



**“Caplin Point Laboratories Limited  
Q2 FY2021 Earnings Conference Call”**

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**ANALYST: MS. CYNDRELLA CARVALHO – CENTRUM BROKING**

**MANAGEMENT: MR. C. C. PAARTHIPAN – CHAIRMAN**

**MR. VIVEK PARTHEEBAN - CHIEF OPERATING OFFICER**

**DR. SRIDHAR GANESAN - MANAGING DIRECTOR**

**MR. D. MURALIDHARAN, CHIEF FINANCIAL OFFICER**

**MR. M. SATHYA NARAYANAN - DEPUTY CHIEF FINANCIAL OFFICER**

**MR. VINOD KUMAR – COMPANY SECRETARY**

**Moderator:** Ladies and gentlemen, good day and welcome to the Caplin Point Laboratories Q2 FY2021 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. I now hand the conference over to Ms. Cyndrella Carvalho from Centrum Broking. Thank you and over to you, Madam!

**Cyndrella Carvalho:** Thank you Inba. Good morning everyone. On behalf of Centrum Broking, I Cyndrella Carvalho thank the Caplin Point Laboratories Limited for giving us this opportunity to host Q2 FY2021 earnings concall. Today from the management of Caplin Point Laboratories, we have with us the Chairman Mr. C.C. Paarhipan, Chief Operating Officer Mr. Vivek Partheeban, Managing Director Dr. Sridhar Ganesan, Chief Financial Officer Mr. D. Muralidharan, and Deputy Chief Financial Officer, Mr. M. Sathya Narayanan and Company Secretary, Mr. Vinod Kumar. At the outset, I would like to thank the management for this opportunity again and congratulate on delivering good set of numbers in the unprecedented time. Now I hand over the concall to Mr. Vivek for their opening remarks. Over to you Vivek!

**Vivek Partheeban:** Thank you, Cyndrella. Hello and good evening everyone. Welcome to our earnings call to discuss our Q2 and half yearly results. Please note that the copy of our disclosures are available on the Investor section of our website as well as on the stock exchanges website and also please 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 conjunctions with the risks that the company faces. Please allow me to hand over the floor to our Chairman, Mr. Paarhipan, to talk about the major developments, key initiatives specifically on LATAM business. Over to you Chairman Sir!

**C.C. Paarhipan:** Good evening to all with your permission, I will now give you a quick brief about our company Caplin Point and the COO will give his presentation of US business. You are aware that 85% to 90% of our business comes from Latin America hence I will start with our business from Latin America.

Let me list out the seven things first, number one - Simple Generics. When we went to this part of the world, we never had an extraordinary technology that is why we call it a simple generic. Number two, Ordinary people; when I say ordinary people, which include the mediocre promoter with the low-key professional that is how we went to this part of the world. Number three, Extraordinary physical risk. You are aware of the kind of physical risk one has in this part of the world because Central America is the place where you have all kinds of drug trafficking. Number four Unregulated markets that of course helped the registrations faster. Number five, less expensive approach to manufacturing, which means most of our products are outsourced and we had one simple factory to manufacture the generics and export to Latin America. Number six, differentiated business model we never went to appoint a distributor there or importer. We went

there and created a business model in the form of we not only manufacture and export, we also control and manage the input distribution and the last mile which really helped us to give the best price to the bottom of the pyramid. When we catered to the bottom of pyramid, we were in a position to give good quality, variety, novelty at the best price which has created a stickiness factor among the BOP. Finally, fearless execution led to limitless possibilities, the lesson learnt is if you are unwilling to risk the unusual, we would have settled for ordinary. Now we are on the way from ordinary to create an extraordinary status for Caplin Point.

We are also aware that we cannot simply subsidize our way to prosperity hence let me first highlight some of our unique areas in a nutshell. Number one, maximum business from minimum populations of Central America; you are aware that the best companies from India does an export of \$150 million in the bigger geographies of Latin America formulations whereas Caplin has exported \$100 million worth of goods in the last year. Number two - Goods, people and promoter are close to the customer in Central America and other parts of Caribbean and South America unlike other Indian and Chinese companies of our size.

The outcome is the cash flow in the form of Rs.180 Crores in 180 days. Also, we have generated reasonably good profits and comfortably we are solvent. Number three, unique geographical presence. There is Latin America which you are aware, which is not very close to India and China, hence we had that unique geographical advantage. Here the competition of our size especially the company of our size is still few and far between. Number four, new market creation in addition to creating the market share in the existing markets. We are now moving to a well-diversified product portfolio with the help of the newfound R&D and R&DA expansion to bigger geographies in Latin America such as Chile, Colombia, Peru, Mexico and Brazil in the coming years. This is how we turned around the company from zero to one otherwise we would have remained as zero forever. We always choose to take the road less travelled and make it as a high road for growth. We do not operate on the fringes of quality as you are aware that there is no partial pregnancy similarly there is no partial quality of trust or integrity hence, we have introduced the benchmarking behaviors in our manufacturing facilities. It is time to optimize our growth potential, understand the basic premise of learning everything we need to know about strategic planning, what it is, why we need it and how to implement it which alone can get our company up for success in the coming years.

Now let me give you the list of activities that are people and product specific, also the market and manufacturing specific for future. The first one is the asset lite model to asset heavy infrastructure from internal accruals. Here I will mention the major one that is our USFDA facility. You are aware that the US business is a 1000-mile journey where we do not see many companies of our size from India and China. It is also true that the infrastructure, the investments in the capex and opex is instrumental for the dip in the ROC, ROCE and few other ratios, but I promise you this is a dream destination and there are very few Indian companies especially the big companies, which are planning to enter into this biggest market of the world and we are very close to reach the destination and the revenue stream will increase say one in one to two years

from now and I will also list out the reasons for it. Today we do not do anything from scratch in our Caplin's courage. We do it from experience.

Now that we have put our people first and best people give us cross-pollination of ideas due to their exposure to various domains. All the initial hiccups is almost over be it in the form of capacity constraints, low margin products, API challenges and we are now moving towards a greater number of registrations with a new introduction of complex generics, the details of which COO will present next.

The creation of various divisions such as API and formulation R&D, the regulatory affairs, CRO helped us to finalize close to 150 to 160 products for our future registration in various countries of Latin America such as Chile, Peru, Colombia, Mexico, Brazil in addition to our existing market we also have plans to get these products registered in South Africa and Russia. Now that we are also in the process of creating a centralized warehouse to beat the stock out situation in Central American market and also to handle the effective deliveries for the new markets too. This will help us to efficiently handle the supply chain constraint and increase the business while reducing the demand side shocks.

With the help of our R&D we will also eliminate the low margin and non-critical generics and our focus will be shifted to unique products to ensure more profits as the competition for the same will be few and far between. Number five business model differentiations in the bigger geographies. Tender business is the major mainstay in all these bigger geographies hence we will also focus on tender business in addition to our core competence of concentrating on the private markets. Our entry to API manufacturing will also help us to get into this business in the near future. Number six our focus will be on the following: a) micro focusing to create an employee and customer experience. We are one of the very few companies, which offer ESOP at par rate. Today if the share is quoting closer to Rs.500 the ESOP is offered to our senior executives and some of the contributing employees at the rate of Rs.2. That way we are in a position to attract and retain the talent that creates the employee experience and to create the customer experience since I have told you the business model and the way in which we will create the stickiness factor that itself shows actually we have created the customer experience at the bottom of the pyramid in Latin America. The macro focusing is staying solvent in the years to come. B) Enrollment of new people for projects R&D and manufacturing to update and upgrade our systems. C) Creating new revenue streams every year to achieve sustainable progress. D) Low-cost manufacturing in the sense making our system more efficient in the area of purchase of raw materials and changes in various process which includes existing formulas of the product that we sell in Latin America.

Now let us look at our plans for new projects to achieve the growth in the form of geometrical progression in the next 24 to 30 months. Now we are sure of creating a cash resource of Rs.350 to 400 Crores in the current financial year and the same will be deployed as follows; Number one a general category facility for regulated markets in the form of tablet, capsule, ointment and maybe liquid orals. Number two, an oncology facility for oral and injectables for regulated market, number three hormone facility for injectables, orals and semi-solid and I hope you are

aware there are not many injectable facilities for hormone available in the country especially for the regulated market, number four Premium facility for regulated markets. Also, it will not be out of place to mention that our 10x healthcare portal shows continued transaction in generating business through retail pharmacy in places where our boys are not able to reach due to COVID-19.

Finally our major goals in the form of truly novel alternatives, KSM to finish products, KSM as in key starting material you are aware, the country also is focusing on import substitution rather than depending on the import from the country in the form of 70% to 75% of the import comes from China hence the focus is more on intermediates, key starting materials, intermediates, APIs to finish products. This will become an end-to-end technology platform for Caplin and you are aware that we already have an end-to-end business model that we will expand our marketing subsidiaries which will not only import and distribute but we will also go for the last mile. We will also go for a meaningful acquisition from the internal accruals with a second wave of cash reserves in future.

Gentlemen the world is full of fighters and pushers, if you have low profile, the competitors will walk all over us, the steps that we take now is for the real business transformation by leveraging the business opportunities. We believe in making money with respect when others invest time and money, we have invested our life in the toughest parts of the world to create value for Caplin. Thank you very much.

**Vivek Partheeban:**

Thank you. I will give a little update on the U.S business as Chairman was saying. We continue to see decent revenue pickup in the U.S. When we compare the first half of last year with the first half of this year, our revenues have gone up by about 30%. The milestone revenues that we received last year is higher than this year that is in line with our strategy that we will only be signing non-exclusive distribution deals in the US because we are planning to have our own front-end presence over there shortly.

For the filings for this year we have done about four and we will be doing one more before end of this financial year. What has happened is because of COVID, we had some shortages in terms of men and material supply, we have had some restrictions over the last six-seven months but thankfully in the last two to three months we see that has changed significantly and we have almost at about 90%-95% manpower today and our qualifications, expansions and everything in Caplin Steroids has been completed. Our scale up on exhibit batches which is basically the last stage before filing ANDA has once again resumed starting from last week. So, our filing target for the next 12 months is at least 14 products. Ideally it could have been about 10 but four products that were pushed over from this year we will be combining that with the next year.

With regards to capacity expansion as I was saying we have completed it and there are two more expansions that are pending to be done. This is getting into the premix bag line. The machine is getting manufactured is getting fabricated in Germany right now. It should reach us sometime in early next year and we are hoping to start taking trials and qualify the machine by end of the first

quarter of next calendar year. We are also putting together plans to get into pre-fill syringes. This has been a very niche area and we have got very good expertise within our R&D on many pre-fill syringe products not only for the US but also for other countries like Brazil and Mexico so we are trying to put that also in place within the first half of next year.

With regards to markets many would have questions about what kind of slowdown was expected and yes because we are manufacturing hospital-based products, so when it comes to that because of not many outpatient services that was happening in specifically in the US between the times of I think around March to around September of this year there was a little bit of a lull in demand but we see that has gone back up. Right now, the demand is coming back and I think when it comes to forecasts from our partners there also see that despite the second wave coming in the outpatient services has not stopped. So, we remain hopeful that we should be in a position to finish the year strongly. In terms of pricing as you all know, yes there is a little bit of pricing erosion in the U.S year-on-year but for many of the products that we are doing it has stabilized, we have not seen specific products being showing more erosion or anything like that.

With regards to backward integration, as Chairman had explained we have all completed the detail engineering and design drawing for our API plant. This is going to be near our injectable plant in Chennai. We expect this to be completed by 12 to 15 months from now and this will be catering to not only the U.S. markets but it will be also catering to the ROW markets. We have made some last-minute changes to the plant to expand capacity a little bit more that we can simultaneously do three products at the same time. We expect to file our first ANDA within the next 12 months and this will be done through contract manufacturing company and then the idea is once our facility is ready, we bring that tech transfer back into our own plant.

In terms of complex products as we have mentioned in our press release, we have signed three agreements with partners of the US, two of them are for complex injectables and one is for an ophthalmic suspension and we expect to file these products in 18 months and then hopefully the approval happens within 30 to 32 months from now. These are products that do not have any competition in the markets right now but we hope that it remains that way or with very, very minimal competition by the time the products are out in the market.

With regards to non-US countries as explained in our press release we are about to sign agreements with a couple of companies, one of them is our existing partner that has a presence in Australia also for three products there and then with the new partner in Canada which is one of the top three companies and one of the fastest growing companies in Canada. We are going to sign with them for about seven products, these are not new products by the way these are our U.S. products that we are basically extending into non-US markets and as Chairman was saying our business has always been about end-to-end so on the one side we are getting to backward integration on the other side we want to fast track our entry into the US. We see that there is a significant opportunity there to increase our margins and increase our market share potentially so when we had initially envisioned something around 24 months we are probably going to speed

that up and move it up by at least another six to eight months somehow so we expect having a presence in the US by middle of 2022.

We will likely see that once the next wave of projects have been filed, we will start looking at much more complex number of products and then the specific number of products per se will start to come down. We will not be filing 15 to 20 products a year, we will be focusing on about six to seven products but products that are difficult to manufacture, which see much, much less price erosion in the US and we are trying to take whatever measures that are necessary to make sure that we are not depending only on the US from this facility that is why we are putting together plants and place where we are getting into Mexico and Brazil, Canada and this plant which would be additional streams of revenue hopefully in the near future. So that is about it from the U.S. side. I think this might be a good time for us to open the floor to questions please.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aditya from InCred Asset Management. Please go ahead.

**Aditya:** Basic question on the capital allocation so Caplin Sterile we obviously have big plans in the injectable market in the US and I also read in your investor presentation you are putting more capacity for oral solids as well and you also spoke of your front-end presence in US in the middle of 2022. Basic question when you look at the other pharma companies doing this U.S. business it does not seem that those companies are able to be immensely profitable to be honest if you look at your some of the larger peers in the Indian pharma industry, they get a majority chunk of their revenue from US but the percentage of profit they make from that geography is actually quite low as per what they tell us so with that backdrop how wise or how well thought of is this U.S entry I understand that market being the largest market you can get scale in that market but how do you think about the profitability in that market?

**Vivek Partheeban:** I will take this question and then I will pass on to chairman also for final comments. So, in the US with whatever little knowledge that we have everything goes in cycles. When we are talking about our envisioned entry into the US that was sometime around 2010-2011 and at that time obviously everyone wanted to get into the US because there was huge amount of shortages and there was a demand and supply gap and then everybody wanted to put in plans to get into the US but of course most of it was in oral solid dosages, injectables even today you see much lesser competition. In terms of pricing, we get asked this question quite a lot. When you are comparing I think 10 years ago to now it is a different space of course because most of the companies especially Indian companies that were early entrants into the US, they were used to making 5x, 6x kind of margins that is agreed but even today I would not say that the margins are lower or anything like that; the products that we are doing the lowest margin products that we are doing if you take out our expenses we are still grossing around 40% to 50% and the prices have stabilized to an extent where there is no chance for it to go down further because then nobody wants to be in those kind of products. So, I will accept that yes, compared to about seven to eight years ago also I think the prices have come down but I will not say that they are unprofitable. They still

remain very much profitable and if you compare that to our Latin American business, yes our Latin American business is a little bit different in the sense that we control everything right from sourcing down to selling and we are trying to replicate that in a small way in the US as well in the coming years so I expect that our profitability will go up once we have our own front end in the US but there has always been a demand and supply gap in injectables. There continues to be a demand and supply gap and injectables so I do not see this as something that we have made a mistake or anything like that. Whatever that we envisioned in 2012 was a cycle, what is happening today in 2020 that is a cycle as well so we need to make sure that we are putting together some plans in place that makes sure that even though we are not the earliest entrants we need to make sure that as a late intent we are one of the last ones remaining sustainable in the markets in the longer period.

**C.C. Paarthipan:**

I would like to add some more points here. I am sure you are aware that U.S is the number one market in the world and if you observe what has happened to the number one and number two generic companies of US although it is better to mention the name so that it becomes easy for you to understand. The number one was TEVA and the number two was Abbott, they were the number one and two and today they are not the number one and number two, they have given way for other players actually to make it in US. Why I am telling this? What will happen? After a point of time people who are doing maximum business, one day their overheads will increase and they have to think of leaving the generic and get into specialized areas. Today we have the last man standing, which means last one to get affected are the least one to get affected because I do not think you know there will be enough number of people of our size who will get into U.S market this is one of my humble submission. Number two, we have not been leveraging the debt. Everything we are invested in the form of capex and opex has come from our internal accrual which means even if it is likely delayed for one or two years we can withstand and we will make it. Number three, you are aware that Fidelity also you know is a 25% partner here in fact the other day I said coffee never know it will taste nice and sweet before it makes sugar so the role of sugar is played by Fidelity today. If Fidelity does not see an opportunity in Caplin, they would not have invested also at 25% so this is what few things which I would like to convey to you Sir.

**Aditya:**

Thank you for the comments. So just on the on the comment that Vivek made so Vivek I agree with you gross margins would be 40%-50% the concern that we investors have had historically with the U.S market and you are right I mean it grows in cycles but the last four to five years has been a down cycle and in that down cycle what we have seen is despite 40%-50% gross margins and if you take the R&D expenditure that you have to incur to keep the engine running and then if you account for the gross block for the assets that you build and then if you account for the working capital which is very high inventory and debtor days - if you incorporate all of this, the return on equity you end up making on that business which I guess we will compete from your Caplin Steriles financials. The return on equity has been really below cost of capital for most of the companies that we have seen in the last five years. So that was just a limited point and I hope you guys do very well. On the injectable side again if I just look at the number of competitors who are building capacity, I understand it is a segment which has shortage today. I understand it is a segment which has had shortage for the last 10 years but if I just look at the amount of



capacity chasing that space so again you can count on your fingers all the large pharma players in India all of them have been building injectable capacity, compliance obviously is a challenge but as and when these guys get compliant, they cannot remain non-compliant forever right so as and when these ways get compliant, there will be a lot of capacity coming to flood the injectable market so how do you sort of choose your products when you look at a pipeline use your products?

**C.C. Paarthipan:** I fully agree with you that I will not be in a position to say that we would make it in a very big way in U.S but as long as there is no debt and as long as we have the capability to withstand the pressures that we are facing there, one day or another we definitely will make it on top of it. What we are doing today we are getting into the bigger geographies of Latin America which is our forte like Mexico and Brazil so while most of the companies concentrate on the tender business we will concentrate on the private market. Today we have around 500 to 550 Latins working in South America even the biggest companies except one or two who has the factory in this part of the world, they do not have this amount of people. Why I mentioned this is that these people will help us to expand in this type of market without taking people either from India or from the local market, so we have certain advantages that we have in South America that will definitely help the company, help Caplin Steriles to strengthen the bottom line.

**Aditya:** Fair enough Sir. Just one last question how much is the capital expenditure we are budgeting for the U.S market over the next three to five years if you have made a capital plan there?

**Vivek Partheeban:** In terms of capex for the next two years, we are pretty much done with most of it like I said whatever that we are doing from now is incremental capex, premix bag line that we are getting into is going to be at the cost of around Rs.9 Crores to Rs.10 Crores and the PFS line as well would be something similar around 6 Crores to 7 Crores so for very large capex we do not have any plant over the next two to three years unless something changes drastically but we feel that whatever expansion that we have done so far is good enough for the pipeline of products that we have till 2024.

**Aditya:** Right and I also saw your R&D budget moving from Rs.6 Crores to Rs.36 Crores over the last six years, how would you forecast your R&D budget over the next two years?

**Vivek Partheeban:** As the Chairman have explained during this call, in the initial periods we were going after what we internally call as gorilla marketing so today we are a company that embraces technology and we know that the path forward for us especially when we are getting into niche areas such as hormones and anti-cancer and anti-psychiatry products and all that we need to embrace R&D as much as possible in terms of numbers I would say that probably whatever level that you are seeing the R&D right now this is likely to continue.

**Aditya:** Perfect thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Vinayak Mohta from Augmenta Research. Please go ahead.

- Vinayak Mohta:** Good morning Sir and Congratulations on a great set of numbers. I had one or two questions one was what can be the contribution from the U.S. as a proportion of total revenues maybe three four years down the line?
- Vivek Partheeban:** What we have given out in the past is that in the next five years we expect the U.S. to contribute to around 30% of our overall revenue 30% to 35% of our overall revenues.
- Vinayak Mohta:** Second I saw in your press release you had somewhere mentioned there is a possibility of an acquisition or Greenfield expansion in India or Mexico, so any color on that within what lines are you looking for in acquisition if it would be?
- C.C. Paarthipan:** The acquisitions in India probably is in the API area, the acquisition in Mexico today of course it has to be a meaningful acquisition first we would look at it in the form of a liquid and ointment facility for which you do not have to go for clinical studies so if we come across something like that yes you will be in a position to go for it. Number two we also have plans to go for CRO there; we have a CRO in Chennai, the bio will remain in Chennai we only have to go for a clinical there so if we also get a company with a good number of registrations then there is a possibility for us to acquire a company in Mexico too. It all depends upon the timing and as I told you it should be a meaningful acquisition.
- Vinayak Mohta:** Just to follow up on this like will it be if in case acquisition comes through the funding it would be through internal accruals or you would be looking for a mix of debt and accruals?
- C.C. Paarthipan:** In fact, today we think of only internal accruals. If we find something extraordinary then we may think of a mix of debt and equity both.
- Vinayak Mohta:** Thank you so much. That is, it for my side.
- Moderator:** Thank you. We will take our next question from the line of Hardik Shah from Prabhudas Lilladher. Please go ahead.
- Hardik Shah:** Sir my question is just an extension of the previous question. So, sir what will be the breakeven levels of revenue for the US business and by approximately how much time will be able to achieve that?
- Vivek Partheeban:** We feel that the minute we cross around Rs.125 Crores to Rs.130 Crores in Caplin Steriles that will be the point where we will probably do a cash flow break even. In terms of timing of course with COVID with still progressing here and there we do not want to give it a very finite number but we hope that over the next 18 months we cross that threshold.
- Hardik Shah:** 18 months okay. Sir my second question is with respect to the LATAM business so now Sir have we finished the process of acquisition of the channel partners or is it still pending?

- C.C. Paarthipan:** We almost completed the channel partner acquisition and we will not do anything in the near future unless if we come across something very interesting, we may think of it maybe in the next financial year.
- Hardik Shah:** Sir will you be able to share the total amount of cash spent on this acquisition?
- D. Muralidharan:** We have already shared the details in the annual report. It is about 2.66 million for the acquisition of one of the majors. We have had a mix of processes. We have invested into some companies; we have bought over the shares of minority shareholders in some companies. It is a mix of both so we have invested on par value of whatever net worth on day of the acquisition.
- Hardik Shah:** Sir as on date, do we have any COVID related products in our portfolio?
- C.C. Paarthipan:** It is only on the immunity side like vitamin nutritional products but most of the COVID products are repurposed drugs. In fact we develop one product then we know we decided not to pursue because it is not that promising to be very honest with you today people who survive we do not know whether they survive because of the drugs or because of the immunity or because of both so when such is the case there is no point in going for a product whose shelter life may be limited. So, we have not been pursuing anything like that.
- Hardik Shah:** Sir is this the same product you are talking about for which we were expecting our approvals?
- C.C. Paarthipan:** We developed this product and then we did not pursue it for the commercials.
- Hardik Shah:** Okay and Sir we have already filed for approval for some COVID related products, also right?
- Vivek Partheeban:** This is COVID related hospitalization product and we are expecting approval for it in the coming months hopefully and this is basically anesthesia drug and this is in the U.S.
- Hardik Shah:** That is all from my side. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.
- Shrikant Akolkar:** Last quarter we talked about 10% to 15% cost reduction for top 10 products so if we can get where have we reached in achieving that kind of cost reduction?
- D. Muralidharan:** Actually, what we mentioned last year was when we get into our own API manufacturing that will result in about two products which contribute 20% of sales, we are working on the API ourselves. They are yet to fructify; despite the gross margins have improved compared to the last quarter because of the value-added product being introduced and the operational expenses that have stabilized as compared to the previous year where there was a spike in the last couple of quarters and as a company in India, operating expenses have been very much under control and

we have reduced a lot of expenses, you should all add that to the profits in the coming quarter and years.

**Vivek Partheeban:** Specifically on that question Shrikant so this is an ongoing process right so typically what happens is you will start to see that the benefits accrue to the company probably in three to four quarters so these are of course easy gain for us because these are all approved products and we have the technology to get into the backward integration of it but these are very large scale kind of API so it will take at least four quarters for us to see, it takes for us time to see that benefit into numbers, but clearly we are also working on reduction of the acquisition costs as well as acquiring the APIs the key starting materials. We are actually working quite aggressively on that as well right now.

**Shrikant Akolkar:** Other question is on the ophthalmic line so when realistically do you think that we will start commercialization and what would happen if we are not able to get approval soon as in what will happen to the next internal projections?

**Vivek Partheeban:** Yes, ophthalmic will be much faster because we have already filed ophthalmic product in the US and we were supposed to have an inspection in June but obviously because of COVID that has not happened. We are remaining very bullish on ophthalmic because this is an area that is not very crowded number one and number two, the pricing also seems to be largely stable. We have in our pipeline at least around nine ophthalmic of which four will be filed in the next eight months. So, in terms of premix bag line this will take a little longer. The machine itself is likely to reach us only by February of coming year so we might be filing our first product in the US by end of next year so in terms of commercials that we can expect from these two lines I would say end of 2022 for ophthalmic and end of 2023 for the bags.

**Shrikant Akolkar:** If I may ask another question is on working capital so we have seen higher inventory levels and receivables after we acquire distributors so when can we expect normalization of working capital?

**D. Muralidharan:** Okay sure, if you look at actually the business of various companies it differs from one company to another company. Our business is something unique. I would request you to look at it herein all humility I claim that probably ours is one of the few companies to achieve a business of say around Rs.1000 Crores in the current year mainly from the ROW market for generics. So, when such is the case what happens, there are times you will have to keep the inventory closer to the customer then only your cash flow will faster and good. That is the reason I even told you in the last six months we were in a position to increase the cash flow by Rs.180 Crores. So, sometimes if the goods is the inventory that does not mean the inventory lies in Chennai. Inventory is there in the market, but receivables I think it is 94 days do you feel is still higher please?

**Shrikant Akolkar:** I particularly wanted the question on the inventories we have after we acquired distributors then there was spike and then we what we understood that in six months it will normalize so specifically on inventories if you can get?

**D. Muralidharan:** What Chairman told, inventory has got more than three parts, one part is the raw material and semi-finished good, finished goods lying in our manufacturing facilities that has not gone up substantially. The second part is the inventory in transit because it takes anywhere between 45 and 60 days depending on where it goes from India or China to reach the end destination. From then on it will take another 15 days before the goods are made available to the warehouses because customs clearance, quality checks all happen so 60 days is already taken in transit time then the goods have to be sold. So, if you see the inventory has come down substantially in the last six months. When we say normalization, the question was relating to the contribution market, what we said was Q4 of last year the contribution margin dropped by about 3% points because of two reasons, one we had to sell certain products at cost because of the government requests on COVID related products. Second was from our subsidiary is selling the products that have pre-acquisition costs that is gradually coming down the normalization is already visible in the H1 contribution margin going up from 52% to 55% that is what we mentioned normalization will take at least four quarters. Once we see a sharp gap exhausted by the market it will stand in 55% or 56% is what we are confident.

**Moderator:** Thank you. We will take a next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** I had two questions on the standalone on our LATAM part of the business. Now if I look at it over the last six months there has been a significant reduction in the receivables and I think that is a good thing which we have seen and a strong cash flow generation. If you can just help me understand what has helped us in reduction because as I understand that when we were buying out the distributors, the money would have been released as the retail stockiest inventory gets liquidated which would have meant the receivables would have increased so is it like now the business is stabilizing and this is the receivable days which probably will sustain or if you can just help me understand there?

**C.C. Paarthipan:** There are two to three reasons to it. Number one we are increasing our registration especially products which are very complex. So, initially as I told you in course of my speech we went with the simple vanilla generics; today we have the best of the best R&D hence we are in a position to register products for which the competition is few and far between so when we go to the market they are in a position to understand that we are very uniquely placed then we also demand if you want this type of products you like to pay us that really helps us. One is the unique products. The number two is the range which we have. Number three of course even the COVID situation also has helped that to certain extent because we kept the goods closer to the customer as I told you before these are the three reasons that really helped the cash flow.

**Nikhil Upadhyay:** Sir just continuing then probably the third part of the reason which you have mentioned may not sustain on a longer term so the significant reduction in receivable which we have seen?

**C.C. Paarthipan:** As I told you before in quotes from my speech, we are preparing actually 155 to 200 dossiers now. These are from various categories such as now oncology, hormone products psychiatric and

neuropsychiatric. As I told you before in addition to the generic product that we have in the market, even COVID or no COVID the way in which we are registering the products is more of the new products and complex products that will increase the volume of business, increase the cash flow, increase the profitability. The only issue it cannot happen overnight will happen two years from now.

**Nikhil Upadhyay:** Secondly Sir on LATAM part of the business now one of the things which I understand with the reason why we were able to make such a high margin was because we had a lot of mix of outsourced cum in-house production where outsource was much larger now as we are going for increasing production of putting the API plants and bringing in-house production, it is purely on the LATAM part. Do you see there could be escalation in the costs or on the revenue line also you see there is some set of which we can get as a result the margins can sustain?

**C.C. Paarthipan:** I hope you remember the world is moving towards a new direction in the form of regulator. Regulations are changing now maybe 10 years from now or 5 years from now there would not be anything in the form of unregulated. Most of the countries will be regulated. When such is the case it is not easy to outsource and export products and make money. It is true at one point of time when things were different it was an asset lite model. We use the advantage of outsourcing, even now we are doing it at the same time if you look at most of the big companies they allow all this you know in the form of backward integration, front end persons, formulation R&D, API R&D it will be in the form of injectables OSD and then CRO; that is what we are also trying to do because our focus in future is going to be for the bigger geographies. When we go for the bigger geographies they will always insist for inspection. When somebody inspects the facility, if the facility is not your own there is no way you can control the quality and integrity of other people's facility. So, with all this in place we are bound to go for our own facilities. We agree with you. We have to balance between consolidation and expansion. We have to also run the companies at what cost we are running the company also is important for us to understand and we are very confident we will do it whatever mistakes we have done in the past also will not repeat it in future, we will do it in an effective way. Definitely there is a deeper dent in our ROC or ROCE, but five years from now I am very confident we will become a force to reckon.

**Nikhil Upadhyay:** Thanks a lot. All the best of luck.

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

**Sachin Kasera:** My first question was regarding this new project that you announced in Chennai for which already purchased the land, your press release mentions some four, five projects that we are putting up can you tell us what is going to be the approximate expenditure on these four five projects?

**C.C. Paarthipan:** See as I told you before like you know by the end of this year we will have a cash reserve of 350 to 400 Crores and when we estimated and we know we took our senior technocrats into account along with the finance and purchase people this will not exceed no 350 to 400 Crores and in

addition to that next year we are also likely to generate cash on top of our capex and opex. So that probably will use it in the initial stages for the operating cost of some other facilities will go on stream also. So, we do not foresee any major challenges and we will be able to complete all these projects whichever we said within this 350 to 400 Crores.

**Sachin Kasera:** Secondly just mentioned in the previous question that return on capital and return on equity has come down from 60%, 70% to 30% and that should improve as we go ahead so from a three to five year perspective what do you think is going to be the improvement in ROCE. Do you think we can again go back to this 40-50 level or this 30-35 level will be normal for us?

**C.C. Paarthipan:** I have been giving you the numbers one thing I assure that we will be very, very comfortable you can at that point of time apple to apple you compare with any other company yes we will be either equal to some of the best companies or slightly more.

**Sachin Kasera:** Just a couple of questions for the CFO. When we see the reported numbers there is a minority interest of around 5 Crores, so if you could just tell us what does this pertain to does it pertain to - Caplin Steriles or it is pertaining to some of this front end companies that we have acquired and if you can just give the details that will be very helpful?

**D. Muralidharan:** This pertains to the current partner, the largest channel partners so he has a minority stake this quantum of profits are assigned to him.

**Sachin Kasera:** What is our stake in their company?

**D. Muralidharan:** 69% is our stake and 31% is the stake of the partner.

**C.C. Paarthipan:** Let me also add one more thing here. 15 years ago, when I went to this country, I took my eldest son. He was hardly 20-21-year-old and this guy who is still there he is one of architect of our company and we had some emotional connect. This is the guy who worked with my son, worked really hard and he was also instrumental for the success of this company. Hence, we could have upped the stake and on the contrary we want to retain him for some more time so that you know we do not stand to lose anything.

**Vivek Partheeban:** The entire institutional business of this country is handled by this partner.

**Sachin Kasera:** This has been calculated only from this quarter. It was not present in the June quarter this.

**C.C. Paarthipan:** I do not think, so. It will not be like this in the future. I will leave this for the CFO to talk on that.

**D. Muralidharan:** I also endorse this point of Chairman. It will not around be around the same quantum in quarters to come. It will get moderated.

**Sachin Kasera:** Sir, my question is was this in the June quarter also, this minority or it has only come from July 1 in the accounts.

- D. Muralidharan:** As we mentioned last quarter the business was mostly from the stock and the profitability was not that high. This quarter the profitability from this country is higher. That is why it has happened this quarter and in future business it will happen.
- Sachin Kasera:** Sir, can you share the number of Caplin Steriles for the first half, how it has done?
- Vivek Partheeban:** Caplin Steriles, we have completed around little over 30 Crores for the first half which is a similar number to last year. The one point to take over here is last year's first half there was almost 20 Crores from only one milestone. So, it is not a like-to-like comparison. If you look at only revenue per se we have increased by almost 30%. So, we are hoping to end the year well, because we have three launches that will happen in the next six months. So, we are hoping to end this year well.
- Sachin Kasera:** You mentioned almost 20 Crores was the milestone income last year. This year first half, out of 30 Crores how much is the licensing and how much is actual manufacturing revenue?
- Vivek Partheeban:** I believe this year for the first half it is around 10 Crores only is the milestone income. For first half of last year was around 20 Crores milestone income.
- Sachin Kasera:** You just mentioned in one of the queries that you are looking at 125 to breakeven that should happen in the next 18 months. So, is there some slowness in terms of the thing. Initially you were looking at achieving this number in FY2021 itself. So, is it that because of some slowdown in US or some delays?
- Vivek Partheeban:** COVID issues. It is nothing to do with slowdown in the US. When we made this statement that we are likely to almost double the sales this year that was in March. So, we had assumption that by June we would have completed our expansion qualifications and everything and we would have commercial on these two lines. Obviously, that has not happened because of COVID related, man and material movement restrictions, it got pushed out to November. So, because of this we missed out on some commercial revenues. I would not say missed out, it got pushed out to the next few quarters. So, I would say there is around 6-month push in our initial pilot.
- Sachin Kasera:** Will H2 be far better than H1?
- Vivek Partheeban:** We will beat last year's number very comfortably. In fact, we have gone very close to it already, but when we double our sales from last year that is not likely to happen, but very comfortably beat last year's figure in the US.
- Sachin Kasera:** Sir, just lastly on the employee cost, because of this consolidation and new capexes, the employee cost has gone quite a bit. So, is this a new run rate or is there needs to be some more increasing employee costs before it stabilizes?
- D. Muralidharan:** The employee cost as compared to the last quarter is more or less the same, we expect that to be around the same level, except that normal periodical increases will be there and when the projects



go on stream there will be additions to the new projects, employee costs will be there. As of now the current business model, the current employee cost is sustainable.

**Sachin Kasera:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Srihari C from PCS Securities. Please go ahead.

**Srihari C:** Congratulations on a solid set of numbers. You said you expect a launch some products soon, can you please give us some colour with regards to the different market size and how many of those could be limited competition products and we think we are putting a lot of weight behind the COVID so some colour on the potentials there would be very helpful and finally on the API front you said that you have developed 26 products, so if you could give some indication there in terms of how many products and how many are complex? It would be helpful. Thank you.

**Vivek Partheeban:** On the launches for the next six to seven months, we have about seven launches planned of which two are already approved ANDAs and that they are about to launch before December and the others are new approvals that will be coming in. In terms of the API plant where you had asked, so that 26 products we have spoken about 13 or 14 of them are for backward integrated API, for the US and the rest of it is for ROW markets. So, as I had mentioned during the initial comments, we have increased the capacity, at the drawing stage itself in our API plant so that we will be handling both ROW and US APIs in the same plant itself. In terms of volumes, we see as a principle we do not want to take up huge volume APIs. We sort of want to play on the value rather than the volume and we will be going for only niche APIs that we already have a front end for in the way of formulation. We will not be going for very Me-too kind of generic APIs.

**C.C. Paarthipan:** I will like to add one more thing here if we aim for a high-volume API then it is not easy to go for a KSM, Key Starting Material in India itself. So, the best way to control the technology platform is to go for a lower value API such as APIs that we are planning for our injectables in the US market, maybe for the oncology, maybe for the hormone. Even if you develop some 50 to 100 products in the next four, five years, then it becomes end to end in the form of technology, the way we have created end to end business model for marketing.

**Srihari C:** The question regarding the addressable market size for the seven products and the opportunity? I wanted to know the addressable market size for the seven launches that you are expecting in the second half.

**Vivek Partheeban:** Addressable market size. We would like to get it into that for the approved products, one of them is \$28 million-dollar molecule and the other one is \$35 million. But for the products that are not yet approved, we do not like to get into addressable market sizes now because as you know it is a bit of a dynamic situation in the US so, we would like to get into addressable market sizes as and when we get approval, which is what we have always been doing in the past also.

**Srihari C:** There is one question which I want to ask on is that the premix bag, some color there?

**Vivek Partheeban:** In terms of premix bags, this is one of the areas which has limited competition, whether it is in India or overseas. There are some companies which are very, very large in this, but that was more in terms of current nutrition and large volume infusion. So, in terms of premix bags this is basically a diluted ready-to-use version of a vile. What it does is basically reduces the number of steps that a healthcare worker needs to take while administering the product to a patient. So, there are multiple complexity with regards to maintaining aseptic area very well and also sterilization of the products and stuff. So, we feel that we have a very good internal capabilities in our R&D for this and in terms of India there is hardly probably three to four companies that are manufacturing premix bags. So, we think this would be a good lucrative area for us.

**Srihari C:** Any indication about the potential, the size of the opportunity?

**Vivek Partheeban:** Again, we have not even filed the product. So, we are not going to talk about this right now, but our overall pipeline is quite robust. We have given it in our presentation yesterday as well that we are working on overall pipeline addressable market of around \$2.8 billion.

**Srihari C:** Thank you and all the best.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to the management for closing comments.

**Vivek Partheeban:** Thank you. Thanks to Centrum. Thanks to Cyndrella and also EY for organizing the call and thanks to all the participants for all the questions. We look forward to further interactions with all of you in the next few months. Thank you very much.

**C.C. Paarthipan:** Thanks to all of you. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your line.

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