# "Caplin Point Laboratories Limited
# Q2 FY25 Earnings Conference Call"
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**MODERATOR:** **MS. CANDICE PEREIRA – DOLAT CAPITAL**

**Nikita:** Ladies and gentlemen, good day, and welcome to Caplin Point Laboratories Limited Q2 FY25 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant line will be in listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference has been recorded. I now hand the conference over to Ms. Candice from Dolat Capital. Thank you. And over to you, ma'am.

**Candice Pereira:** Thank you, Nikita. Good evening, everyone. I, Candice Pereira on behalf of Dolat Capital, welcome you all to the Q2 FY25 earnings concall of Caplin Point Laboratories. I would like to thank the management of Caplin Point for giving us this opportunity to host the call.

Today from the management team, we have with us Mr. C.C. Paarthipan, Chairman; Mr. Vivek Partheeban, Chief Operating Officer; Mr. D. Muralidharan, CFO, Dr. Sridhar Ganesan, Managing Director; and Mr. M. Sathya Narayanan, Deputy CFO. I will now hand over the call to the management for their opening remark. Over to you, sir.

**Vivek Partheeban:** Thank you, Candice. Thank you, everyone. Good afternoon, and welcome to our earnings call to discuss the results of Q2 and H1 FY2025. Please note that a copy of all our disclosures are available on the Investors 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. The conference call is being recorded and the transcript, along with the audio will be made available on the company's website as well as the exchanges. Please note that the audio and conference call is copyright material of Caplin Point and cannot be copied, rebroadcasted or attributed in press or media without specific written consent of the company.

I would like to now hand over the floor to our chairman for his opening remarks.

**C.C.Paarthipan:** Thank you. Good evening, ladies and gentlemen. Welcome you all for investors call. You are aware of the results of our H1 FY2025 and my colleague will talk on the project, operation numbers and also the current business of South and North America.

Let me emphasize on some of the new areas that we consider as real value addition for our company's sustainability and scalability. First, let me quote from Malcolm Gladwell. We have promulgated the concept of 10,000-hour Rule to become an extraordinary company in any field. We are confident that our hope creates the force to become the force multiplier in the years to come.

Now the new areas of value addition. First one, is Onco OSD. We have already identified two niche onco products for BE studies with hospital patients, not with the healthy volunteer. Most of the companies of our size go for the healthy volunteer studies, which is not that expensive at the same time, it's also competitive in the market. The free hospital that we will complete in the next 3 to 4 months' time will be used for our BE study with the patient volunteers. This will be accurate and also cheaper.

We also plan to go for patented products where the patent expires in 2 to 3 years from now. The advantage will be that we will be one of the very few companies in the market too. Number two peptide. You are aware that some of the peptides are ruling the U.S. and the other regulated markets. Now we are also developing the peptides which are used for obesity and diabetes. These peptide injectables and tablets are for regulated and ROW markets.

Number three, insulin. Recently, our COO visited China, and we are in the process of signing an agreement with a leading Chinese company that not only manufacture the drug substance, but also the formulation. This will be imported and we will manufacture in Caplin Steriles. Once the DMF is ready the Chinese company will give the DMF and we will supply the drug substance and we will scale up and execute in our current facility. And also, we'll conduct most part of our clinical studies using our US FDA approved CRO and our free hospital.

Number four, biosimilar. There are a few midsized companies in China manufacturing and marketing biosimilars in Chinese market. Now that we also renewed our relationship with our erstwhile partner Jointown, which is the major distributor for many big and small companies in China. They cater to 18,000 hospitals in China. They also gave us a list of companies, and our COO met one such company in his recent visit, and we initiated the discussion for a partnership with this biosimilar company and our erstwhile partner with whom we renewed the relationship, we are also interested in this type of joint venture opportunities for regulated and ROW markets.

The fifth one is NCE-1. Nowadays, the Chinese companies are increasingly becoming stronger in NCE-1 areas, which is nothing but challenging the patent with a change in process. And we also met a couple of people who are interested in these things, but we are still in the nascent stage and the discussions are on. And here, these networking opportunities are mainly due to two factors: A) we have been branding our office in China for the last 18 years. B) as I told you before, we reconnected with our erstwhile partner, Jointown, who is the second biggest distributor in that country.

The access to these companies becomes easy for them because they distribute most of these medicines in the Chinese market. They also told us there are companies who don't have the wherewithal to export their products. Hence, they need partners, especially from India.

The sixth one is specialty chemical. Jointown is also interested in identifying one particular specialty chemical, which is of huge volume in China itself. He has also connected us to a private R&D Promoter who worked as an R&D head in China for 12 years in a multinational company. Now he has created his own private R&D in India. He has the exposure of developing this chemical in the past. We are working on a proprietor partnership model for this chemical.

The seventh one is the medical devices and the hospital products. We found some niche products, mainly the medical devices, in China and India, and these products can be taken to our warehouses in years and which can be supplied to the hospital after we do some market study about these products, prices and the sale. The Phase 1 is the intermediates in China that is Jointown facilities. The same can be manufactured in the form of intermediate in the Jointown facilities of China. And we will do the API, especially in the factories which we are going to complete in Vizag and Thervoy Kandigai and this will be used for our general and oncology injectables for captive consumption.

The eighth one is a software development, which we have already discussed with you earlier. It will not only be used in our own factories. We will also introduce the software in factories where they don't have this option. And we'll also outsource some of the products from these type of factories in the form of a counter trade and Jointown will also help us to identify this type of factories.

Finally, we are also looking for more and more private R&D companies in addition to our own R&D for complex and specialty products. What I conveyed to you are all long-term projects with a horizon of 3 to 5 years. We are confident of doing many of them as our cash flow is comfortable. Thank you. Now I'll pass it over to the COO.

**Vivek Partheeban:** Thank you, Chairman. So, I will touch upon a little bit on our Latin America, U.S. and our recent entry, which we call as our second innings into China. So obviously, our Latin American business, predominantly the Central American markets where we've been operating for nearly two decades, continues to drive robust growth and cash flows for us. Now as we enter into the slightly larger markets, we will need to be converting many of our current dossiers into CTD format dossiers, and that's the step that we've been working on, and we are confident in the next 6 to 9 months, the entire process will be completed.

What has been driving some of this growth in the existing markets itself would be introduction of new and more innovative products in markets where we already have established an excellent platform. Some of these would be prefilled syringe products where the existing product is in either an ampule or a vial, introducing a pharmaceutical soft gel in a space where the existing product is either a regular capsule or a tablet. So, these are all areas in which we are directly launching our products in branded generics segment where the margins are also high. and the viability lives for a longer duration.

And the next target for us, obviously, in Latin America is entering into the larger markets of LatAm, specifically Mexico, Chile and Brazil are the long-term targets that we've taken on as a company. When it comes to Mexico, we are happy to announce that we've filed close to 23 products right now. And it's a combination of many products that are from internal pipeline and also many that we have outsourced from other companies, specifically China.

In addition to that, we have also filed our first dossier in Brazil within a couple of months of passing the ANVISA inspection. We are comfortable that our latest partner in Brazil is the right fit for us, because this is a company that is also into injectables. But the complementarities are there. They are into large volume injectables whereas we are into small volume. And we know them quite well on a personal level. They are one of the top 5, top 6 companies out of Brazil. So, we are positive on this partnership.

So, the second one I would like to touch upon is our U.S. business. The current B2B business that's been continuing well for us is slowly going to be transformed into more of a B2C. We have already set up partnerships with 3 of the biggest wholesalers in the U.S. because almost 80%, 90% of the volumes are moved from these.

The third one is we have license of pretty much all the states over there as well. We have already set up our third-party logistics warehouse from where the first product has also been shipped out. Obviously, we need to be a little bit patient here, because as we aim to work predominantly outside of the big GPOs and IDNs, there will be some amount of slow progress in the beginning. But once we start establishing direct connections with the hospitals, with the clinicians, pharmacies, etc we feel that this is going to be very much more sustainable and where pricing can be firm, the forecast can be much firmer and we are much more in control of our destiny over there.

The B2B business continues to grow well. As we have expanded our capacities through Phase II, we will also be approaching our existing and new partners for some more progress in this field as well. We have launched 5 out of the 5 approved ophthalmic products in the last quarter. So that has also been helping in driving our top and bottom line from Caplin Steriles.

Our first ready-to-use injectable bag product will be launched in January. This is a segment where there's much lesser competition compared to regular vials. Our prefilled syringe line from this facility, Caplin Syringe is also close to being qualified, and we have a lineup of about 6 or 7 products that we'll be doing exhibit batches for in the coming few weeks.

There is also a high level of automation that has already been achieved at the plant. Our LIM system, our SAP system, our document management systems have all been electronically managed for a couple of years now, which obviously aids in our good compliance record. But we are now adding to it, augmenting it as much as possible by way of moving towards electronic logbooks and also eventually electronic batch manufacturing and packing records where we can say that we are truly going towards a paperless journey. This will significantly help us in our already good compliance record.

Finally, let me very briefly touch upon some of the things that we are aiming towards our second innings in China because Chairman spoke about most of them. We have already tied up with a large and midsized company with regards to entry into biosimilars and biotechnology products for us. We are going to be focusing on insulin and first & second-generation monoclonal antibody products to begin with.

In the first stage, we are going to be targeting specifically the markets where we are already present in because the platform is already set over there, and we feel very confident that the uptake would be welcomed. But overall we would be aiming towards the larger markets of Latin America and eventually the U.S. as well, as we move from being a generic-only product company to the next level of growth, which is into biologics.

When you combine our entry into the larger markets of LatAm, our own label in the U.S. and our entry into oncology space and also backward integrated with our own API, many of these are exciting growth segments for us. We will have to be patient, like I said before, over the next, I would say, 18 to 24 months where it's going to be a stabilization and an evolution period for us. But post that, I think the company is really embarking on an exciting phase of growth. Thank you, and I request CFO to throw some light on financials before we open up for questions.

**D. Muralidharan:** Thank you, Mr. Vivek. Good evening, everyone, who have taken time off to join this investors call. Welcome once again. This is Muralidharan. The last investors call started by saying what is well begin is half done. Okay now that half the year is over, we have been able to sustain the growth momentum as against 16.1% growth in the Q1 versus Q1 of last year, the Q2 has grown 17.8% in the corresponding previous year. Overall, giving an average 17.0% growth in terms of revenue in H1 FY2025. So, we are well poised and what is sustained is scalable, and I think we will be scaling it up further. So, this is as far as the performance is concerned.

The revenue has grown by INR137 crores and people normally ask what is the contribution from the parent or core business and what is the contribution of the US, whether it is distributed or one-sided. Everybody has come into party. The core business has grown by 13%. New entity, which is the Onco Lab, which has just commenced production in March '24, has also contributed sizably to the turnover. They have just begun with a INR12 crores. And this year, we are hopeful of turning positive. The first year of full operations will become PAT positive and this is good news from the Caplin One Labs. And CSL has grown 40% from H1 FY2024 to H1 FY2025, albeit on a lower base.

And all the parameters, whatever we have been talking about sustaining 55% gross margin, EBITDA 35%, PAT 25%, all of that we have exceeded or sustained the percentages what we have claimed. And the cash accrual where our Chairman lays emphasis on because that is our strength, we have been able to accumulate INR180 crores in the first 7 months and of which INR56 crores has been spent on the capex and INR123 crores is the accrual from last year cash balance. The cash balance INR916 crores what we had in the end of March has come to INR1,039 crores during March to September 30, 2024.

And all the entities are making profit and well set for a sustained and scalable growth and the expenses are under control, though the quantum may appear to be on a higher side, but in terms of percentage and the contributions made to each of the businesses, these are investments for future because our R&D expense also have been going up consistently. As a percentage, we are retaining about 4.5% to 5% of the revenue as R&D expenditure on an increased scale of business. So, this is it from me. And if there are any questions on the financials, we'll be more than glad to answer.

**Vivek Partheeban:** We can open up the floor for questions please.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

**Tushar Manudhane:** Sir, first, broadly on this China association, more so the way the kind of regulations that are coming from the U.S. government side. First of all, have we seen any resistance for the existing association with the Chinese, let's say, suppliers? And subsequently, strategically, as we are increasing this association for other portfolio, do you see that this as a risk to supply the products in the regulated market particularly U.S.?

**C.C.Paarthipan:** There are two ways to look at it. Sometimes back one of the Western economists said China is the country which you can derisk but not decouple. What we are planning to do or trying to do is, as I told you before, most of the places we will buy the API or drug substance or something in the form of semi-finished products. We will do the final activity in India, which means the product will be exported as an Indian product.

And when we buy the product, API or whatever it is from China, we don't go for a company which is not of that standard. Today, we are in a position to identify the company, A, as I told you before, we have been there for the last 18 years, B, like the company which I told you, Jointown, is considered as the No. 2 distributor of that country. So, we are in the right hands.

These are people who have a reputation, who are quality conscious. But I do agree with you, there is some propaganda, which also sometimes happens, it happens to any country for that matter. But what is important is the business model and then is it technically feasible and economically viable. That's what I feel is important while looking at an opportunity.

**Tushar Manudhane:** Got you, sir. But this is more like a political, so from that angle, I guess.

**C.C.Paarthipan:** It is better not to be controversial. We don't want to use any word that is almost political.

**Tushar Manudhane:** Caplin Steriles revenue for the quarter?

**Vivek Partheeban:** Yes. Satya, or CFO, can you please take that?

**M. Sathya Narayanan:** The operating revenue of Caplin Steriles for September quarter is INR92.42 crores.

**Tushar Manudhane:** Okay. And are we sharing the EBITDA PAT for this entity?

**M. Sathya Narayanan:** PAT for this entity for the quarter is INR12.60 crores.

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

**Aman Soni:** Congrats for a good set of numbers. Like three quarters ago, I asked the same questions on delays happening on capex plans. At that time, you mentioned about oncology API is delayed on account of some addition happened on land acquisition at Thervoy Kandigai. But if I compare the same time line given at that time with the time lines as of today, there is still this time line gap that is increasing by two quarters.

Same thing happens in other projects like OSD facility. So, my question is whether is it due to any regulatory problems that we are facing or any anticipation of poor demand outlook or at execution level only, we are facing any lack of capabilities or any other hindrances. So kindly put some color on that, sir?

**C.C.Paarthipan:** Yes. Let me take this question. There is nothing in the form of regulatory issues because you see regulatory issue starts only after you complete your U.S. FDA inspection or no approval or any other regulated market approach. This is a new facility where we have already commenced the commercial production of tablet and capsules. We also got orders. We are in the process of exporting it.

This year itself, as our CFO said, we'll go for a breakeven. That is for sure. And it's also true, it is delayed. But anything that gets delayed, it's not that the opportunity is denied. Like when we are going for 4, 5 projects at a time, it is bound to happen, I hope you would agree with me.

What is important here is not that we don't have any opportunity in the market, but on the same time, the priorities. Sometimes when you have too many priorities, organizing and executing the priority becomes the first priority. Like that, the first priority is to complete this onco project. Now the tablet-capsule, as I told you, we have commenced the commercial production. Injectables start somewhere by April or May.

Then side by side, we also are working on API Vizag plant. It's likely to commence the commercial production by April or May. And then we have already started identifying a consultant by name Qualitas, who have worked with a leading pharma company. That's a company which we know very well. They worked there for 18, 20 years and started this consultancy company. Their exposure to project and operation is really good. They are assisting us and this will soon go on a faster scale.

**Vivek Partheeban:** So I will just add in supplement to that, just a couple of clarification points, right? While we acknowledge that there is delays in the API project, please note that these API projects are not for APIs to be sold outside. These are for captive use. So, when we don't have our own API, it means that we are going to be buying API from outside. So, the opportunities that we have in Onco or anything else is not actually being denied. It's being delayed.

In fact, sometimes it works in our favour also this way because in generic space, what happens is what was the market last year will no longer be the market next year. So those times, we actually have some information ahead of time that we can deprioritize those projects when it comes to API.

So, it's important to understand that what is going to be priority and what's going to be driving growth for the company is being taken care of first, which is our expansion in Caplin Steriles, our expansion into Onco OSD projects and stuff, but we are nearing completion for sure.

**Aman Soni:** Understood, sir. Like I was just asking from the like I agree, we are using internal funds for these projects. That's fine. But still the money that is getting stuck or the delays that are happening, if they are completed on time, that will add value to the shareholders only. That is fine. Secondly, sir, from the U.S. side, like someone earlier asked about the resistance from U.S. So, are you witnessing any near-term headwind on account of this?

**Vivek Partheeban:** No, I think when it comes to U.S., if you've seen from our numbers, we're actually growing quite well. And this is also despite the fact that all of our partners know that we are coming out with our own label in the U.S. And to be honest with you, when it comes to specifically China, and any questions around that, we do not have too much of an exposure. In fact, we have very little exposure to the U.S. from China, right?

Because all of the products, 100% of the products are manufactured in-house. And to my knowledge, less than 20% of the APIs that we use in our ANDAs have Chinese source. And all the fast-moving products, we are qualifying a second source, which is not from the same country. So we're doing multiple steps. But the truth is, have we faced significant headwinds because of the fact that the source of an API is from China? No, to be honest.

**Aman Soni:** That's good, sir. Then lastly, on your partnership with Chinese companies for biologics and biosimilars. So how does the Caplin Point plan to leverage its existing distribution network in LatAm for these products? And are there any specific partnerships or any kind of agreement with distribution in place for Brazil and Mexico also?

**C.C.Paarthipan:** Use of products initially will start with ROW market. And then slowly, we'll graduate to various markets in Latin America and then move to North America. That is the take action plan. This one, as you know well, these are all for long term. There are a few things in the form of getting into ROW market is more of a short to medium term. But the rest of it, insulin, biosimilar, NCE-1 and all, it takes time. But if you start now, it's like 10,000 Hour Rule. We'll have to go by that one. It takes time. At the end of the day, you make it also. That's why we become the force to reckon with.

**Aman Soni:** That’s it from my side. I will join back the queue.

**Moderator:** Thank you. The next question is from the line of Rushabh Shah from Buglerock PMS. As there is no response from the participant, we will move to the next question. The next question is from the line of Aditya Pal from MSA Capital Partners.

**Aditya Pal:** Congratulations on the great set of numbers. Sir, quickly, wanted to get a hold on what would be the gross margin of Caplin Steriles? And I didn't get the number of EBITDA. If you can just call that out again for me, that would be super helpful.

**M. Sathya Narayanan:** Thanks for the question. The gross margin for Caplin Steriles for September quarter is around 37% and the EBITDA for the quarter is INR29.27 crores.

**Aditya Pal:** And is there any particular reason that the gross margin of 37% that it decreased so much? Is it because that we invested a lot in R&D and new products?

**M. Sathya Narayanan:** Sorry, my apologies, sir. The COGS is 37% and the gross margin is 63%.

**Aditya Pal:** That's it from my side. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Ketan Chheda a retail investor.

**Ketan Chheda:** Hi, thank you for the opportunity. If you could just throw some light on the employee expenses. This quarter, it seems it's been higher when I compare the Q2 FY25 numbers with Q2 FY24 numbers. So if you could just explain what is contributing to this 26% increase?

**D. Muralidharan:** We have an ESOP scheme where the deserving employees are rewarded by the management and the employees are granted at the face value, which is INR2. And then the ESOP amortization happens on the market price as on the date of grant. This itself comes to more than INR3 crores, INR2.8 crores to be precise. That is an additional employee expenditure that happened. We granted close to 2 lacs shares in the current year. So that's the reason. This welfare, the retention tool or rewarding tool, whatever you call, is a major contribution to this. Apart from that normal increment to the employees, the on-roll employees the average of 10% to 12% is what has contributed to this.

**Ketan Chheda:** Okay. And could you also throw some light on the other operating expenses? Because they also seem to be inching a bit higher as against the growth in the sales numbers. If you could help explain that.

**D. Muralidharan:** Yes. As I mentioned in the opening remarks also, our R&D expenses have grown. Grown significantly by more than INR 8-9 crores. And as you are following our company, last year, September, we decided that we will move our shipments to our subsidiary from FOB to CIF, the import form change, meaning that the freight charges are borne by the parent company because earlier subsidiaries were bearing the expenses. It is around INR 13 crores to INR 14 crores is what we have seen.

These are the two components and then as we are upgrading our facilities, department maintenance, building, machineries have gone up, and these are basically the reasons. And 1 ANDA we have filed in the current year this current quarter higher than the last quarter. And also, the U.S. entity, which is going to bear fruits in the near future, we have spent close to INR 4 crores.

The establishment, the employee cost, the license fees, all those things are accounting to INR 4 crores, are in general the numbers which account for the major increase in expenses. As I said in the beginning, these are investments what we are doing today. Be it ESOP, be it R&D, be it US all these are investments.

**Ketan Chheda:** Sure. And if you could just give me a count on the total employee strength from March '24 versus September '24, if that is available readily.

**D. Muralidharan:** I'm sorry, I do not have it right now. Probably offline we can give that number.

**Ketan Chheda:** Sure, not a problem. Thank you so much. There are no more questions. Wish you all the best.

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

**Alisha:** Two questions. One, with respect to the U.S. business. Like we highlighted that as we're transitioning from B2B to B2C, it is patient. Are we trying to say that this business will probably flatline or witness some kind of contraction in the near term before it goes back on growth trajectory? And second part of the question is, are we still on track to do the USD100 million revenue guidance by FY27 for the U.S.

**Vivek Partheeban:** So, as we move from B2B to B2C, in fact, it's probably a misnomer to say move from B2B to B2C because B2B continues to remain. And in fact, with our expansion in capacities, we might even add to it. So B2B will definitely be there. Our focus in the near term will not be diluted away from the B2B at all, right? Over a period of time, and there is no X number of years that it might happen in or anything like that. Over a period of time, over the long term, we expect Caplin Steriles to be a B2C company, just like how Caplin Point is, right?

So, I certainly don't see any flatlining. In fact, 100% of all the revenue that you see in Caplin Steriles today comes from our B2B business. And in the next 1 to 2 years, you will probably see that at still a very high number as we slowly make progress into B2C.

Now, when it comes to our B2C, we are also not going to go with the partners that we have because the partners that we have are very large players, very well-established players. And their areas are the GPO sales and the very large wholesaler sales and things like that and which are the areas that we are not going to be present in. We are going to be moving away from that and then trying to be direct to hospitals, albeit it might take a little bit longer time to establish, number one.

Number two, question on the numbers. We feel very confident about the pathway that we are taking in the U.S. If it happens in FY27 or FY28, it shouldn't matter too much to us, honestly speaking, because we are comfortable with the speed at which we are going. Sterile product manufacturing is one of the most highly critical areas in pharmaceuticals, and there needs to be a certain amount of stabilization, there needs to be very high levels of compliance, etc. So we don't want to stretch ourselves to be chasing numbers. So, a high-quality business is much more important, a highly sustainable business is much more important than purely on numbers perspective at this point.

**Alisha:** And as we also focus on scaling our B2C business, will the profitability of this business again get impacted in near term and then shoot up again, say, a couple of quarters down the line?

**Vivek Partheeban:** There will be expenses, right? I think the largest that we are looking at right now is the salaries. Of course, we do have a 5-member team in the U.S. It's not a very large team. I mean, by way of comparing it to the B2B business, I think on consolidation, you will probably not see much impact at all.

But profitability indeed will be better than the B2B business once the Caplin Steriles label gets established in the U.S. Because remember, today, for all the licensing deals that we are doing, we are sharing 50% of the profit with our partners, right? So technically speaking, that should be accruing to us when we start doing it on our own.

**Alisha:** Understood. And my second and last question is with respect to our LatAm business, the new initiatives that the Chairman highlighted, will that require any incremental capex over and above what we've highlighted because a lot of it seems like we will be sourcing from China and like you clarified, we'll be doing probably the finishing at our facilities? Because these are slightly more complex opportunities, by when will they start crystallizing for us?

**C.C.Paarthipan:** I would like to answer to your query. See, every year, as has been told by our CFO, we are in the process of retaining a deposit of, say, close to INR300 crores. Sometimes it's slightly higher, sometimes it's almost INR300 crores. So, the project that we do is not based on a debt-driven opportunity or something. It's more from internal accruals. And it's true that these projects which we said, not necessarily that you have to go for all these projects from the scratch. There are areas you can go for partnership.

This partnership model, which, of course, helps people as long as we understand it's more technically feasible and economically viable. And we need to conduct some market studies, which we already informed our people to find out the scope for such products, which, of course, will help us eventually.

And as far as cash flow is concerned, it is not going to affect our cash flow by getting into these areas, which I discussed during my speech. That is for sure. Because we will not be doing all at one point of time. You also know it's not that easy to do it also. The priority will be to the one which will strengthen our bottom line and also that will also add to our cash flow. That's how we look at it.

**Alisha:** Sir, I know that we are very mindful of cash flows and we will prioritize our projects. I just want to know, is this going to be capex over and above what we have already highlighted? And also, by when will some of these initiatives start crystallizing for us?

**C.C.Paarthipan:** Okay. What we will do is in the next two years, we will concentrate on the projects that we already committed to. Already we have discussed about it also. These things which you are talking more of it will be like asset-light model, which we used to have before.

Earlier we started with an asset-light model for generics. These are all specialty products, which we will do it like we may not invest in a big way. If necessary, we may invest in clinical trials or we may invest in bio studies, that kind of stuff. And that too, we have a CRO, which has been approved by U.S. FDA.

We also go for a free hospital where the hospital volunteers more and that will also reduce our cost by 40% because most of the time when people go for hospital volunteer study or clinical study, that increases the cost when you go for a private hospital. So, I don't think this is going to cost us in a big way. And we are very aware of it, and we'll go step by step.

**Alisha:** So, in the near term, next 2 years, our focus will be on the larger markets in LatAm and growing our Caplin Steriles business?

**C.C.Paarthipan:** Yes. It will be focused on completion of all the projects in the form of a vertical integration. Most of the bigger companies are vertically integrated. We will also do that kind of a thing in the form of completion of all the projects starting from API formulations of various kinds. And then as you rightly said, move to bigger geographies for registration. The registration will happen not only from our own products, we'll also outsource as long as the company is approved by U.S. FDA or EU-GMP. It can happen from India; it can happen from China. It can happen from another country also wherever there is an opportunity.

**Alisha:** Great. Thank you and I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Rushabh Shah from Buglerock PMS. Please go ahead.

**Rushabh Shah:** So, when entering the U.S. market, you would like to cater to smaller players and not competing with the big ones. So, what would be the opportunity size and the target market share?

**Vivek Partheeban:** Yes. So obviously, it depends from product to product, right? But if I were to go by a general rule of thumb, you can assume that the three largest buyers in the U.S., the group purchasing organizations, they call them, the GPOs, control about 60% to 70% of the market.

Having said that, if you look at whatever is the latest shortage list in the U.S., close to 70%, 80% of the products are injectables only, right? So obviously, the rule of thumb doesn't give you a very clear picture because we feel and from whatever that we've done research so far, we feel that close to 40%, 50% of the market is not well serviced, right?

So, while we talk about establishing direct contact with hospitals and all of that, the only thing we need to ensure is to make sure that the switch happens, right? It might take a little bit more time because the whole market is very entrenched in the current system that they're operating in. But obviously, pretty much every buyer that we speak to is unhappy with the way the consolidation has happened especially the mid to smaller players are not getting the right amount of focus. They're not getting the right amount of interest from these larger selling companies. So, while it will depend on a product-to-product basis, I would say that there is a meaningful percentage of the market that is outside of these 3 large companies.

**C.C.Paarthipan:** I would like to add one more point here. Like when you keep your goods next to the customer in the warehouse, it may take some time to get the sales started. Once it started, there is no stopping. If you look at the latest concepts, which is going for front shoring and nearshoring, the idea is to keep the goods next to the country where there is an opportunity. That clearly shows there are companies which are going for warehousing model. There are also countries going for a kind of warehousing model, which is nothing but nearshoring and front shoring.

So, it goes on to say that what is important is keep the goods next to the customer. If the customer is a part of middle or bottom of the pyramid, one way or other, they are bound to come. What is important is we have to increase the number of products over a period of time. Once we do that, automatically, the volume and value will come to the company when we create the value for the customer.

**Rushabh Shah:** So just a follow-up on that one. So why is that there are underserved hospitals in U.S.? Why any of the companies have not catered to NEM when they know there is no competition in that segment of the market?

**C.C.Paarthipan:** The issue is anything that you create in the form of unique has that been created by some other people. That doesn't mean what you have created as unique, is it long term or not. It may not be that successful in the sense in short to medium term. That is bound to happen because whether the country is actually South America, North America, any part of the world, the most important thing is the supply chain management. And if, once again, let me repeat, keep the goods closer to the customer, will the customer say no? Of course, besides because of certain things in the form of companies monopolizing, there are companies that are more of monopoly and near monopoly. But how long it can continue?

If that be the case, other countries after U.S., India is considered as the second largest destination for catering to the generics in U.S. Now that if you look at it, all the players who are there in U.S., they have been in the U.S. like 20, 22 years ago. We got products registered in 2016. The U.S. FDA first inspection was completed then. And now that we have completed 25 ANDAs, we will go for more and more products. And then the opportunity also will come to know by getting into the market.

In fact, the COO and other professionals are also there. They have been going to the market, understanding the market niche. And we are sure that we'll be in a position to make it. That is for sure. We are spending a lot of money and time on this project. Otherwise, we will not be very honest with you.

**Vivek Partheeban:** Yes. Another way also to look at it is if you draw a parallel to what we are doing in Latin America, right? Many people when they think about Latin America, they look at Brazil and Mexico, right, because these are two of the largest markets over there. So, if you had the wherewithal at the time, we have the kind of projects, we have the type of partnerships over there, then like the Americans call the right bang for your buck is, we want to get to USD100 million in Latin America, you go to these two markets.

But we took the road less travelled and went to the smaller markets. While it took a little bit longer for us, what we have right now is much, much more sustainable. It's repeatable, measurable, etc. So that is also something similar to the question you asked. Why aren't many people looking at the smaller to midsized hospitals and health care clinics and stuff like that because it takes a little longer to do that.

**C.C.Paarthipan:** This one more important factor, which I forgot to mention. Today, the business in Latin America, the smaller geographies, we are doing very well mainly because of one factor called stickiness factor. When you cater to the bottom of the pyramid, you can't afford costly drugs. If you can give a quality medicine at affordable cost, then your customer becomes your raving fan.

Now what we have found in the last 2.5 years by staying next to the factory, next to CSL, the same way, if you can reduce the deviations in the shop floor and reduce the OOS in QC, this is being handled not by the people at the top. It's more of participative management, it has to be bottom up, not top down. And then you create a stickiness factor here. The same way once you create a stickiness factor in U.S., that will work. Thank you.

**Rushabh Shah:** Sir, my question is, you said that every time you launch a product, your target is to achieve at least 10% to 15% market share in each product category. So, in some products, you might have been successful. And some products you might not have been successful. So how much do you face in that?

**C.C.Paarthipan:** Did we say that we'll achieve 10% to 15% of the market share anytime? Because I don't remember. It's not easily possible everywhere. 10% to 15% of the market share, I don't think any of us would have told you that way.

**Vivek Partheeban:** No, I think you're talking about many years ago when what is our target in the U.S., I think we would have probably said that 10% market share is a decent way to start with. But that was many years ago, Rushabh. And honestly, the one other thing you need to take into account is the fact that our entire business in the U.S. today depends on how well our partners do, right?

So there are some products where they've occupied more than 10%. There are some that are close to 20%. There are some where they are only 2% to 3%. So, we're not really in control of how well the partners are doing, right? We can always have conversations with them, etcetera, but they are going to do what makes best sense for them, which is also one of the driving factors for us to take the bull by the horns and establish our own label over there.

When we talk about our own label in the initial periods, we're not going to be aiming at 10% to 15% kind of market share because this will require us to go down the well-travelled route of using GPO sales, etc. So, it will be single digits for us for a period of time until it becomes sustainable and we become sticky, then we remain very hopeful that we can get into double digits in a very sustainable way after that.

**Rushabh Shah:** Ok. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Deekshant B from DB Wealth.

**Deekshant B:** Congratulations on very good numbers. Sir, I have two questions. First one being on our expansion into the U.S. So, as we are discussing that we are now going to go more from the B2C route and approach the hospitals directly, which will aid our margins. Is this the first step we are taking towards the expansion to the B2B2C business?

And is this the route that we are taking, which is also considering that we were thinking of maybe in the future going forward with sort of a CVS pharmacy thought process. I'm just giving CVS as an example. But is this the first step towards that thought process? Or is this separate and that is separate?

**Vivek Partheeban:** I'm not fully clear about the question. Are you saying are we going to be forward integrating into getting into retail on our own? Is that what the question is?

**Deekshant B:** Yes. So, a couple of quarters ago, the Chairman sir has been talking about that we will be using our reserves maybe in the future, not immediately for like getting the right place to use our capital, and that may be into the retail business, not immediately. But my assumption is that the first step is to go 1 step down to directly to hospitals. Is that the thought process? Could you please expand on this?

**C.C.Paarthipan:** Yes. I'll give you the answer. It's not a couple of quarters ago, probably a couple of years ago, and you are right, we told you that way. And we have found that exercise has not been very fruitful. We also start up 50, 60 pharmacies to be very honest with you. What you observed is when we went to the bottom of the business pyramid, that's the retail, we found the retailers who used to support us are not in favor of us. They started telling us, please don't do this because that will affect our survival. Hence, we decided not to go ahead with that kind of retail sale expansion. So, we don't have any such ambition in the future. No.

**Vivek Partheeban:** We are more interested in the distribution concept actually. So, if we were to invest into something like that in the U.S. or even Latin America, we'll be much more comfortable in the distribution aspect of it, not so much in retail per se.

**Deekshant B:** Okay. So a follow-up to this is, does that mean that then we will be expanding our team size and focusing more on creating a B2B distribution and probably catering to maybe smaller clients so that we can get similar sort of margin profile, but maybe a little bit more employee cost going forward? Is that the thought process? And the employee cost rising is okay because it will cover up in our operating margins in the years to come.

**Vivek Partheeban:** So, we have a fairly lean structure in the U.S. We have 5 people on board, and we will see how the business picks up. But eventually, I think we will have to grow the team because our endpoint is we want the products to be close to the customers. We're going to be eventually setting up 3 to 4 warehouses of our own in the U.S. and strategic points. So when that happens, I think definitely, the team will grow, but it's in early stages. We need to learn how to crawl and walk before we can run.

**Deekshant B:** Yes, sir. All big things start small. Sir, another thing is Mr. Paarthipan, can you give us a broader idea and nothing specific is required, but just a broader idea of how we are thinking of our reserves being utilized. We currently have INR2,500-odd crores plus. But what is it that you are thinking of our reserves right now?

**C.C. Paarthipan:** As we told you about the new developments in various forms like new business products, new business in the form of insulin biosimilars, getting into specialty chemicals, like we may not get into all ends, all the areas. But again, currently, the INR700 crores, which we have committed that we will be deploying in our projects, it will take 2 years to complete everything, 2-3.5 years maximum. By the time we will also be mature enough to get into the areas, which is very pertinent to our growth.

So the reserves that we talk about can be also useful in the future for buying the ANDAs but also going for acquiring the distribution company or maybe some other meaningful acquisition. So the money which sits in this thing, okay, I do agree with you, it has to be deployed, but at the same time, it has to be a calculated risk now. So that's why we'll be deploying it. That is for sure. We'll do it at the appropriate time.

**Deekshant B:** Okay. Okay. Sir, last question, it's a bit financial question just for bookkeeping purposes, is our cash flow cycle, our debtor days from 2020 has increased and they have not significantly decreased from that point of time. That our inventory days are still around 180 days plus. So, is there any significant change that we have seen in the last 4 years that is here to stay? This is also affecting our ROCE in some ways. So just a thought process exercise I want to understand, please.

**C.C. Paarthipan:** One portion of the answer I'll give you, then I'll ask my CFO to give you the answer. One is as we increase the sales you are bound to get into some institutional business, which, of course, slightly there will be a delay in payment and all that also contributes to this one.

Again, if we don't do that also, what will happen, people who participate in this type of tenders and the countries where we are operating, they are smaller countries, they will definitely tell us to involve in the tenders. So, we have to do. It is not that we are going to lose the payment or something. The payment we will get it, slight delays also is creating this issue. And rest of it, I'll request my CFO to talk on that.

**D. Muralidharan:** Thank you, Chairman. And let's amplify what Chairman said. See, if you see the, 2020 is the benchmark we are taking as the period when we brought all our channel partners, most of them rather, not all of them, 4 of them or 5 of them into our own fold and then we made them subsidiaries.

Prior to that, what was happening was moment the goods leave my factory, it is considered sales and then it is used to be inventory in transit of the customer, right? Now that we are doing it in terms of our own subsidiaries, the goods are my own goods. Either my own goods in the stand-alone book or in the book of the subsidiary. So that has significantly increased. And as we have been repeatedly saying for the nth time, goods closer to the customer has taken us to this level. Otherwise, we would not have been able to reach this level of scaling up in the last 4 years.

If you see last 4 years, the turnover has more than doubled, which is surely more than decent growth for any industry of our size, okay? So, of INR 327 crores, which is our stock, 50% is the warehouses in the Central American countries and then 20% in transit. So transit time is anywhere between 60 and 75 days and by the time it is available for sale is 100 days for the market. So, this is in my book.

And then the debtor, we take time to reach the warehouse and then have to realize the money. So obviously it will elongate the working capital time and as you know we are not stressed for working capital. We are not stressed for funds. We have more than adequate liquid funds. And this is the strategy which we have adopted, which is paying dividends. I think we should live with it.

ROCE, as we have said that this is not the only reason for drop in ROCE. We have been consistently investing. Last 8 years, if you see, we have done about INR 720 crores CSL where we have done more than INR 400-INR 500 crores just started breaking even rather some profit started adding to the kitty. And then INR 150 crores what we have invested in your Onco Labs will start yielding business in the next 1 to 2 years. So we have to have patience and perseverance, then we will see the fruit in the next 3 years.

**Deekshant B:** Got it. Got it. Just directionally, Mr. CFO, the thought process I was referring to is as we'll be expanding our warehouse also in U.S.A., will there be a trajectory where our inventory days, the number is going to go up? Or is it going to stay stable? Just how are we looking at it going forward? I understand that we are changing the way that we are distributing our business. I just want to understand if it's going to further affect our cash flow in any extreme manner or even a slight deviation.

**D. Muralidharan:** What we told just now is applicable to the LatAm business. With respect to U.S., Mr. Vivek had already elaborated. I would like to add a few words here. In any warehouse in the initial stages, it's very difficult to predict whether we'll be able to sell everything, whether it is South America or North America. But going forward, when the business picks up, that will help the cash flow. That's how only it has happened in the smaller geographies of Central America, Latin America.

**C.C. Paarthipan:** Although they have a little issue or hiccup, it is there in any business for that matter, overnight, the generics cannot be sold. It has to create the acceptance. People have to understand that the warehouses are in a position to cater to their requirement because sometimes we also have to understand the market where to create our warehouses.

And then even if there is some issue, we'll have to shift from that place to another place. The warehouse can be shifted. It's not that it cannot be done that way. It's not a retail business where it is stationery. You can't move from one place to another place.

But these issues, which you said is all part of business. In any business, you will have a slight increase or like 5 days or 6 days or 1 week, it's not going to cost the company. What we don't have anything in the form of debt overhang. And as you rightly said, we also said we have enough cash reserves. So such is the case, I think this is not going to matter much in the long run.

**Deekshant B:** Got it. Thank you so much.

**Moderator:** Thank you**.** As that was the last question. I would now like to hand the conference over to management for closing comments.

**Vivek Partheeban:** Thank you very much, everyone, for taking time out to attend our earnings call. We look forward to being in touch with you going forward as well. Thank you very much.

**C.C. Paarthipan:** Thank you very much.

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

**Notes:**

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