"Caplin Point Laboratories Limited

Q2 FY27 Earnings Conference Call"

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MODERATOR: **MS. JULIE MEHTA**

Moderator: Ladies and gentlemen, good day and welcome to the Caplin Point Q2 FY27 Earnings Conference Call hosted by 360 ONE Capital Market Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Julie Mehta from 360 ONE Capital Market. Thank you, and over to you, ma'am.

Julie Mehta: Thank you, Rayo, and good afternoon, everyone. On behalf of 360 ONE Capital, we would like to welcome you all to the Q2 and H1 FY27 conference call of Caplin Point Laboratories Limited. Today, we have with us senior management of the company, represented by Mr. C.C. Paarthipan, Chairman, Mr. Vivek Partheeban, Vice Chairman, Dr. Sridhar Ganesan, Managing Director, Mr. D. Muralidharan, Whole-Time Director and CFO.

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

Vivek Partheeban: Thank you, Julie, and thanks to 360 ONE Capital for hosting. Welcome everyone to our earnings call to discuss Q2 and H1 FY27 results. Please note that a copy of all our disclosures are available on the investor section of our website, as well as on the stock exchanges.

Do note that anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

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Now, I would like to hand over the flow to our Chairman for his opening remarks.

C.C. Paarthipan: Good afternoon, everyone. Welcome to our investors call. The two important words of our business are build and sustain. Get grit and gumption to build a unique model, systems, and standards to sustain. We are also aware that processes does not live in people's head, and the two people who can damage shop floor to everywhere.

One, who knows the job but does not work with discipline. Number two, the one who works but does not actually know the job. Hence, we are doing the following in our factories for institutional intelligence. One is automation. Number two, digitized architecture. Number three, video SOP. Number four, CCTV 24/7. Number five, biometrics. Number six, quality oversight team. Number seven, AI cameras, which is work in progress.

Coming to automation, number one, most of our machineries that we are installing now in CSL and also the COL, which is likely to be completed in 1.5-2 years time from now, all are imported

machineries from Germany, Italy, and U.S.A. We are digitizing the entire shop floor. We have already completed LIMS in most of the areas like QC and micro, and in two to three months' time, our factory will be paperless.

The third one which we are introducing is video SOP. This is something new. We are trying to capture most of this manual, crucial, and critical areas so that it becomes easy to teach to the trainees, and also it becomes easy for us to watch as a reviewer. Then biometrics. It helps us to understand when exactly people enter and what time they left the places.

Using this digitized architecture and biometric, we will be in a position to understand who has done what and where. Then six, quality oversight team 24/7. We are going to use the videos and CCTV to review the performance of the people who are working in the factory.

Seven, we are trying to integrate our normal cameras with edge AI and create AI cameras for which the work is in progress. We will be completing the entire digitization, video SOP, and everything, as I told you, in three months' time, so that the entire factory will become paperless, and this will ensure quality with productivity.

After the completion of our three factories in India, which is likely to happen in 2 to 2.5 years, in addition to the factories that we have completed for the anti-cancer products and the general API, we are also planning to go to Mexico to start a facility for liquid orals and IV fluids.

Once we start our manufacturing in Mexico, the products, especially the liquid orals and IV fluids, will be exported to Central American countries in our own trucks, and the goods will be stored in our warehouses where our business is up and running currently.

This will increase the revenue, both top and bottom line, for our Central American business and also in Mexico. Here, it will not be out of place to say that Central America is well connected with Mexico by road.

The digitized model of our CSL will also be replicated in the factory that we are planning to build in Mexico too. Further, our second innings of asset-light model will start from China for API and also for biosimilars. We first exported our formulations from China to Latin America when most of the Indian companies imported the Chinese API.

Now, we plan to import drug substances from China to India for biosimilar, fill-finish, which we are planning to do in our COL facility. We will also go for large volume APIs from China, which is cost-competitive compared to some of the Indian companies.

Further, we also started the due diligence for acquiring a distribution company in Mexico. My visit in January will complete the entire acquisition of this distribution company. We also have opportunities to acquire product registrations in LATAM and U.S.

Coming to U.S. product acquisitions, the Vice Chairman will detail you everything when he gives his presentation. Our business model in larger geographies of Latin America will be more on private market sales, which is not the playground of the big players. Especially, we will concentrate on the small chains, wholesalers, and individual pharmacies, and that will be our

target to increase the profitability and cash flow in the bigger markets such as Mexico, Brazil, Chile, and Colombia.

This helps us to eliminate the intermediaries so that we will directly go from manufacturing to the last mile, which we have done in the smaller geographies of Central America, now that we are moving to the bigger markets of Latin America. We will also manufacture products from the local companies to increase our basket of registration in Mexico.

There are companies who are not in a position to sell their products in Mexico. They do contract manufacturing for other companies, and we would be one of the few who would use this opportunity and manufacture the products locally, which will also be an asset-light model for our future operations in Mexico.

Further, the introduction of VBP, volume-based purchase in China, which of course, the recent introduction by the Chinese government, resulted in price erosion for local companies. Hence, there is a good opportunity to repeat our asset-light model in the form of sourcing raw materials to all other products for the larger geographies of LATAM.

Our focus will be more on bigger geographies such as Mexico, Chile, Colombia, U.S., Europe, South Africa, and Brazil, using our Indian facilities and also the facilities of our associates in China and Mexico.

For next 2 to 3 years, we will manufacture most of our finished products from our own factory, and except some of the products such as penicillin, cephalosporin, and large volume APIs, we would go for networking opportunity with the Chinese manufacturers. After the completion of all these countries, our networking arrangement will definitely help us to strengthen our bottom line in the years to come.

Further, in a commodity world, there are only three ways to win. Be cheaper, number two, be faster, and number three, be different. The first two, I think they are temporary, and the third is more durable. The strongest models are built around these things that compound. Trust compounds culture, data, communities, and learning. Products eventually become generic, but an ecosystem that teaches and improves every day becomes very difficult to replicate.

The future value of Caplin may not come only from the medicine that sells, but from the unique ecosystem that we build around manufacturing excellence, video SOPs, trade-driven learning, rural development, and trust across Latin America and beyond. Thank you very much.

Now I invite the Vice Chairman to give his presentation.

Vivek Partheeban: Thank you, Chairman. Good evening once again to everyone, and thanks for joining us today. We are pleased to share that Caplin has delivered another quarter of steady growth with strong performance across our businesses during the H1FY27.

Our CFO will go into more granular details on the numbers for this quarter. While these numbers reflect the consistency of our underlying business, I would like to spend a little bit more time today discussing an important development in our growth journey, our expanding presence in

the U.S. market, particularly the progress that we are making with our own front-end platform, which is Caplin Steriles U.S.A., or CSU that we call internally.

The U.S. remains one of our long-term growth opportunities, and we are already starting to see the results of the investments and groundwork that we have put in place over the last decade or so. At the manufacturing level, Caplin Steriles continues to make steady progress, both in terms of product portfolio and market reach.

We have now launched 40 products in the U.S. while continuing to expand our regulatory pipeline and commercial presence across other regulated markets also like Canada, UAE, et cetera. While 40 products being launched is a good start, it is also equally important for us to have consistent inventory of these products in the market. We don't want there to be a situation where we launch on time but go into back order immediately.

The next 12 months is going to be a lot of focus on ensuring adequate inventory levels are maintained and decent market share is achieved. Our own label CSU is now entering its second full year of operations, and the traction we are seeing has been very encouraging. During the first half of this year alone, we have surpassed the sales that we have done in the last full year.

We have been very successful in adding several direct sales contracts with both large and small integrated delivery networks, alongside our relationship with the three large wholesalers. Our daily average sales has nearly doubled from 33,000 USD last year to 61,000 USD on a daily basis currently. We believe this is a good milestone to achieve for the business.

We feel that it demonstrates that our tried and tested model of keeping the product closer to the customer continues to service well, not just in LATAM, but also in the U.S. Our expectation is that CSU will double its revenue and profitability in FY27. While we are at an early stage in building this platform, we believe it has the potential to become a meaningful contributor to the group over the coming years.

Alongside this commercial expansion, we continue to invest in strengthening our manufacturing and product development capabilities. Caplin Steriles facility has completed exhibit batches for two pre-filled syringe products, with another 12 products under development, which is a new area and a new segment that we're getting into in the injectable space. We also plan to launch an additional 10 products in the U.S. in the next financial year.

Our COL-II facility in Gummidipoondi is progressing well and is expected to be completed by August 2027. The facility will initially accommodate six injectable lines, ophthalmic, which includes ophthalmic and blow-fill-seal line, with provision for further expansion.

The capabilities and capacities we're putting together in this facility is going to comply with the latest expectations from FDA and EU Annex 1, and we are confident this will be one of the best state-of-the-art sterile facilities in India once it is completed.

We're also making considerable progress on the backward integration journey, particularly on the API front. We have completed scaling up of five APIs on this site, four of which are secondary source to our existing approved products, and one is a primary source.

We continue to work on scaling up multiple more APIs, both for regulated markets and Latin America, and we expect to file the first few DMFs from this site within next year. Oncology API sites also will be coming up before end of next calendar year. We'll keep you updated on the progress.

When it comes to our CRO, we are making good progress in recent times with multiple internal pipeline products completing pivotal BE studies, and we are seeing an increase in the requirements for BE studies at the site because we have our own oncology products, soft gel products, in addition to the regular OSD products requiring BE studies.

So, taking this into account, we're expanding our CRO from 72 beds - 120 beds by the end of this financial year. This should help us get to around six to eight BE studies per month going forward from this site.

As we look ahead, our priorities remain very clear: to strengthen our existing business, accelerate our presence in the regulated markets, and build CSU into a larger and more meaningful commercial platform, and continue investing in manufacturing capabilities and backward integration.

We are conscious that these investments will take time to translate to their full potential. However, the foundations that are being laid today will position Caplin very well for the next trajectory of growth, and we are doing all of this without taking any debt from the bank, and we are living within our means. Thank you, and I look forward to discussing the results and answering your questions.

I will hand over to our CFO to throw some colour on the numbers for this quarter. Over to you, sir.

D. Muralidharan: Thank you, Mr. Vivek. Good evening, once again to all of you for taking time off to take part in this conference call. Having well begun the year in the first quarter, we are pleased to report that the momentum has continued. We will take you through the consolidated financials for the Q2 and H1 of FY27, which is already there in our website and also the stock exchange's website.

Before that, one point which is to be noted is all the parameters, EBITDA, PBT, and PAT of current year H1 is either equal to or more than full year of whole FY22-FY23. That means we are able to more than double all the three parameters in last four years.

Having said that, let us go to the Q2 and H1 FY27 numbers. As already reported, we have had an operating revenue of Rs. 1,240 crores, which is about 18.8% growth. Equally, it is distributed between the U.S. and also the Latin American market. The U.S. part, which we have already put, our strategy to go to B2C has paid huge dividends.

Against the whole year of Rs. 92 crores last year turnover, first half has already given us a realization of Rs. 103 crores, and they are highly profitable as well. Caplin Steriles as a company has contributed Rs. 271 crores to the total revenue for H1, which is about 21% growth over the previous year.

The gross profit of the current quarter has improved by about 1.5%, primarily because we have taken certain orders on CIF basis and high prices, which are supplied on CIF basis. Also, we had to engage certain commission agents to get those orders.

While this has resulted in increasing contribution, our operating expenses have slightly gone up, both on account of freight and also certain selling expenses. Having said that, the EBITDA stands at 38.7% and PBT at 35% and PAT at 27.5%. Effective tax rate also is hovering around 21%.

Our target is around 20%-21% is what we will be ending at year as a whole. The operating expenses, we are really conscious and we are keeping them under check, and this is resulting the entire contribution flowing into the EBITDA level.

The depreciation has gone up compared to the last year, considerably because of the capitalization what we have done. The oncology facility injection has been capitalized in the month of April, and other nominal capex happened in other entities as well. This has resulted in the depreciation going up during the current H1.

As we go along the next few quarters and years as well, the depreciation will keep increasing, but our top line also will go in tandem with that to absorb all the expenses. We will be well on target to yield 25%-26% of PAT that we have committed. Coming to the balance sheet, it is worth noting that our net worth is close to Rs. 4,000 crores, with Rs. 3,953 crores that we have received.

The cash and cash equivalents is about Rs. 1,500 crores, which will enable us to fund our expansion and also acquisitions, both organic and inorganic growth, out of our own accruals and without having to borrow anything. Cash flow from operations is worth noting that as against Rs. 250 crores last year, it is Rs. 205 crores.

It may look like as if it dipped, but this is a conscious decision to increase inventory. About Rs. 115 crores is increase in inventory and about Rs. 70 crores is increase in receivables. The 50% of inventory will get sold this year. Out of the Rs. 115 crores increase, Rs. 45 crores is towards supply at a tender in El Salvador.

That now will get billed in the current quarter, and the payment will definitely come to about normal level as in the month of March. Also, our receivables from the government tenders what we have supplied in the last six months or so will all be received, partly received at least during the Q4, and inventory will hover around 120 - 150 days, which we have said will be our benchmarking number of days. The capex program is on course, and we have spent cash of over Rs. 175 crores during the current year, mostly towards advance payment.

As Mr. Vivek said, about two lines have already arrived out of six and for four lines we have paid advance. This is the major capex that we have spent, apart from small capitalizations in our API facility and OSD facility in Pondicherry. The other capex to the tune of Rs. 500 crores - Rs. 600 crores in COL will happen in the next 12 to 18 months and Thervoykandigai project will take about Rs. 100 crores – Rs. 120 crores, which also are awaiting certain approvals.

Once the approvals are received, we will be spending close to about Rs. 100 crores in that facility. OSD, under Caplin One Labs in Pondicherry, will have the capital expenditure of Rs. 120 crores – Rs. 150 crores, which will be spent over the next 12 months.

As I said, this will all be funded through our own accruals. As the Chairman put it, we are also on the lookout for certain inorganic opportunities and also setting up facilities in Mexico. This also will be facilitated by our own accruals in the Caplin Point Far East Limited based out of Hong Kong.

That is it from my side, and if there are any questions, we will be more than glad to answer them. Over to you, Mr. Vivek.

Vivek Partheeban: Thank you. I think we can turn this around for questions from the participants, please.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask questions may press star and one on the touchstone telephone. If you wish to remove yourself from the question key press star and two. Participants are requested to use hands as well for asking questions. Ladies and Gentlemen, we will wait till the question cue assembles. The first question is from Abhijay from AJ Capital. Please go ahead.

Abhijay: First of all, congratulations, sir. Your team has done a good job of growing every quarter. Obviously, it is understandable that you are making certain investments, so the profitability can be haywire in a quarter or so. But otherwise, from the top-line basis, it has been a good quarter. Congratulations.

My first question is around the cash use. You have Rs. 1,500 crores of free cash now on the books, and I think you have already evaluated the Mexico distribution acquisition and 12 plus oncology ANDA, towards which this last part of the Rs. 1,500 crores would be going.

I just want to understand, how much do you expect to spend on these in the next 12-18 months, and what sort of a return on capital are you projecting from these two investments? That is my first question.

Vivek Partheeban: When it comes to the return on capital invested, I think it's a little too early to get into those areas right now. What we are looking for is, when it comes to Mexico, we are looking at anything that will give us a little bit of a jumpstart into the distribution area, which is something that we've always been very comfortable with.

In fact, our Latin American business is what we call internally much more as a distribution concept with a strong supply chain backend compared to more traditional sales over there. This is something that we look forward to in Mexico as well. Of course, the numbers have to make sense. The overall underlying business and that distribution entity also needs to make sense, which is what we are evaluating right now.

When it comes to these oncology assets we are talking about, these are basically filed and approved products in the U.S., which will also give us a little bit of a kickstart rather than doing everything from scratch. Our idea is always to try and pay lesser than what it would cost us to

do everything from scratch on our own. That's another thing that is undergoing diligence as we speak. Yeah.

C.C. Paarthipan: Let me add a few words also to his question. See, we don't try to grow on a shaky ground. You know very well that our main business is from LATAM. The market, whether it's small or big, the information with regard to the market is one and the same. We always systematize before we scale.

The products that we buy in the form of the registrations or the distribution company that we are planning to go for in Mexico will give us the correct inputs in the form of what is happening in the private market, in the interiors and the peripheries. Most of the time, we make money only when we go to the peripheries and interiors. That's where you see small chains and polyclinics and individual pharmacies.

Big companies will always focus on the tender business and the leading chains, because they can balance the economies of scale. In ours, if you look at it in the past, we went to countries which are smaller, and that time we did not even have these type of factories also. Today, we are building the best assets.

On one side is this asset-light model, and the other side is asset-right model. So what we do, we are sure, it may take little time, but at the same time, this is in the form of something called delayed gratification, which is not the absence of something fundamentally right. It is more of building something brick by brick. Thank you.

D. Muralidharan: So, to answer the gentleman, if you look at our business model, as Chairman rightly put it, we have a mix of both asset-light and asset-heavy model, and each of them complement each other. So each of the businesses what we are expanding into or growing, it will always be complementary to each other.

So the facility what we have here will enable us to replicate it elsewhere, and then the oncology facility will also take us to the regulated market. And China too, what Chairman probably would have mentioned in his opening remarks, will complement the overall.

I would request you to look at the basket of the overall and then the ROI, which is higher than the average of the industry, which is about 20% plus now with ongoing investment. Also, it is an R&D-heavy company, which directly does not yield the immediate return.

So, as Chairman said, it is a delayed gratification. Each facility what we put up will take anywhere between three to four years to meaningfully add to the return on equity, and the perseverance is the only goal. In the meantime, as I mentioned, there are other complementing business opportunities which will be there, and it will improve top line as well as sustain the PAT what we have promised to the investors.

Abhijay: Okay. My second question is that LATAM has been your bread and butter. It is now almost 68% of your revenues. I can see that when one part of the business becomes so big, obviously it starts slowing down, and LATAM has grown a bit softly against your balanced revenue. Your investments are towards the right areas in LATAM.

Given the thought that you give to the business, given the way you are so passionate about it and you just want to keep growing, I just want to understand from you that, do you see that LATAM again growing back to higher 18% and 20% kind of numbers that it used to or do you think that you will find different revenue sources to ensure that the growth rate continues?

Because I am pretty sure that you are quite passionate and you might be sitting and every day thinking about, "What can I do more for this business?

C.C. Paarthipan: I am waiting in the wings actually to move to LATAM in the month of January. Before that, to put it simply, there are two reasons why again we will have to go for Mexico and other larger geographies in the form of establishing some factories. You are aware that we went to Central America when there was no other Indian companies present.

That time, 20- 21 years ago when we went there, I did not even see any Indians or Chinese there. Today, what we are trying to do in the form of building the factory is something that no other Indian or Chinese has invested in that particular bulky items. These are the companies, especially the one which I said openly, the liquid orals and IV fluids. Here, the local companies, the mainstay is from the multinationals.

Multinationals are the one who focus on this IV fluid and other business. Coming to liquid orals, it is actually the local companies who concentrate because you cannot be exporting from India and China. It will be very costly. It will not be cost-effective. As I told you before, first we went to places where there were not much of a competition from India and China.

Now we are going for factories where there is not much of a competition from Indian and Chinese entrepreneurs, which means we are confident of actually making it successfully, and the business that we do in the form of keeping our goods next to the customer, we know you are aware that we have warehouses in six, seven countries in Central America. Mexico is just one-hour drive from Guatemala.

Once we start our factory, maybe in two to three years we will complete everything. The way in which we are distributing our medicine from Guatemala City to various places, we will also do the same from Mexico to all other Central American countries and keep our goods in our own warehouses.

Which means it becomes easy for the customer to come and buy the products which are not there in that warehouse. We never store IV fluids or liquid orals, except one or two. But once we start the factory, it will be 50-60 products. The products in the form of addition will create a value add.

We are very sure, it may take little time for us to make it big, but when we make it, it will be like the way in which we have created the liquid assets, we will again create it in the years to come.

Abhijay: Right, sir.

C.C. Paarthipan: Have I answered your question?

Abhijay: Beautiful, sir. Just one objective vision that I want from you, like you provided your investors back in 2021, 2020. You said that, "My top line will become my PAT in five years." So, in the next four to five years, what sort of vision do you have for Caplin Point? Have you objectively thought about, what do you see Caplin Point to be by 2030?

C.C. Paarthipan: Yeah. 2030, we are very sure, we will do well. I will tell you the reasons, one, two, three, like that. Once we complete all these facilities which we are currently completing, then we will get the registrations, and then we will start the commercial up and running. That is the time we will go for exhibitions in major cities. You must be knowing CPHI and that kind of stuff all over the world. There are so many exhibitions happening.

Since we know how most of the products under one umbrella, this will actually help us to exhibit to the customers, the visitors who come from all over the world. Which means all these days we have been going to the market to sell the products. Once we have everything lined up like all these top companies, they will come to our place to buy.

In the sense, whoever comes to our stall, we will give their address, and they will be in a position to buy everything from us. The second advantage is, most of the big companies, the overheads will be high. If you look at them, whether it is a multinational or the Indian big company, they always get into discovery or get into areas which are high tech.

But company like us, even a product which we generate, if we can create a price which is adaptable to the middle class and poor, then quality medicines at affordable price will always reach the Bottom Of the Pyramid. Probably one among the few people who cater to the BOP. So I am very sure that we are very confident of increasing our profits and cash flow by 2030.

Abhijay: Right, sir. Still didn't get an objective answer, but I'm assuming that your book value growth will be almost similar to your return on capital that you're generating. I am hopeful for that.

C.C. Paarthipan: Thank you so much.

Moderator: Thank you. The next question is from CA Garvit Goyal from Serene Alpha. Please go ahead.

Garvit Goyal: Good evening, sir. My first question is on the U.S. front. I was checking the consolidated numbers, the segment level details that you people have shown there. Looking at the quarterly run rate, our U.S. business went down as compared to the previous quarter. The rate of change that you were earlier expecting for our U.S. business, it's not in that line, sir.

Also, if I look at PBIT, that has also fallen in the percentage term. I just wanted to understand from you, from the perspective of overall U.S. business, how we should look at the growth going forward as well as the margins. How we should look at this?

C.C. Paarthipan: Before I talk of the margin, I would like to convey one thing, because I know you are a shareholder for quite some time in Caplin Point, that's why I want to tell you this openly. See, these margins which has come down is the one which makes me to go to the market actually starting from January.

Because there are some markets you understand you can actually manage, you can also create new versions in our business. But there are some markets which are monopolies and near monopolies, where you have to work with the system.

You can't create something new in the form of unique business models. You have to go with the stream. When you are small, if you have to fight actually against the wind, there is a possibility to make it also.

We always feel we don't want to go actually with the stream because dead fish only will go with the stream. I would actually now ask Vivek to give you the reply for your particular question.

Vivek Partheeban: Yeah. Two, three things here. Number one is, if you look at our overall numbers, I think we are still growing at around 24%, 25%, and off a larger base as well. We are almost a INR500 crores company right now in Caplin Steriles, and I think 24%, 25% is still a very decent number when it comes to the rate of growth, number one.

Number two, I think QoQ is not the right kind of metric to compare, because even though much of the business is largely not cyclical, it would still be very difficult for us to quantify each metric on a QoQ basis. So, quarter from one year ago to what it is today, I think there is still definitely good growth.

One more thing that we are doing is, especially this quarter and next quarter, there will be some amount of slowdown that we have put on ourselves because we are upgrading two of the lines that are some of the older lines that were there from the inception of the facility. There were some areas that we needed to upgrade, and this would require some amount of downtime.

So, on line one, we expect there to be some slowdown, and then on line three as well, until December, there will be a little bit of slowdown. I think in Q4 and beyond, we should be in a position to catch up to a large extent. But I would say that that is probably one of the reasons why we have shown a slightly lesser number compared to what we expected before.

Also, as we slowly transition from a B2B to a B2C company in Caplin Steriles, you will see some amount of choppy waters when it comes to EBITDA and bottom line and stuff. That is also because we are planning for the future, right? We do not do any new deals, and we do not look for any milestone revenue and all of that to a large extent, because we are focusing on our label to the maximum extent possible.

We are not really going out and doing more B2B deals because our B2C space is doing very well, and we want to continue to focus on that as much as possible. So, I think overall numbers are still very healthy. They may not be in line with Caplin Point yet, but I think we are moving in that direction over the longer term.

C.C. Paarthipan: Yeah. One more thing I would like to add is that in 2.5 years' time, I am sure we will do very well in U.S. too. Main reason is the kind of the machineries which we are going to install, all are imported machineries from the best of the best companies from Germany, Italy, and U.S.

What has happened in the last 10 to 15 years, as Vivek has put it, some of the areas we have to do the retrofitting. That also affects the increase in production. It is not that we have a depth of order. The issue is we have to complete the manufacturing, which is not that easy in a USFDA facility if the machineries are not in good shape. We are trying our best to do everything today.

Maybe in the next two to three months, as I told you before, it is going to become a paperless factory, which means there is nothing in the form of data integrity or any other issues because it is going to be like anyone who comes there, any auditor, whether he is from U.S. or any other country, they will see the audit trail and find out everything is going well. We are very confident that, we will have a huge opportunity in U.S. market too, 2.5 years from now.

D. Muralidharan: The only important point is the contribution margins have remained either same or it has improved only. That means there is no price erosion, there is cost control. Capex will vary from quarter- to- quarter depending on what activities undertake, and that will get set right by Q4, and we will be back on rails.

C.C. Paarthipan: Yes, definitely U.S. will continue to be a volume-based sales. The value-based sales comes only either from technically superior products or a business model which is much superior and unique compared to other competitors.

Garvit Goyal: Yes, sir. Just a follow-up to the response. I just wanted to understand that we are planning for future, right? For our U.S. business. How we could look at the overall impact on OPM percentage and net profit margins for all the kind of efforts we are doing for next two and a half years, maybe in FY27 and FY28. Will we be able to maintain those FY26 levels or if not, what kind of drawdown we can see in those margins in next one and a half year?

C.C. Paarthipan: In the next one and a half year, we will maintain actually what is happening now. The best of the best will happen actually starting from 2030. That is for sure. Before that, we don't want to actually overpromise and underperform. We'll do well. We are sure we'll do well.

Even now, whatever we are doing, we'll continue to work. There is an opportunity to increase our performance also. But again, I don't want to tell you something and then, you know, this is the reason being when you get into the bigger geographies of the world, there are so many things which is actually beyond your comprehension in the form of registration, in the form of BE studies, in the form of actually, you know, understanding the competitors and out-compete actually in the market.

We will do it, but again, we don't want to actually give you something which is not correct in the form of like what will happen in 1.5 years. That's the reason I said, delayed gratification is not the absence of a strategy or something. This is something in the form of building brick by brick.

Garvit Goyal: No, sir, my question is from the point of view of margins, what are the kind of efforts we are doing?

C.C. Paarthipan: That is what I said. Margin comes based on the business, right? Unless we create something unique, the way in which we have created in Central America, other countries also will definitely

do well, but it takes time. It does not happen overnight. That is the reason I said if it takes two to three years, then of course, we are very sure, we are very confident we will be able to do it.

Because everywhere the registration is happening, and then, you know, our bio studies are happening. Even complex molecules we have completed or we are about to complete the R&D. So, all these things will start fructifying maybe two to three years from now. And 1.5 years from now, we will continue to maintain what we have been doing now.

Garvit Goyal: Okay. Secondly, I am again coming to the same point which I used to highlight in every call, sir. We are certainly nice to have the cash reserves that we have. These are very large, I would say, kind of company we are. I wanted to understand from you, if I look at last three to four years on a fully year phase, our growth has been on an average range of 15%-16%. While I agree that we are investing for future and things take time, I just wanted to understand from you because the plans with respect to utilization of this cash flow, which I understand is we are about to do some inorganic acquisition, which has not happened yet now, right?

Do we have any plan of buyback or something like that to reward the shareholders? Because the kind of growth, the 15%-16%, it is still moderate, right? I understand that we are focusing on the cash flows and we are generating them. But this point is valid, sir. Can you put some colour on that?

C.C. Paarthipan: Since you mentioned, one of the opportunities probably, if we come across some extraordinary and meaningful acquisition, that will satisfy your question. Probably if you are able to acquire some company with the kind of money that we have as cash reserves, that probability also is there, but we can't say because it's not in our hands.

It can happen even six months from now, it can happen after two years also. So, it's better to keep the liquidity, which will help us on the contrary, instead of we rewarding the shareholder. One may be instant gratification, other is, as I told you before, delayed gratification.

I would only request you to wait two, three years because having waited with us for so long, we are not telling you that we are not in a position to show you the sunshine. We will definitely show you. It's a question of time. That's what I'm telling. That time also is not very far. It's two, three years maximum.

Garvit Goyal: Got it, sir. Thank you very much, and all the best for the future.

Moderator: Thank you. The next question is from Preetam Kamaji from Purnartha Investment Advisers. Please go ahead.

Preetam Kamaji: Thank you for the opportunity, and congratulations on great set of numbers. My question is around U.S. specifically. Earlier it was targeted that the U.S. revenue would be growing by 25%-30% in FY27. But as it got instructed now that we are planning for upgradation of some line and there would be slowdown in second half of the FY27.

Considering the slowdown, are we still targeting that growth, or what are the numbers for FY27? Also, compared to Q1, the PBT margins almost fell half in Q2. Was Q1 some exception, or are we facing some kind of stress in U.S. specifically?

Vivek Partheeban: Yeah, two things. Question number one, like you said, we are still targeting around 20%-25% growth with this year, and I think we should be on target to achieve that. Number two, like I said, as we are slowly transitioning from B2B to a more B2C-heavy company, there are certain aspects of B2B business that will fall away, which is specifically on milestone revenue.

Milestone revenue is only received as and when you make deals with B2B companies for many of the products that you're doing or products that they want to use you as a CMO, et cetera. As we are focusing maximum on our own label, we do not want to do non-exclusive, exclusive, or even semi-exclusive deals, because what happens is eventually those companies will come onto the market and will compete with our own label only.

As a company that has always been in the forefront of the marketing side of it, we are very comfortable, and the numbers that we are seeing also from our front end gives us more encouragement to focus our maximum efforts in terms of our own R&D, our own filings, and et cetera, to be promoted through our own label, right?

Because of this, you will start to see some moderation, at least on a QoQ basis. I think some sort of a moderation that you may see from time to time. But I would say that it's more of a timing issue rather than any stress in the market or anything like that. For example, of course, maybe CFO has more information on that.

There might have been some rather large milestone revenue that was accrued in Q1 compared to Q2. But I would say, our EBITDA margins from last year should be very similar to the ones that you will see going forward as well.

Preetam Kamaji: Okay. Thank you for such a detailed explanation. My one more question was, in previous call, it was guided that we were planning around 14 plus new products in U.S.A. in FY28, but in latest PPT, the number has been reduced to 10. I just wanted to understand what were the reasons because of which the number was reduced?

Vivek Partheeban: See, we rationalize our filings and also our launches based on the dynamism of the market in itself. There are some products, at the time of development, there might have been like two, three players, and by the time we get to market, there will be seven or eight.

Rather than focusing our attention and getting it too diluted by way of focusing on numbers, I think it will serve us better to focus on areas and products where we feel that we are much better focused towards the success of that product. I would say that rather than going after numbers.

C.C. Paarthipan: Yeah. As he rightly said, product excellence also matters. There is no point in increasing the number of products. On the contrary, you will have to look at it, does the product really make sense? That is one of the reason we have to rationalize the numbers. I hope you would agree with me, as I told you before, in the next two years' time, we are very sure that we will grow at a very healthy clip. That is for sure.

Moderator: Thank you. The next question is from Arun from Unifi Capital. Please go ahead.

Arun: Thanks for the opportunity, sir, and congratulations on the good set of numbers. Sir, on the USFDA inspection at the Gummidipoondi facility in August, could you update us on where we stand as the FDA come back with any classification yet? Are there any pending approvals of planned U.S. launches on hold because of this, sir?

Vivek Partheeban: We have responded comprehensively to FDA, and we have also sent in our monthly updates as well. The classification is pending as we speak. Probably over the next few weeks, there may be some clarity on that. And of course, there were some remediation measures that we needed to take, and much of it is completed. Some of them are also work in progress right now. So, it is a status quo as we speak right now.

Arun: Got it, sir. My second question is on the other expenses. They have gone up 18% in a quarter and 30% YoY. Is it mainly because of the freight expenses that you are seeing, and how is it being post-September, sir?

Vivek Partheeban: I will let CFO answer this in a minute, but freight has definitely gone up in the last three, four months. As you can imagine, the global situation is not very conducive for air or sea freight. Typically, between the months of August, September, October, you will see a lot more increase in freight because of the Christmas season and the holiday season in the U.S. and Latin America and all of that. Let me pass it to CFO.

C.C. Paarthipan: We had to export some of the goods by air also to El Salvador. Probably CFO is the right person to answer this question.

D. Muralidharan: Yeah. Thank you, sir. As I was mentioning in the opening remarks itself, the freight, as you rightly said, is the main reason for this one. We have two kinds of dispatches. One is FOB, where we recover the freight from the customer. One is on CIF basis. Basically, most of our subsidiaries, we send on CIF basis, and certain orders we took on CIF basis.

The prices have compensated for that. That is the reason why our contribution margin has gone up by 1.5% over the previous quarter. What at the bottom line is that our PBT, EBITDA, PAT all remain at the same level as compared to the last quarter, and then we are on that. Whatever we have spent more on freight has been recovered from the customers in terms of pricing.

Arun: Got it. It is matched between the gross profit margin and the EBITDA margin?

D. Muralidharan: Yes. You see, the general overall freight rate is there, and we are able to partly pass it on to the customers in the market.

Arun: Got it. I just wanted to understand the hedging policy as well of the company, sir. Can you talk about how the impact has been in H1?

Vivek Partheeban: We do not actually have a policy for hedging, or we try and do any hedging at all. In fact, way back, almost 20 years ago, we in fact lost a little bit of money trying to hedge.

C.C. Paarthipan: More than that, we are natural hedging also. We are exporting actually some 30% of goods from China, which is more of a natural hedging.

Vivek Partheeban: It's almost considered like an import, right? Because you pay for it in U.S. dollars.

C.C. Paarthipan: It's a natural hedging.

Vivek Partheeban: Yeah.

C.C. Paarthipan: Other than that, we don't do any hedging.

Arun: Got it, sir. Any inflation you are seeing on the raw materials also?

C.C. Paarthipan: This you have to ask the business of the country. It is very difficult to answer. Prices will continue to rise. There will be geopolitical risk. There will be lot of wars and tariffs. However, we will have to hit the problems and does not allow the problem to actually affect our business or even if it happens, somehow we will have to turn it around.

That is how the business has to happen. These are few things which will continue to happen. No way we can stop it because it is beyond our control

Moderator: Thank you. The next question is from Abhinav from Damani Capital. Please go ahead.

Abhinav: I just have two questions. First one is that in our COL-II plant, we were first finishing it in December 2026, then March 2027, then August 2027 now. I just wanted to know, when can we expect our first revenue deal and how sort of terms are August 2027 deadline? My second question is, on the U.S. PBT, which has halved from INR 20 crores to INR16 crores. So what led to that? What should be the long-run sort of margin that we should expect?

Vivek Partheeban: Yeah. Your voice was a little muffled, but if I am not wrong, I think what you were asking is from COL-II, when are we likely to expect revenues? Is that what the first question was?

Abhinav: Yes. That is the first question.

Vivek Partheeban: We are likely to complete the project by August of next year. What we are planning to do is do some site transfer of some products, especially aseptically filled products from CSL to COL-II, because all aseptic products will be manufactured through isolator technology in this new site, which is the latest expectation as per FDA and EU Annex 1 guidelines, number one.

For that to happen, you will need to do the site transfer, run stability, file the product, trigger an inspection, all that. It will take probably about 15- 18 months from the time we complete the facility. You can expect something meaningful in FY28-2029 and beyond for COL-II.

The second question you asked, I believe, was with regards to PBT on CSL, which, like I said in the previous one, it is probably more of a timing than anything else, and it is not really a correct metric to discuss on a QoQ basis. Of course, if CFO has any views on that, please go ahead.

D. Muralidharan: I just give a comfort to the gentleman, to compare H1 of last year, the 29.5% EBITDA, it has gone to 34.2% H1 to H1. PBT was 19.9%, it has gone to 23.5% here, 5.5% growth. Q2 was an aberration, which is for various factors, which will get moderated and then we will be back on rails, as we said, between Q3 and Q4. YoY, we will be back on rails compared to the last year's percentages, and if not, we will better it.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference over to the management team for closing comments.

Vivek Partheeban: Thank you to yourself. Thank you to Julie and 360 ONE for conducting the call, and to all the participants that took time out to join us for the earnings call today. Thank you, and we will be in touch.

C.C. Paarthipan: Thanks to all of you. Thank you. Thank you very much.

Moderator: Thank you very much. On behalf of 360 ONE Capital Markets, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.