for increased expenditure. You should look at the EBITDA margin has gone up from 31% to 32%. That's an increase in that means that we have been able to absorb the increased expenses and then still report a higher EBITDA.

Alisha Mahawla: Yes. That is correct, yes. And my last question is in Caplin Steriles. We have been an investor, and I believe that the investment term is still 2025. So, any discussions on exit for them or next plans for Caplin Steriles?

Vivek Partheeban: No, I think there are no active discussions or anything happening. They want us to hit a sizable number in Caplin Steriles, which we're very confident of hitting. But there is no discussion at this point on any event happening there.

Alisha Mahawla: A couple of years back, we were targeting $100 million of sales in Caplin Steriles by FY27. Are we still on track to do that?

C.C. Paarthipan: We are very confident that we will be able to achieve it.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vivek Partheeban: Thank you very much, Dolat Capital, and all of the participants that came together today to hear about our earnings and our story, and we look forward to being in touch with you. Thank you very much.

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

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