



**“Caplin Point Laboratories Limited  
Q4FY20 Earnings Conference Call”**

**June 18, 2020**

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**MODERATORS: MR. AMEY CHALKE – HAITONG SECURITIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Caplin Point Laboratories Q4 FY20 Earnings Conference Call hosted by Haitong Securities, India. 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amey Chalke of Haitong Securities. Thank you and over to you, sir.

**Amey Chalke:** Thanks, Neerav. Welcome to Q4 FY20 earnings call of Caplin Point Laboratories. From the management side, we have Mr. C. C. Paarthipan – Chairman, Mr. Vivek Partheeban – Chief Operating Officer, Dr. Sridhar Ganesan – Managing Director, Mr. D. Muralidharan – CFO, Mr. M. Satyanarayanan – Deputy CFO, Mr. Vinod Kumar – Company Secretary. Over to you, Vivek. Thank you.

**Vivek Partheeban:** Thank you, Amey. Hello and good evening everyone. I am pleased to welcome you to our earnings call to discuss our Q4 and full year 2019-20 results. Please note that a copy of all our disclosures are available on the investor section of our website as well as stock exchanges and kindly note that anything that is 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. I will now hand over to our Chairman who will give the opening speech. Thank you.

**C. C. Paarthipan:** Good evening to you all and welcome to the investors call. I hope that you would have read the results by now, hence I don’t have to repeat what is mentioned in the report.

First, I would like to convey some of the salient features of our Latin American operation during this COVID time. I hope that you would agree with me that the one most important factor for any business today is cash flow, especially when the world is witnessing – the pandemic that is unprecedented and uninformed.

Coming to our cash flow, we generated an additional inflow of INR 75 crores in the last 75 days. This has happened mainly because of our stock and sale business model where we control the entire spectrum of business in the form of manufacturing, exporting, importing, distribution and the last mile coverage. Number two, the supply side advantage. We have acquired our channel partners and today we have the inventory worth INR 218 crores which are fully paid goods. This is again a boon to the company as it is closer to the customer and easy to get actually converted as a cash and carry business during this turbulent phase. Most of the local companies in this region have to depend on the API from China and India for their formulation business and it will not be out of least to mention here that our payables are just INR 62 crores as per our report.

As you all know well, pharma business comprises of prescription, institutional and generic sales. Prescription sales got affected because the clinics and hospitals are closed due to COVID-19 disruption whereas pharmacies remained open and the generic sales flourished, and we are one of the beneficiaries, but our presence in Latin America for the last 16-17 years have created some

of the following advantages to customers and Caplin Point. Number one, quality generics at affordable cost. When I say quality generics, we have been in this business for the last 15-16 years in the Latin America. If generics does not have quality, we would not have sustained our business there. We say affordable cost because we have removed the intermediaries. There is nothing in the form of importer, there is no distributor as I told you before, we control right from manufacturing to the last mile. Second, we have the maximum registrations in the last 10 to 15 years in the form of 400 to 500 products in most of these markets where we are today. Three, the generics that we have registered are all in line with WHO essential medicine list. Four, we have been maintaining a consistent supply to customers even during this COVID-19 times. We are constantly also reducing the low margin and noncritical generics from our basket of products and we also have R&D in the form of API formulation. We also have CRO. Finally to me, the future depends on those companies who focused on cash flow and COVID-19 discipline. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Girish Bakhru from Bank of America. Please go ahead.

**Girish Bakhru:** First question was on the US business, particularly what is the outlook right now and in terms of the demand scenario, are you seeing very significant demand during COVID-19 and even at the current phase and if you could also talk about the second line that is expected to be available, would we have that anytime soon?

**Vivek Partheeban:** The business outlook for US especially for injectables continues to be positive because especially in COVID-19 times, I think you will see a lot of hospitalization as well for some of the patients that are more sick than others, the more symptomatic patients, so we have also noticed by ourselves and also through our partners that there is a little bit of stock piling of the injectables, especially that are used in anesthesia and surgeries and even blood pressure monitoring, so we feel that it is a positive for the company for sure, and number two is on line 2 – we expected line 2 to be ready by now but with the travel restrictions between cities and states, I think there has been a little bit of a push but we expect this to be cleared out by end of July and we are looking at taking commercial batches of products that are already in the market by August for line 2. We are looking at around 3x of the capacity expansion with line 2 completion, and in addition to that, we will also have complex products such as suspension for ophthalmic that can be done on that line as well.

**Girish Bakhru:** And what have you seen in terms of the pricing? Has there been any major impact in the market or I mean this question is even for Latin America, has there been any significant price increase due to the non-availability of certain products or the API?

**Vivek Partheeban:** With the US per se, we have seen that the prices have remained stable and in some cases prices have gone up a little bit, it definitely has not reduced. I think some of our partners have also come out and made a commitment to make the prices as stable as possible during this season, so in the US at least to our product portfolio we have not seen any reduction in prices. On Latin America, I request Chairman to throw in a few words, please.

- C. C. Paarthipan:** Coming to Latin America, we have found actually there is a premium available during this COVID-19 period. It is due to the fact that there are not many companies from India and China, especially in the Central American part of business. Second, as I told you actually in course of my speech, there is no API facility available in Central America or Caribbean, hence they all have to depend on API facilities from China and India and they have not been in a position to get this API. That is how we get a premium and many of the essential medicines are in short supply. So the current situation is in favor of Caplin.
- Vivek Partheeban:** In fact, some of the products that were earlier touted as, actually even today touted as essential for COVID-19 such as azithromycin, in several of our markets we were pretty much the only company to have stock of this product, so the sales of essential products like azithromycin and Vitamin C have been increasing quite rapidly in the last couple of months.
- Girish Bakhru:** And in Brazil, I know you don't have much presence there as of now but with situation from COVID, have you seen any way you could have serviced the market during this time or what I am trying to basically arrive at, is there an opportunity arising there to have let us say Brazil even focused on more API manufacturing locally and you could look at something like that there?
- Vivek Partheeban:** We are not present in Brazil at the moment per se but if you look at the other market in Latin America such as Chile and Columbia, there have been some emergency tenders that have come up and we have participated and we are also supplying to some of these markets, but specifically on Brazil, we have no presence at the moment.
- Moderator:** Thank you very much. Next question is from the line of Bhavesh Doshi from Dalal & Broacha. Please go ahead.
- Bhavesh Doshi:** Just wanted to check with the recent border tensions between India and China, some of the materials are coming from China also, do you think that will affect your supply side?
- C. C. Paarthipan:** I would like to mention that the one which is being discussed today is about the APIs that are coming from China to India, but what we do is totally different. We have been exporting formulation directly from China to South America. Since we control the front end there, we have no issues in importing formulation from China. We don't import any API from China to India, hence we don't have to worry about the escalation in prices.
- Bhavesh Doshi:** I am talking about the border tension, sir?
- C. C. Paarthipan:** That is for politicians, I don't understand it and it is beyond my comprehension and we don't have to bother about it, let us bother about our business, please.
- Bhavesh Doshi:** No, I am thinking that you are importing some material from the China also?
- C. C. Paarthipan:** Yes.

- Bhavesh Doshi:** In that scenario, if something bad happens because of this political events, so will that affect our operations?
- C. C. Paarthipan:** No, I would give you an answer to it this way. The products that we are currently exporting from China, we are also aware that one day or other we will have to go for our own manufacturing. The focus is currently being diluted, at the same time, I am sure that should not be abruptly stopped. We will slowly reduce the impact and then we will move it may be in 2 to 3 years' time from now. Currently, we don't foresee any major issues because most of these products are registered in their company names and we have an exclusivity for 10 to 15 years, so we don't foresee any major issues because we are not into API, as I told you we are into the export of formulation directly from China to Africa and South America and I have not seen any escalation in price or any non-supply of goods also from China to South America.
- Moderator:** Thank you very much. Next question is from the line of Hardik Shah from Prabhudas Lilladher. Please go ahead.
- Hardik Shah:** Sir there has been two acquisitions during the quarter and also our new subsidiary has been incorporated in Singapore, what would be the total amount paid for these acquisitions and also what would be the comparable numbers for the quarter ex of these acquisitions?
- D. Muralidharan:** In Singapore, it is only a company we incorporated. There is no outflow of assets barring some minor \$2,000 on incorporation. As far as acquisition, they have been acquired on book value there and the consideration is on the book price, no premium on book price has been paid.
- Hardik Shah:** So what will be comparable numbers for this quarter without the impact of acquisitions?
- D. Muralidharan:** In the sense, you are talking about the revenue?
- Hardik Shah:** Yes.
- D. Muralidharan:** Revenue, what flows from the subsidiaries, one subsidiary was acquired on the March end, so that did not contribute anything to the sales. From the other two subsidiaries about 10 to 15% of the turnover would have come from there.
- Hardik Shah:** Sir, second question is with respect to the preference share, I just wanted to clarify whether this is with respect to the Fidelity investment? and when will this get converted?
- D. Muralidharan:** This is with respect to money received from Fidelity, we have issued preference shares. What was the next question?
- Hardik Shah:** Sir, when will this get converted?
- D. Muralidharan:** This is an open-ended investment, there is no stipulated time as such. They are likely to be with us as long as they want the partnership to be there. There is no timeline decided upfront.

- Hardik Shah:** And sir, my last question is with respect to the receivables, on an average our receivables have shot up in past 3 years, so in general what I would like to know is, what is the proportion of these receivables which are associated to the LATAM business?
- Vivek Partheeban:** The receivables that you see entirely is from the newer markets and also from the branded generic business that we get into but as you would have seen over the last 3 years, we have been able to manage it tightly and control it between 80 to 90 days. I understand that the industry average for receivables is anywhere between 90 to 120 days. Despite almost 35% increase in our topline we have still been able to range in the receivables to less than 6-7 days compared to last year and I will also ask the chairman to give his input on this.
- C. C. Paarthipan:** I would like to add one more point to your question. As I told you in course of my speech, in the last 75 days, we generated cash flow, cash and cash equivalent of INR 75 crores. This COVID-19 situation is going to change everything for the current year and the next year. We are very sure that we will be in a position to actually enhance our sales, not only sales but also the cash flow that will improve the receivable time and other things because the business that we do nowadays is more of cash and carry and less of credit business, hence we don't foresee any major issues in future.
- Moderator:** Thank you very much. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.
- Sachin Kasera:** Sir, my first question is regarding the gross margins, if you see the gross margins for the year has come down, you have mentioned that in Q4 there was some impact because you exported certain products at zero margin because of COVID-19 humanitarian considerations and you also mentioned there was some impact because you had some old inventory from the channel that you had bought, but at the same point we see the share of your branded generic has gone up. Normally, branded generic has got much higher gross margins, so for the full year our gross margins are down by almost 350 basis points. So one, if you could just tell us what is the reason for, if you could quantify what is the impact of COVID-19 that you have mentioned and secondly of this inventory and other than that, despite the higher share of branded generics, why are the gross margins down?
- C. C. Paarthipan:** I would like to actually talk on the COVID supply. Here, the issue is, as I told you before we are one of the few companies, may be only company from India that has been in this market for the last 16-17 years that has not only created a goodwill among the people, but also a goodwill with the government. When government approached us to supply the products, we wanted to do it actually as a gesture that will create a goodwill. In the process today, we were in a position to receive \$6 million worth of government order. So what is important today is not that few cents which we have lost and may be in a marginal dip, but we stand to gain actually in the years to come. That is one because of actually the relations that you have built and that will help us in the way of networking opportunities and for the remaining part of question, I would request our CFO to answer to it.

- D. Muralidharan:** Other part is that the channel partner had inventory at the time of acquisition which they carried at their cost and obviously made less margin than what we would have made as a manufacturing company, so that impact would be about approximately 200 basis points which over this current year it will get normalized. Once the sales start happening and old inventory gets cleared then it will be evened out.
- Sachin Kasera:** So can we see the gross margins coming back to 55% which was say the number for FY19 in the current year?
- D. Muralidharan:** The impact of the old inventory will get marginalized. Depending on the market situation whether the sustenance of 55% or not, we are not able to comment right now.
- Sachin Kasera:** So basically you are saying of the 300 basis point reduction, 200 basis point was because of this consolidation of inventory of channel partner that was the major impact, right and partly because of this COVID that is the broadly understanding, right sir?
- C. C. Paarthipan:** The COVID situation is creating monopoly and mere monopoly actually for some other generics which is similar to ours, so I am sure that we will be in a position to match your expectation in the years to come, to that extent we can guarantee you.
- D. Muralidharan:** One point I would like to Chairman's message on the cash accrual in the last 75 days, the INR 75 crores is accrual to our cash equivalent after meeting the day-to-day expenses and paying off supply in the last couple of months as well.
- C. C. Paarthipan:** And one more thing which I have to add, although I have told in course of my speech, the inventory of INR 218 crores is paid goods as against the payable is hardly 62 crores and the goods which is there next to the customer will definitely be converted in the form of cash and it will be repatriated to India. That is going to happen in the current year. When that happens it will improve the cash flow, it will improve everything, the performance of the company too.
- Sachin Kasera:** Sir, my second question is regarding the balance sheet, I need some clarification, so if I look at the consolidated balance sheet, our receivables have gone up from 160 crores to 228 crores, but in the cash flow that you have submitted, it is showing an increase of 230 crores, so similar is the case on inventory, while the cash flow is showing a 7 crore increase in the inventory as per the balance sheet, the inventory has gone up by almost 200 crores, so I am not able to actually tally these numbers. I would request if CFO could just help us understand this confusion?
- D. Muralidharan:** Let me clarify. The balance sheet is as on 31st March, when we do the cash flow, the impact of, as you know the acquisitions have happened progressively over the year, so when we do the cash flow, we have to give the impact of the cash flowing out of the operation. So what we have done is, the opening whatever they had acquired and then the closing, that differential only is addressing the cash flow. That is why you cannot directly match the cash flow statement with the conventional balance sheet model what we normally do because the difference between the closing balance sheet and the opening balance sheet is how conventionally cash flow has gone,

but this year there have been acquisitions over a period of time progressively, we have given FSG opening and closing current asset for the subsidiaries taken over.

**Sachin Kasera:** May be sir, I will take it offline with you. It is a little complicated for me to understand.

**C. C. Paarthipan:** If you are not still convinced, please write to us, we will also write to you back.

**Sachin Kasera:** In the presentation you have given the market size of the products in the US that you have got approval for, so these are the market size which are post the products going generic or these are the pregeneric market size that you are mentioning?

**Vivek Partheeban:** No, this is the overall market size for the products, so when I am talking about these USD 670 million that is the overall market size for those 17 products that we have filed and some of which have been approved also.

**Sachin Kasera:** Secondly, we have got some approvals which have to be launched in the month of July and August, so if you could give us some sense on how are we looking at the US business in FY21 vis-à-vis FY20?

**Vivek Partheeban:** As you would have seen from last year to this year, there has been decent growth. We expect that growth to continue like I said, we have only done about 4 launches so far, we are about to launch the other 5 products in the next 3 to 4 months. Without giving too much in terms of numbers, we want to hit the next goal of at least INR 100 crores which we are confident of achieving but with our internal discussions, I think we want to go past that as much as possible.

**Sachin Kasera:** And this year sir, if you could just help what is the type of profitability of the Caplin Steriles? Is it made EBITDA breakeven or is it PAT breakeven?

**Vivek Partheeban:** So in Caplin Steriles business we continue to file multiple ANDAs and each ANDA costs us around \$176,000, so in the last 3 months itself we filed another 4 products, so as the number of filings keep ramping up which will be the case this year and next year, the breakeven also gets pushed out a little bit but it is definitely an investment for the future and two year down the line, we might not be doing 15-16 products, we will continue doing only complex generics where these products that we are filing now starts to get approved and then the fund start to flow in from that. So we feel that about 120 to 130 crores is the mark at which we will breakeven from Caplin Steriles.

**Sachin Kasera:** Sir, when you say breakeven at the net level or EBITDA level?

**Vivek Partheeban:** At cash flow level.

**Sachin Kasera:** So which means that this year we should be closer to breakeven in FY21 in Caplin Steriles?



- C. C. Paarthipan:** Actually, if you took out the filing and the R&D work that we are doing, we would have already broken even, but the thing is that is not the way to look at our business. We are building up our business for the next 5 to 6 years and we want there to be, of course, like I said cash flow breakeven is our target and if it doesn't happen in the next 12 months, we are positive will happen in the next 24 months.
- Moderator:** Thank you. Next question is from the line of Rishabh Kale from Indsec Securities. Please go ahead.
- Rishabh Kale:** Sir, just wanted to know, what is the money spent on the US facility till date and the Chennai facility?
- Vivek Partheeban:** Both on CAPEX and OpEx and also this was prior to Fidelity infusion, we have spent over close to INR 400 crores on CAPEX, OpEx and R&D and post that our run rate is anywhere between INR 70 to 80 crores per year which includes filing fees as well.
- Rishabh Kale:** Sir, INR 70 to 80 crores will be from the internal accruals or we have issued a preference share around INR 218 crores, so is this the plans going ahead to use that money for the CAPEX?
- Vivek Partheeban:** So that money has already come in and if I am not wrong as on January of last year, we have already started to use Fidelity fund specifically for Caplin Steriles only both in terms of CAPEX, which is not too much, OpEx and R&D has been done using fidelity fund. So starting Jan 2019, I believe we are no longer using Caplin Point parent's fund on the Caplin Steriles.
- Rishabh Kale:** And sir, any view on the API facility, how are we proceeding with it?
- Vivek Partheeban:** On the API side of it, we are doing something which we probably should have done for Caplin Steriles. We are actually ramping up our R&D in a big way to the tune that way we have already completed about 17 products which are going to be DMF filed hopefully in the next 18 months and we have already completed the procurement for the land in which the API facility is going to come out and we already have close to 75-80 personnel in both R&D and futuristic operations on the API side. This we feel will give us the real advantage in terms of our entry into the US because today what happens is when it comes to generics, I think more than the pricing of it in injectables, people worry about the continuity of supply because your continuity is dependent on how your supplier is sending the product to you. So as long as we have that under our control, I think we could even potentially charge a premium in the market saying that for the next 3 to 5 years my supply is guaranteed. So we could potentially ask for a little bit of a premium in terms of towards the final consumer.
- Rishabh Kale:** Sir, this API facility will be for captive consumption as well or it will be only for sale? I mean are you looking on that track now?
- Vivek Partheeban:** Actually, it will only be captive consumption, but we are looking at having provisions to expand it because many of the APIs that we are working on is very niche, very high margin as well. So

if the business case makes sense, we may do some sales also. There are some companies that are selling the API to non US kind of markets, while US remains captive, we might follow that model also if it makes sense.

- Rishabh Kale:** Okay. Sir, and CAPEX for the whole year? Any guidance for CAPEX?
- Vivek Partheeban:** CAPEX we feel is, most of the CAPEX that needs to be done is already completed. We feel that API plant is the next one which will not be very high. I think INR 15-20 crores maximum would be the CAPEX spend for this year and next year.
- Moderator:** Thank you very much. The next question is from the line of Tarang Agrawal from Old Bridge Capital Private Limited. Please go ahead.
- Tarang Agrawal:** Just a couple of questions from my side. So, if I look at your revenue today, you closed FY20 at INR 860 crores with a 86, 6 and 8% split between LATAM, Africa and the United States. So if I were to probably see it from a 4-year horizon or a 5-year horizon, basically from a medium term perspective, where do you see the overall revenues to go and how do you see the split change, the composition of the revenues change?
- C. C. Paarthipan:** We are very sure that we would be in a position to reach comfortably good numbers as we have created actually enough basis for our future. And I don't want to give the numbers. In the next 5 to 6 years, hopefully we will become one of the top companies, that much we can assure, the reason being today we have formulation injectable facility which has been approved by US. The companies of our size there are hardly few and far between. And in addition to that, we are going for backward integration to support our formulations in US. In addition to that, we are into smaller geographies of Latin America. This INR 860 crores, 80% to 85% of the business comes from these smaller geographies which are 5 to 6 countries and currently, we are expanding to the bigger geographies in the form of Mexico, Columbia, Chile, Peru where the major business comes from the institutions in the form of government. And we are also planning to go for an API business which will support our formulation business when we supply to the tenders in these markets. On top of it, we will also have a greater number of ANDAs in the next 3 to 4 or 5 years' time. Hence, in addition to that, we also have a CRO to support our activities because most of these countries when we go for OSD business, they expect BE/BA studies which can be done inhouse. Considering all these factors, we will definitely become a force to reckon with in the years to come. That is how I would answer rather than telling you actually that we will do so many thousands of crores which is not the right way in a public company to commit. I am sure that will become a force to reckon with, I guarantee.
- Tarang Agrawal:** I understand sir. Sir, if you could probably comment on the composition of revenues in terms of geographical splits that you probably would look at 4 years from now?
- C. C. Paarthipan:** In 5 to 6 years US will become number one, as you know US is the biggest market in the world followed by South America. I would put it this way. We would focus more on North and South America and then we will go for other markets. So, our major thrust now currently are South

America and now that the US is also in the focus. So US will stand as number one in 5 to 6 years from now. Hopefully, South America can even match that numbers considering the kind of private and institution business which we propose to do.

**Tarang Agrawal:** Sir, the next question was in terms of your ANDA filings. If you could give a sense on what is the average spend per ANDA in terms of R&D till the time it is filed?

**Vivek Partheeban:** So, for the simple solution products were the ones that we had filed last year and the year prior to that, we are looking at around \$400,000 to \$500,000 in terms of both formulation and analytical work and then there is another \$175,000 for the filing fees. But as we move on to the slightly more complex products, this could go up by more than 40%-50% also, but the flip side of it is, the number of competitors is definitely a lot lesser and the prices in the market also continue to hold rather than to be on a slippery slope, like what happens, if it is a very simple solution. Having said that, I think injectables on the whole you might have seen from the IMS data also is that they don't crash in prices because there is always a lot more demand than supply and even if you look at let us say the USFDA shortage list on any given day, more than 80% of the products happens to be injectables.

**Moderator:** Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

**Shrikant Akolkar:** So, Vivek, I would like to know the current market share of some of the products that we have launched in the US?

**Vivek Partheeban:** So, when you look at the two products that we do with Fresenius, one of them they are at a very decent market share today. I think it is well over 12% to 13% despite having 8 competitors on the market. On the other product that they have launched, I feel this is a little bit in the high single digits and the first product that we have done on our own Caplin Steriles was at about 11% market share as on December of last year. And the fourth product that we do with Baxter, they are the top suppliers right now in the market. So all things considered, I think we are averaging anywhere between 7%-12% for all the products that we have launched.

**Shrikant Akolkar:** And are we expecting this to go up overall in FY22 and FY21 end of the year?

**Vivek Partheeban:** So, what will tend to happen is, as there are more and more companies coming in, they might tend to reduce the price which is not something that we want to participate in. We would like, as is always the DNA with Caplin, we always want the bottom-line to be strengthened as much as possible even if it means a slightly reduced market share, we want the prices to remain stable. Having said that, I think some of the more complex products that we start to file, the pricing in the market also anyway tend to stay quite strong. So market share is one part of it, but we would like the pricing side of it to be strong, more than anything.

**Shrikant Akolkar:** Second question is, now one of the bigger competitors in injectable, they have guided that first quarter revenue would be under pressure because of the hospitals in the US. So I was just

wondering what will be your guidance at least for the quarter. How are we seeing the revenue ramp up in US injectables?

**Vivek Partheeban:** I am not sure if that is applicable to our company or a company of our size because if I am not mistaken, the company that you are talking about has a huge presence in the US and also I think the portfolio in the US is also very large. What might be the case with companies like that is that, there will be stock piling of COVID-19 related products in the US. So that means some of the other products that they traditionally use to sell well could take a backseat for a few months. So maybe that applies to them. Their logic definitely, I think is valid and it applies to them, but for us I don't think it is the case.

**Shrikant Akolkar:** That is good to hear. Two last questions. One is, this quarter you have sold certain products at 0% margin. So can you please tell us what will be the percentage of revenue from these products in your topline at the moment?

**Vivek Partheeban:** So it was only one product. I will explain the history also behind that. So, this was at a time when Hydroxychloroquine was touted as the main go-to product for COVID-19. And at that time, if you remember, I think even now if you see, I think Hydroxychloroquine export is still banned by the Indian government. So one of the key markets that we work within Latin America, the government itself had requested Caplin to supply the product to them and we found supply from China and as part of our humanitarian efforts towards helping, I think we did that at a little over 2% to 3% margin only and I think it was net zero margin if you consider the freight and all that. And the reward for the same, like Chairman had explained was that we were party in the same country to almost a \$6 million tender with very decent margins. The exact figure of that Hydroxychloroquine export, we will get back to you on that because it was a couple of months ago, I don't remember exactly.

**Shrikant Akolkar:** So that is ended now, so for this quarter it will not be the case, right?

**Vivek Partheeban:** No. It was a onetime help that we have done and we have also definitely seen the reward and it was to generate goodwill and the same could be reflected in the \$6 million tender that we spoke about.

**Shrikant Akolkar:** And the last question is on the R&D guidance for FY21, if you can share that.

**Vivek Partheeban:** In terms of R&D guidance, I think if you look at the CAPEX side of it, we are pretty much done with most of the CAPEX that we need in R&D. But on the revenue part of it, we will continue to have high R&D spend which is very beneficial for the company in the years to come. In terms of guidance on numbers, I don't really have anything to comment on, but we are very R&D specific company today as we speak. So Yes, we will continue to spend well on R&D.

**Shrikant Akolkar:** So, you are also planning to enter in other territories. So if you can share broadly the thought process going to other markets and your expectations going forward?

**Vivek Partheeban:** As we build up our IP and as we build up our portfolio in the US, many of these products also have a very good uptick in similar regulated countries such as Mexico, Australia and Canada and many of these countries have the same RLD and same stability conditions as well. So our idea is to create a global dossier, global filing for these kinds of products and we are already starting to have discussions with our existing partners that are global and they are also present in countries like Canada and Australia. So to make sure that we squeeze out more out of our RLD, I think we are targeting these countries.

**Shrikant Akolkar:** And we will start with OSD products or you will go with injectables?

**Vivek Partheeban:** No, I think to begin with especially if you are talking about global dossier filing, I think we are more focused on the injectables side of it, but having said that with the CRO and with the potential use of the approval that will come with our CRO, we will also be getting into countries like Chile and Mexico with OSD as well, hopefully so.

**Moderator:** Thank you very much. Next question is from the line of Devang Patel from Crest Wealth. Please go ahead.

**Devang Patel:** Sir, just wanted to clarify on this inventory number again. It is up almost 200 crores on a year-on-year basis, how much of the inventory increase has come because of acquisition?

**C. C. Paarthipan:** As I told you before, the inventory is nothing but actually the paid goods. In lieu of our acquisition, the goods has come to our account. This one what we consider it as the bull, but not a bear. The reason being it is closer to the customer. Any company as you would agree with me, there are only two challenges, supply side and the demand side. When we go closer to the customer, you handle the supply side challenge. It becomes easy for the customer to come and buy the product that too during the COVID times when their mobility is curtailed. That is how only we are able to actually increase our deposit in the last 75 days and it will continue to happen because of that inventory. Hence, I don't consider that inventory as a constraint for the company on the contrary it is a contribution to the company.

**Devang Patel:** If I take the same margins as Q3 which was 53% gross margins, it seems your HCQ had low margin sales in last quarter was almost 20 crores?

**D. Muralidharan:** There are two aspects which you have mentioned in this for the reason for the drop in the current quarter margin. One is the COVID related what the Chairman has elaborated. The second one is that as I mentioned, there were some inventories with the channel partners whom we have acquired, they had inventories at the beginning of the time. So that was costed at purchase price. So the typical trading margin is about 24%-25%. That is the margin at which they are sold, that is accrued to us. So that is another reason for the drop in overall margin which I answered the other gentleman also that it will get marginalized over the current year.

**Moderator:** Thank you. The next question is from the line of Pratik Kothari from Unique Asset Management. Please go ahead.

**Pratik Kothari:** Sir, my question is to understand broadly that basically it seems we are importing from China and supplying to LATAM business and we are having really very good and high margins. So wanted to understand that, just now as you said in the last 16-17 years, we are the only company who is supplying to this country. So which are the strengths specifically with us and why other companies are not venturing out? Just to understand this.

**C. C. Paarthipan:** Yes, thank you. You are aware ours is a turnaround story. When you fail, there are two things probably which will help you for a turnaround, either you need to know something which not many people know, or you have to go to countries where other people fear to go. I took the road less travelled. In the process I went to Africa, initially not to the East Africa where now you see only Indian and Chinese companies, I went to the West African markets which are Francophone countries where the language, food, everything is different. Then when we started business, I was the first one to introduce generics in Guinea and when I started this business, people came and told me also about all the physical risk that I would face. Somehow today I am in one piece, nothing has happened. Then what happened, I moved to various countries like Somalia, finally I landed in Angola, I even opened a restaurant to create my own business, that is how we strengthened. The axis of being from survival to growth started in Angola. When my sons came into business, I didn't want to show the uncivilized part of the world, I took them to the civilized part of the world in the form of Latin America where I didn't see many Indian and Chinese in pharmaceutical business. And we selected smaller geographies because the entry barriers were very limited and that is how when we started, we also faced certain risk in the form of physical risk; however, we faced it and the biggest advantage today we have, we were the early entrant and we are also the early gainers. That is how it has happened. There is nothing phenomenal actually in the form of intelligence or high IQ or something, nothing but actually one man with courage has become a majority.

**Pratik Kothari:** Our entry to China, it seems to be very rare for Indian companies to enter China in a pharmaceutical field. So little bit more on this because this also seems to be road less traveled by Indian companies.

**C. C. Paarthipan:** You are very right, very true. In fact I traveled one year continuously to find out where exactly the opportunity lies. And as you rightly said, China today they expect American quality and African price. That is what I found as far as formulation is concerned. But again I found a space in certain intermediates which they are not manufacturing in China, that is why we teamed up with one of the distribution company which is considered as a \$14 billion company. When we were about to start our warehousing for intermediates, the COVID-19 issue started. And coming to formulation, registration and export to China as you rightly said is a long haul. It is not going to be that easy. It is even tougher than even US, you are very right. But things will never remain the same way as it is today. It might even change. We will have to hope for the best.

**Pratik Kothari:** So you see bigger opportunity in China?

**C. C. Paarthipan:** I won't say it is a bigger opportunity. One thing which I observed in China is if you can convince the Chinese and if the Chinese makes money through you, then there is a bigger opportunity.

Otherwise you will only replicate whatever you are doing there. So your shelf life is very limited there. That is China.

**Pratik Kothari:** Caplin Sterile, we say we invested totally INR 400 crores during last so many years. So how much we invested in Caplin Sterile facility?

**Vivek Partheeban:** Specifically on CAPEX you mean or both CAPEX and OpEx and all of that?

**Pratik Kothari:** CAPEX.

**Vivek Partheeban:** CFO can back me up with this but I believe the CAPEX part if it alone was around close to INR 200 crores if I am not wrong.

**Pratik Kothari:** And that CAPEX is more now, we don't require any major CAPEX now?

**Vivek Partheeban:** We don't have any immediate CAPEX. I mean incrementally there might be INR 7 crores, 10 crores kind of a CAPEX year-on-year, but we are done with our CAPEX for Caplin Sterile at least for the next 3 to 4 years.

**Moderator:** Thank you. The next question is from the line of Rishabh Kale from Indsec Securities. Please go ahead.

**Rishabh Kale:** Sir, just wanted to know, we have made around INR 70 crores in US. So how many products contribute to this revenue?

**Vivek Partheeban:** The number of products we have launched is 4 right now. Having said that, this revenue that you have seen is both mix of milestone and product revenue and we are about to start, we have already completed the manufacturing of one of the new products that was approved. We are about to start manufacturing for the second new product next week. So all put together I think for the next 5 products, by August we would have launched them in the US.

**Rishabh Kale:** Can we expect FY21 revenues to be around INR 100 crores approx.?

**Vivek Partheeban:** That is the target. Hopefully, we achieve it and hopefully we go past it, let us see.

**Rishabh Kale:** Sir, on the EBITDA margin front, we have seen a huge incur in the research and development cost. So is it fully expensed or is that portion being capitalized?

**Vivek Partheeban:** Yes. We expensed out all of the R&D, that is why I think some people when they ask why there is very slight dip in the margins, you would understand that there is almost a 90% increase in our R&D spend on the revenue side of it. We fully feel that this is something that is going to help us on the long term and this is not very generic, some of the products that we are working on is very niche. The company would start to see the benefits of this I think in the next 2 to 3 years.

- Rishabh Kale:** If we take a ballpark number of EBITDA margin, will we be able to maintain at 30% or?
- Vivek Partheeban:** See, I think we have been working at more than 30% EBITDA. I think we have been even today I think we are at about 33% compared to 35% of last year. So this is just a very small dip that you see and this is despite the fact that we have grown on a higher pace and this is also despite the fact that we have expensed quite a lot of R&D, we have also had a decent size CAPEX also in the last year. So I think compared to companies our size, I think our EBITDA is at a very high level, very healthy level. I also request Chairman's inputs on this.
- C. C. Paarthipan:** Today, our focus is more on cash flow. If we can increase our cash and cash equivalent actually double by the end of this year, then there is a huge opportunity for us to go for a meaningful acquisition which would definitely answer your questions actually. In addition to that, we are planning to go for API and API business will support our existing business in South America to manifold, that links to EBITDA which I am very sure about it.
- Rishabh Kale:** Sir, currently where are we sourcing our raw materials from?
- C. C. Paarthipan:** Most of the raw materials in India, 90%-95% for the ROW markets.
- Vivek Partheeban:** So, for our ROW markets, most of it is from India. When it comes to US, we have a wide range, I think many of it is from Europe. We have some from India, we have a couple from China as well. It is all over the place because you need to go for only DMF approved sources.
- Rishabh Kale:** So, have you faced any supply disruptions in this COVID-19 scenario from the imports?
- Vivek Partheeban:** So in our rest of the world markets, we have not faced any supply disruptions because our business model is not conventional, right? We don't depend on API supply from China. We export the formulation directly out of China and also our partner in China who is the largest company over there, even during the middle of the COVID crisis in China they were continuously working right from February 10<sup>th</sup> onwards. Even despite all the issues they had faced, they continue to supply products to us. And on the US side of it, except for one product which we have not been able to launch for a few months because of some pollution issues with China, we have not faced any supply constraints for the API.
- Rishabh Kale:** We import from China, right, as you have said for the US formulation business?
- Vivek Partheeban:** Only one product and that also they have just turned around the corner, we are expecting the API supply by end of June or early July.
- Rishabh Kale:** And going forward, as we are making API facilities, so will that issue be resolved going ahead? Are we thinking on those plans?
- Vivek Partheeban:** Absolutely. For many of the products where we have good hopes for, we want to have a secondary source API of our own and that is not just to do with cost or compliance, but continuity



of supply. That is very important and without putting a real number on it, we want to try and make sure that close to 60%-70% of all the products that we filed have backward integrated API from our own side.

**Rishabh Kale:** Sorry, I didn't get the number, 60%-65%?

**Vivek Partheeban:** 60% to 70% of all the products that we filed in the US, we intend having backward integrated API.

**Rishabh Kale:** If I ask you, we are focusing on the US market or the Latin market which is the Brazil and Mexico which is the largest market in Latin America. So, what is the focus is on, is it only US or given the COVID-19 scenario, are we not focusing on Brazil and Mexico right now

**C. C. Paarthipan:** We are focusing on Mexico in addition to US. US of course is our major focus. We are just starting, we in fact started the office and unfortunately, two of our office people fall sick due to COVID-19 in Mexico. Now they are okay, they have come back from the hospital. We will start the registration in Mexico. Brazil, of course we will not do it at this juncture. We will make it actually, maybe is the last one. And US will continue to be our main focus.

**Moderator:** Thank you very much. Next question is from the line of Gaurav Shah from Kotak Mahindra Bank. Please go ahead.

**Gaurav Shah:** Sir, my question is very simple. This is from a long term perspective. Post COVID-19 era, what do you expect? How many years will it take for your current conversion of your topline into bottom-line? How many years do you foresee?

**C. C. Paarthipan:** I can guarantee one thing that post COVID-19, we will be one of the companies which is on the fast track. The reason being a) coming to US market we are filing our dossiers. We are concentrating more on filing the dossier rather than actually exporting the product. There are times we do priority for filing, not for the commercial sales also. And coming to South America as I told you before, we are getting into bigger geographies, bigger markets, both in terms of private and government business. And top of it, in addition to formulation, we have 4 major R&Ds, two for the API and two for formulation, one actually for the injectables for US, one for OSD for the ROW markets. In addition to that also, we have CRO and we are all about to start actually our own API production. With all these, we assure that we will be in a position to make the company as a force to reckon with, that much I can guarantee. We don't foresee any problem after two years. The only thing which we are probably not in a position to understand which you also know well, right from a scientist to spiritualist nobody can give an answer to COVID-19 and nobody knows the duration and intensity of this unprecedented and uninformed evil genius.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Mr. Amey for closing comments.

**Amey Chalke:** Thanks, Neerav and thanks a lot to the management for answering all the questions and also giving us opportunity to host this call. Thank you, sir.

**Vivek Partheeban:** Thank you very much, Amey and Haitong Securities for hosting the call. Thank you very much.