“Caplin Point Laboratories Limited

Q3 FY25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY25 Earnings Conference Call of Caplin Point Laboratories hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Tushar Manudhane: Thanks, Steve. Good evening, everyone and a warm welcome to Q3 FY25 Earnings Call of Caplin Point Laboratories. 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. Over to you, sir, for the opening remarks.

Vivek Partheeban: Thank you, Tushar and thank you to Motilal Oswal for hosting. Welcome to our earnings call to discuss Q3 FY25 results. 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. And also do know 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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I would like to now hand over the floor to our Chairman for his opening remarks.

C.C. Paarthipan: Good evening, ladies and gentlemen. I welcome you all to our Investors Call. Most leaders who lead others transform not by deconstructing intricate complexities, but by exploiting unrecognized simplicities. It is true that our unrecognized smaller geographies of Latin America has created the fundamentals of free cash reserves at INR 1,081 crores and liquid assets at INR 2,042 crores and all other ratios that are unreachable by a company of our size.

In most cases, anyone can imitate a generic business, but nobody can imitate a business if it is built on your story. When our values influence our business, we always give a special light to our creation. This is how we created our foundational value of catering to the bottom of the pyramid.

When others focussed on the top of the pyramid for the creamy layer, we created our creamy layer by catering to the bottom of the pyramid with good quality medicines at affordable costs. Now, we are also working with four non-negotiables in our factories - integrity, quality, safety and productivity by teaching and training the middle of the factory pyramid.

Now it's time to formulate our unquestionable consistency. We now understand our business can't simply go on piggybacking only on the smaller geographies of Latin America. We also can't confine to one or two factories, if you have to go for a grand slam. Hence, the following. Our next big targets are Mexico and Chile for the short term and also Colombia and Brazil for mid- to long term in Latin America.

Number two, we also started our frontend in US and you are aware that no injectable company that created the front end has failed in the U.S. business. Number three, we are expanding our brand marketing in West Africa, which we are sure would increase our business substantially. Number four, we have identified two factories for oral solid, ointments and suppositories in Mexico for our contract manufacturing.

The advantage is to enjoy the 15% duty which is not applicable for local manufacturing. Further, we have identified some 10 products for contract manufacturing in Mexico. We also received 10 registrations from Mexico and filed 28 products and the dossiers for 40 to 45 products are getting ready for future.

Coming to the manufacturing facilities, two factories are up and running. The two more, one for Onco injectable and the other one for API will commence the commercial production somewhere in the month of April or May. Further, the OSD and Onco API will be completed, say, one or two years from now.

Now research and development. We've developed 80 to 85 APIs in our R&D for captive consumption. The same will be manufactured in China where they have excess capacity in some of the factories for high volumes. It will be an asset-light model for Caplin. In addition to our own R&D for various areas, we now engage two groups of private R&D for the following products.

One, semaglutide tablets, where the patent is expiring in many countries by 2026. Two, MC-1, which is a new chemical entity which you also know, involves biostudies that can be conducted in our US FDA-approved CRO, Amaris Clinical. The fourth one is specialty products we are developing in CP-1 which now, of course, are manufactured by Japan and sells a lot in India and China. Fourth is biosimilar. The toughest part of biosimilar is sourcing the API, which is the 90% of the complex activity. Formulating it in bio is just 10% of the job. We are talking to a couple of companies for API and we'll do the formulation in our factory for the ROW markets.

We already started outsourcing insulin from China for our LATAM market. We'll look at the possibility of this business in the form of manufacturing at a later date. Sixth, we are in the process of installing a double-chamber PFS machine with which we could manufacture prefilled syringe products for our unique business in Central America.

Seven, software development. The software development for shop floor will also help us as a tool for counter trade with factories in few countries where we could exchange our technology free of cost in lieu of the products that we need to increase our portfolio of products. Business being disrupted fast and it's time for us to be on the winning side, winning side of the disruption, I mean. The above models might take two to three years, but again, the built-in benefits will be immeasurable for future.

Finally, the geopolitical risk of protectionism and anti-globalization, As medicines are life-saving drugs whether it is for India or USA, it's not life-threatening. Building factories are also not that easy. And moreover, 40% of the pharma requirement of US is met by Indian companies. And the multinationals they believe more in asset-light model in the form of outsourcing the API to formulation from India mainly and to some extent in China.

Some of the multinational generic companies have even sold their factories for meagre sum. Hence, the focus on molecules for multinational is more on the R&D for new molecules and also for the meaningful association for their actual business. They are not very keen to compete with the vanilla generics in ROW market as well as unregulated markets.

Finally, the one-liner. It is okay to struggle, but it's not okay to give up. Thank you. Thank you very much. I now hand the floor over to Mr. Vivek to give his speech.

Vivek Partheeban: Thank you, Chairman. So as usual, I'll delve into the topic of our regulated market business, the US. We are making good steady progress in the US over the last few quarters and this quarter continues to be no different. We have 28 approvals under Caplin's name so far. And we are pleased that we have an average timeline of around 14 months for receiving ANDA approvals compared to almost 20 plus months which is industry average.

So it goes to show that when it comes to R&D and also regulatory, I think we are doing things the right way. Now, the impetus is for us to ensure that all of these products are launched within the coming few weeks, and the company is very much geared up for the same.

Amongst the recent approvals, we've had two ready-to-use bag products. We've had about five or six ophthalmic products, which also includes one ophthalmic emulsion, which is a highly complex product, and we got that within the first cycle period itself. And we have in pipeline around 13 products that are under review with FDA.

We hope to receive all of these within the coming 12 months. And this is a mix of injectable suspensions, injectable emulsions, ready-to-use bags and also ophthalmic. So we are certainly in a strong position for continued growth in the next year also.

In addition to this, we are in active discussions with other players to acquire ANDAs in the injectable and ophthalmic space wherever it makes sense for us, both from a market angle and from a commercial angle. Going forward, I think the company will be focusing a little bit more on slightly complex products, including drug-device combinations, etc., and focus more on global launches.

In addition to U.S., we have also filed multiple products in non-U.S. markets such as Canada, Mexico, Saudi Arabia and recently in Brazil as well. I'll also give you a little update about Caplin's own label, which was recently launched in the U.S. We call it CSU, which is Caplin Steriles USA.

We're making good progress since we started our sales in November. We're up to a little over $0.5 million in revenue within the first couple of months, and we're targeting to double this before end of the current financial year.

Going forward, all the products that we're getting approvals for will be launched using Caplin Steriles label. In addition to that, in due course of time, we will be on the lookout for other good molecules that we can in-license using the cash reserves that we have on hand, especially for focusing on targets where we don't have that in our internal pipeline or products that we cannot manufacture due to various complexities such as antibiotics, etc.

When it comes to the sales channels, our long-term objective is certainly to go as direct as possible, targeting these large markets, etc. But due to how the system is consolidated in the U.S., we understand that this will be more of a mid- to long-term target. It might be a little bit slower progress compared to what we have done in the past in Latin America, etc.

But our long-term focus will very much remain on how do we get closer to the customer. And our focus on compliance, supply consistency, enlarged production by way of automation and cost control through enhanced automation, etc., and our mantra of keeping the product closer to the customer always remains firmly in place, and we are very confident that the U.S. business, especially with our new label launch will continue to be one of the primary engines of Caplin's growth for the next three years to five years.

Thank you, and I hand over the floor to our CFO to throw a little bit of light on the numbers before we move out for questions, please.

D. Muralidharan: Thank you, Good evening to all of you once again for having taken time to join the investor call of Caplin Point Laboratories. This is the result for quarter ending December 2024 and nine months of FY24-25. Chairman made a remark about the consistency being one of the traits of the focus areas in his remarks. So we are very glad to inform that we have been consistently growing quarter-on-quarter, year-on-year.

So what will please the investors is what we achieved in FY22-23 full year revenue, we have achieved it in FY24-25 nine-month period, INR 1523 crores was the revenue for the whole year FY22-23, which we are almost close to that in FY24-25 nine-month period. And not only revenue, the PBT was INR 451 crores in FY22-23, we are already at INR500+ crores.

And PAT was INR 377 crores, we're at INR 396 crores. So we'll be consistently growing quarter-on-quarter, which enabled us to grow year-on-year as well. And while we focus on growth, we are also not losing sight on the other parameters like COGS, opex, etc., which enables healthy cash flow, what Chairman specifically mentioned.

So the COGS, which is about 48% in the year FY19- 20 has dropped to 40% over a period with a lot of efforts from our shop floor, supply chain team and all the senior people who have been contributing to that. So the 8% of turnover is a huge number, which you would appreciate.

Operating expenses, despite our employee strength going up in the last four years, it has almost doubled still and other more factories coming up in place, our operating expenses are hovering around 25%, 26% of the revenue. So we have been conscious about keeping the operating expenses controlled, and we don't indiscreetly spend the money on any of the expenses.

And then that shows the growth of EBITDA, PBT as well as the PAT. This quarter has been especially fantastic in terms of gross margin, 60.4%, which thus far is the second largest. Last quarter, we attained 60.9%. We are around the same. And then the EBITDA margins are at 36.9% and PBT is also 33.8%, PAT 26.7%.

For those of you who have been continuously attending our investors call, we have been committing only about 55% of gross margin, which we have surpassed over 500 basis points. And then the PAT, we have been promising about 25, which also we are surpassing. And then the growth normally how it comes, people ask in the investors call.

The parent company has grown the conventional LatAm business by about 14% and U.S. business has grown by 23%, giving an average of 16% revenue growth. Total revenue grew by 16.7%, about 17%. And as we mentioned in the last quarter call, oncology business has come into play.

They have already turned positive. They have delivered a turnover of INR 34 crores and returned positive, this is the first full year of operations for the company. And U.S. business also has been doing well.

And the exchange rate has helped, but not to a great extent. People may think that exchange rate has helped us in a great way to realize this profit. Out of about INR 195 crores increase in the revenue, if I may say that it's about INR 18 crores, which is about 10% out of INR 195 crores, INR 18 crores is the average increase in the realization account of U.S. dollar appreciating against the Indian rupee.

So, we have a very healthy liquid assets. We have very healthy cash balance to fund our projects on hand and then what we have been contemplating as Chairman had briefed about the acquisitions and then establishing factories abroad. So all of this will be funded through our own internal accruals and then we are a zero debt company. And this is it from my side on the Q3 financials.

We would be more than glad to take any questions on this. Thank you, and over to Mr. Vivek.

Moderator: The first question is from the line Garvit Goyal from Nvest Analytical Advisory.

Garvit Goyal: My first question is, you mentioned in the presentation that meaningful revenue is expected from non-U.S. business in FY26. So can we finally say like our efforts in the last two to three years are going to generate fruits in FY26? And can we expect significant top line and bottom-line growth in this year? Like is it going to be the inflection point for Caplin here onwards? Can we expect to grow like at a higher pace than the previous year, sir? So that is my first question.

C.C. Paarthipan: Okay. The current business that we are doing will continue to be actually more or less same. And the inflection point is there, but that doesn't mean actually we'll be in a position for a quantum leap at this juncture.

I already mentioned in course of my talk that it will take two to three years for us to complete the registration, complete some of the projects so that it becomes vertically integrated, starting from actually, as I used to say, in the form of manufacturing key starting materials, then comes API between intermediates and formulation.

The same way we are also creating actually front end. And most of the business which we do know, we create our own warehouses, like some of the countries which are doing in the form of front-shoring and nearshoring, which, of course, is to export the products from one country to another country. So the model and the business that we do is in line with the right direction for actually a quantum leap.

Garvit Goyal: Understood, sir. And secondly, on the U.S. imposing tariff on China. So can you please highlight like how it is going to impact our sales in Caplin Steriles?

C.C. Paarthipan: We don't sell any medicines from China to U.S. now. We don't do any business that way. We don't do any export from China to U.S. We do only to Latin America.

Vivek Partheeban: Yes. And in addition to that, I think impact at this point, it's too early to say because I think we don't know what is exactly going to happen in terms of when the enforcement will happen, but at this point, India seems to be out of the picture. But as Chairman said during his speech, close to 40%, 45% of all the generics that goes into the U.S. are manufactured in India.

And these are low-cost, high-volume generics. So does the U.S. have the capacity to take them all in-house for the short to medium term? Absolutely, I don't think that to be the case. But it is a work in progress. We need to closely monitor the space and also make sure that we are adequately derisked against any sort of geopolitical measures coming into play.

C.C. Paarthipan: Yes. Our impression is that medicine is the last one to get affected or the least one to get affected. I don't think actually they will jump on that one because as I told you in course of my speech, it's all lifesaving. There is nothing in the form of life-threatening to anybody.

Garvit Goyal: Understood, sir. Understood. And one last question is on Caplin Steriles only. Like we grew our top line in FY24 by almost 50%. And at the start of this year also, I think you mentioned that as the base was high, similar kind of numbers, 50% was not expected.

But sir, if we look at first nine months revenue growth, it is almost 23%, which I believe like lower considering that it is going to be a growth engine for us, coupled with the new markets that we are entering into. So going ahead also, like is it like CSL to grow at this kind of CAGR only? Because if I remember correctly, we were targeting around USD 100 million of sales by FY27. So if we are going like this, it seems a little tough to achieve that.

Vivek Partheeban: Yes. So see, the thing is, obviously, the base effect comes into play at this level already, right? Because we are talking about with the equivalent number of products that we have year-on-year, what exactly are we going to achieve. Now, in the U.S., especially, it's not going to be as linear as we expect it to be.

But what will put us in a very good position for the next year is the fact that we have close to nine or ten products that we expect approvals for. Now, all those approvals will not come in one shot, right? It happens throughout the four quarters. So while we remain very hopeful that most of them could come within the first half of the year, this is not really in our hands at all. Are we in a much, much better position compared to last year? Indeed.

Have we already achieved our objective of launching our label in the U.S.? Are we moving towards our future in our own hands rather than waiting for B2B partners to come in and place orders and then sort of piggybacking on their success? We are making progress in all of those departments.

But when it comes to numbers, we don't want to be very specific as to what we want to give guidance for next year. Our overall target of hitting $100 million by FY27, FY28 is something that is very much we are confident about. We'll have to see how closely we get to those numbers. But I think year-on-year is a good way to look at the company. I think 25%, 30% is still very decent numbers if you're looking at a company that's already at over INR 300 crores in revenue.

C.C. Paarthipan: Yes. I would like to add some more here. If you look at the U.S. facilities and exports to U.S., there are early entrants as CMO, contract manufacturing organization. There are late entrants as CMO. The early entrant CMOs, we know very well, there is one company in Hyderabad, which is doing extremely well. There are other companies also in Hyderabad, which are very famous in the form of CMO and CDMO in API.

But the late entrants in the form of CMOs is more of a survival volume peak. Coming to early entrant of CDMO, only some of the technocrats have gone into that line. and some big companies are also into that business. But there is nothing in the form of a late entrant in CDMO, except one or two companies. But the companies had created their own front-end presence, especially the injectable companies. That's the reason I told also in course of my actual speech, there is no one who has really lost money. On the contrary, they all have done well in U.S. business.

Moderator: The next question is from the line of Aditya Pal Singh from MSA Capital Partners.

Aditya Pal: Congratulations to the team for a good set of numbers. Sir, I wanted to understand, so we're posting really great numbers on the margin front for the last couple of quarters. In your sense, is this peak margins? Can we do better? Or do you see us reverting to the mean doing 28% to 32-odd percent EBITDA margins once our gross margins correct, if that is a possibility?

C.C. Paarthipan: We are confident that going forward, the margins will not become marginal, and it will be comfortable the way in which it has been happening. But after 3, 3.5 years, we are sure that we'll continue to do, better than actually before.

Aditya Pal: Understood. Sir, and I understand that you had said that FY20 - FY221 revenue will become FY28 profits. But I just want to get a sense that so now say 3 to 4 years out, our base business being Lat Am, ROW, then a new business that is coming up, which is Caplin One, which is our Onco facility and the Caplin Steriles, which is more towards the regulated market.

How do you see the revenue split being there? Because Caplin One Labs and Caplin Steriles will be the one that will be driving the growth in the near term, if my understanding is correct. So how do you see the growth rate for these three businesses?

C.C. Paarthipan: Normally, the market needs varieties, volumes and then attractive price. That's how it goes actually, especially in ROW market, the quality also matters. Coming to U.S. again, as I told you, it should be in the form of different buckets, it will constitute a bigger basket, but that will happen over a period of time.

I hope you would agree with me, success doesn't happen actually overnight, it happens over time. So that's the reason we also told you like every year, we'll be adding products to our existing portfolio. As we increase our generics in U.S., the sales is bound to happen because of our front-end presence.

Coming to Latin America, we are not confined to the smaller geographies. We are entering into the bigger geographies. Shortly, maybe two years from now, we'll be one of the best players from India in Mexico and Chile. And medium to long term, as I told, actually, it will be Brazil, Colombia and Uruguay and other countries. Slowly, we will actually spread our presence in all parts of Latin America over a period of three to four years' time.

By the time U.S. business also will evolve in a big way. And I hope you would agree with me once you have all the products in the form of liquid oral suspension, tablet, ointments, powders, injectables, everything, and then you have four, five factories right from API to actually formulation with CRO and then R&D, if you keep a stall in CPHI, that itself actually attracts the customers who come there, they will understand the difference between a midsized company and a larger company.

They also know a midsized or small-sized company like ours can also build products like a big company. I think that stands as a very big opportunity for us maybe two to three years from now in addition to what I have told you also.

Aditya Pal: Understood. And if we were to quantify LATAM plus ROW, Caplin Onco and Caplin Steriles. So can we comfortably say that LatAm plus Caplin Onco can grow at 15% to 18%, and Caplin Sterile will continue at a 28%, 30% revenue growth run rate. Is that fair to assume?

C.C. Paarthipan: It's difficult to categorize because sometimes what happened actually, surprises are always there in the market. You get business sometimes actually in Onco, sometimes you may get actually in Caplin Steriles. But eventually, we are 100% sure we will continue to maintain what we have been maintaining till now. And as I told you again, it's a question of three, four years before we really actually go for a grand slam.

Aditya Pal: Understood. Now looking at your strategic initiatives on the capacity front, that definitely looks doable.

Moderator: The next question is from the line of Ashita Gupta, an individual investor.

Ashita Gupta: I just wanted to ask about the domestic share of the Caplin Point Lab for India and what are the scope we are discussing on growing our domestic market share?

C.C. Paarthipan: We don't do any domestic business, madam.

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

Alisha Mahawla: Sir, firstly just a bookkeeping question. If you could share Caplin Steriles revenue and margins of the quarter?

N. Sathya Narayanan: For the quarter ended December 2024, the revenue from operations of Caplin Steriles is INR 87.8 crores with EBITDA of INR 24 crores.

Alisha Mahawla: Understood. And if you could also help us with an update on where are we in terms of our entry in the Mexico and Chile market, while we did talk about it in our opening commentary that this is a big target in the short term.

And now we have more than 10-plus registrations maybe even identified manufacturing facility. So can we expect that we are going to enter these markets in big way in FY26 onwards? Would we slowly start seeing the ramp-up? Or is it still another six, eight quarters away?

C.C. Paarthipan: Yes. See, the current business in fact, actually, the business is going to start in the form of a consistent one starting from July. We have appointed a person to have exposure in Chilean market. In addition to Chile, he is going to cover other markets also like Brazil and Uruguay, Paraguay and all, we will start the registration then.

Chilean business will start, as I told you, in the middle of actually this year. And Mexico, we are going to get some orders because we participate in the tender. So the business is coming in bits and pieces so far. The real growth will start maybe one year from now. This year, we expect a substantial increase compared to the previous business in Chile. The Mexican business will start from next year.

We got only ten products registered. We are going to start some CMO opportunities, look at some CMO opportunities in Mexico itself. And many products are in the pipeline. Some are already there in the Ministry of Health. So it will take one year for us to actually show some substantial revenue from these two geographies.

Alisha Mahawla: Understood. This is helpful. Next question is on Caplin Steriles. The revenue for this quarter, as CFO sir mentioned is about INR 88 crores, which is largely flat versus last year and slightly lower than the previous quarter. How should one understand this?

And also I believe somewhere in our conversation, we mentioned that we're waiting for new product approvals or ANDA approvals. So is it that the existing portfolio, this is the kind of growth one can work with and with newer approvals only we'll be able to see growth next year?

Vivek Partheeban: **We should** remember that we took a conscious call as a company that we are going to be launching a label of our own in the U.S., right? So when that be the case, at least almost around eight to nine months ago, we stopped doing these exclusive deals where we take on a large milestone payment upfront.

Now, we knew that this was going to be a pivot in our business model. It's going to be a shift in our business model where we want to replicate what we do in Latin America in the U.S. as well. So at some level, you can expect a certain amount of moderation in growth when it comes to this year because we no longer do any exclusive partnerships, we no longer take any milestone payments or even large royalty payments or anything upfront.

Now, this is going to be important for us for a mid- to long term because what happens is for so long, we've been working on a business model where we do a transfer pricing and there's a milestone and a profit share where we share 50% of the profit with the front-end partner.

Now, why I say mid- to long term is that over the mid- to long term, that 50% that we've been sharing over the last few years, it accrues directly back to us now. So this is more of a strategy shift that we have taken consciously, and this will pay good dividends for us going forward.

Now, for all of these nine, ten products that we expect approval for this year, like I mentioned, all of them are going to be launched in our own label. Of course, a couple of them will still be semi-exclusively launched with our existing partners where we think some of them have a very good standing in the market like Fresenius, etc. But most of the others are going to be launched on our own. So this is a conscious strategy that we took on, and we think this is going to put the company in a much stronger position in the years going ahead.

Alisha Mahawla: Understood and well explained. Just to understand this slightly better, maybe you could just refresh us with how many products or how many approvals do we have in CSU versus Caplin Steriles, especially, which would be our own label and how many of those have been launched and what is the pipeline?

Vivek Partheeban: Yes. So CSU doesn't have any products of its own. It's just a front end. It's a marketing arm of the company, right? So everything belongs to Caplin Steriles. Now, we have 28 approvals in Caplin Steriles under our own name. We have about 14 products under review with FDA and we have a bunch more that we are developing, right?

So out of what we have under our name, we have already launched 11 products, but obviously, they were not launched on day one, right? So we want to make sure that we give the right amount of time and importance to each and every launch. We want a qualitative launch rather than quantitative.

So we have had 11 products out in the market with our own label. But before the end of this financial year, that will jump up to almost 20 products that we'll be launching. Before the end of next year, we'll have close to 50 products that we will launch with our own label.

Alisha Mahawla: Understood. And just one last question. So this transition that we're doing, like you said, by having the products in our own name and selling it front end, this should ease out in one or two quarters? Or will it take slightly longer? And for FY26 also, it will take some time as we rationalize this and then the growth in the U.S. market will be visible again.

Vivek Partheeban: So of course, we don't want to put a number to it in terms of what we expect to do. We want a highly qualitative growth, see, just to give you an idea, we broke-even and went cash flow positive about a couple of years ago. But despite a much heavier spend on opex, despite a larger spend on ANDAs and we've also come into the big category because we are over 20 ANDAs and such. So despite all of this, we have still been able to live within our means. We've not gone back to the parent company for any of the working capital requirements, et cetera.

Now, the only thing that we owe from Caplin Steriles to Caplin Point is the capex loan that we've taken, and there's been nothing else after that. And in the subsequent years, with Caplin Steriles label and the requirements in terms of cash flow for the chargebacks, etc, that we are doing in the U.S., we're fairly confident that we will still be able to support that with the existing cash flow itself.

So all of that translates to the fact that we've actually been growing quite well, and there's also adequate cash flow in the subsidiary as well. So I don't want to give an exact number to it. Like Chairman also said in the previous question, we know that it comes in leaps and bounds, right, at some level.

But we just need to be patient. We need to make sure that our compliance and productivity being two sides of the same coin remains in place. And then anybody that has this larger portfolio that's working on this larger portfolio of injectables and ophthalmic products in the U.S., I don't think there's any case study of people that have missed out. So we remain very confident of that.

Alisha Mahawla: No, I appreciate that. I'm not asking for the quantitative answer. Just trying to directionally understand that how long will this transition period last and it could just be directional.

Vivek Partheeban: Alisha, our B2B business will continue, no doubt about it. I don't have a percentage as to what it's going to be in the next five years. Our B2B business will certainly continue because, look, there are some pockets of the market, which are very much favourable to the largest companies.

So those are the ones that we don't want to stay outside of because they are very cut throat it in terms of pricing and in terms of failure to supply and all of that. Because what happens is that larger companies have a significant portfolio and they go specifically towards GPO contracts and so that's a part of the market that we don't want to be playing in.

So I don't have an answer to when the transition will be completed. It probably will not be entirely completed at all, right? Because we want to make sure that our capacities are put to full use because we are also expanding our capacities in Phase III, having five more lines. So we will always do B2B business. We will always do some amount of CMO, but the focus and the precedence that we are giving to our own label will obviously take a front step from here onwards.

Alisha Mahawla: And how many cut-offs are currently with a partner where it will not be under our own brand name or our own contents?

Vivek Partheeban: So there's only two products where we have plans to launch only in Caplin Steriles label and not in any other partners at all, but going forward, almost all of them will be in our own label only.

Alisha Mahawla: No, I'm saying currently, how many ANDAs products launched are with the partner?

Vivek Partheeban: All of them. Out of the 28, I think close to 25 have been launched, three are under launch preparations right now. But yes, they've all been launched with partners. So remember, Caplin Steriles label is few months old, right? So whatever business that you're seeing right now outside of that $0.5 million is all B2B business, right? So you can imagine that the existing B2B business is easily the lion's share of what you see in terms of revenues today.

Alisha Mahawla: Understood. And just one last question, the steep increase in employee expenses on Y-o-Y basis that we're seeing north of 25% in last two quarters, would this be pertaining to the front end, the front-end expenses?

Vivek Partheeban: The front-end expenses till date has been around 1.9 million that we've infused from Caplin Steriles India to CSU, Caplin Steriles U.S. That's the only expense that we've incurred in setting up the front end, all of the 50 state licenses, all of the third-party logistics setup and the fees for the wholesalers, salaries, et cetera, all of that put together since February of last year has been around 1.9 million.

Alisha Mahawla: Would that be the reason you're seeing the steep increase in employee expenses? Or is there some other reason also?

C.C. Paarthipan: Yes. I would like to add one here. See, now, we are going for more and more factories, especially on the shop floor, we are going for women empowerment. The factories are there next to actually the villages. And here, in addition to the employees, which we have currently, we are adding a greater number of women, and it takes time for them to get trained.

The women in the rural areas are more disciplined, more diligent. With the result, we are employing more and more women not only on the shop floor, but also for analysts and QC and also for BET and sterile and micro. That's one of the reasons actually there is an increase.

Plus we have also taken some new people, one actually to take care of some for the development of software. And like that, we've been increasing the people. It's not that you can go for people at the last minute when we are about to launch your products or when we are going to go for a commercial production. So you have to take people in advance. That may be one of the reasons. However, I'll ask our CFO to give you the correct answer.

D. Muralidharan: Thank you, Chairman. I'll just amplify what you said in terms of numbers. The actual growth appears to be higher, in terms of quantum, it is about INR 25 crores is what gone up is account of three or four reasons. One, the U.S. business at our subsidiary, Mr. Vivek mentioned about 1.9 million has been funded, out of this employee cost is about INR 5.36 crores which was not there last year. Caplin One, which is a new entity consumed INR 3.23 crores, which was not there last year.

And ESOP expenses is about INR 5.3 crores over and above last year. And Lat Am market where subsidiaries are there, INR 3.69 crores, these are basic increments. CPL is the parent entity here, INR 4.96 crores. So our increment is around 10% to 11% on the employees. And as we put it, there have been additions to the employment in terms of number also at higher levels, and there have been separations also.

We can do a reconciliation, but not during the call. But this is the major breakup for the increase in the employee cost, though the number a ppears to be more, the new additions, new additional units have contributed and ESOP expense has also contributed.

Alisha Mahawla: Understood. Understood. This was helpful. And what would be the tax rate for the year?

D. Muralidharan: 20% will be the tax rate, effective tax rate on a consolidated basis for the company. And the good news is that as we stood at two years back, the incurring losses has turned profitable and then we'll have to think COL very first year, they are profitable and we will be more than happy to pay taxes. I hope you would agree with us.

Moderator: The next question is from the line of Sachin Kasera from Swan Investments.

Sachin Kasera: I had a question on the Caplin Sterile. What percentage of revenue right now is coming from U.S. and how much is coming from the non-U.S. markets?

Vivek Partheeban: I would probably say 95% is U.S. at this time, Sachin.

Sachin Kasera: And over the period of next three to four years, how should we see this mix changing? Because I believe the presentation mentions that we are doing a lot of filings in other developed markets. So if you could give us some sense on the growth in the non-U.S. developed markets for Caplin Steriles?

Vivek Partheeban: Yes. It all depends on how quickly we get some of these registrations out. But by and large, you can imagine that it will be a U.S.-heavy revenue breakup. But I don't have an exact number. I mean, the Caplin Steriles as an entity is quite unique in the sense that it's not a CMO, it's not a licensing company. So we're a hybrid of a front-end company with a solid back end. So, unfortunately, there's not any comparables also that you can look at in India. But I would say that it will be very U.S.-heavy in terms of revenue.

Sachin Kasera: Sure. Secondly, you mentioned that right now, almost like 99% plus of revenues coming from B2B because the B2C has just been launched in the U.S. How should we see this mix in the next three years? Should it be more like 50-50, 50% coming from the B2C part, which is where we sell on our own front end and the remaining through B2B in Caplin Steriles?

Vivek Partheeban: Yes. We have a long-term aspiration to be very much in control of how we do our business in the U.S., how Caplin Steriles works in the U.S., right? So definitely, as you can imagine, as we launch our products, as our products come into the market, they go through the wholesaler channel, they go directly to the health systems and all of that.

You can imagine that the larger companies that do business with us will start to take notice and they may not do any more deals with us. In fact, we are also not approaching them to do any newer deals. So naturally, there will be some amount of plateauing in terms of our B2B business.

How quickly does our own label catch up with it and how quickly the scale shifts in that direction is entirely down to our launches and our capabilities, our progress in the U.S. So once again, it's very difficult to put a number or a percentage down. But you can imagine over the next three to five years that our own label will certainly be larger than our B2B business.

Sachin Kasera: Sure. My next question is for the Chairman. Chairman mentioned about four products, which we are developing. Can you give us the sort of the revenue potential from each of these in the next three to four years?

C.C. Paarthipan: It's too early to actually comment on the revenue projection, because these are products, as you know well, the markets are very dynamic. And then how many players will come in the next three, four years, actually, we will not be in a position to predict.

But one thing which I'm very sure, these are the products where the competition from our peers, the companies of our size will be next to nothing. See, until now, we have been competing with companies of our size. Now we are in the big boys playground. We need to position ourselves in a unique place that alone can take us actually to the next orbit.

But giving the numbers at this stage, I think it's too premature for me to comment on that. We will do well. We are sure because if the best one is called as number 1. But the unique actually, as you know well, it's only one. So we want to position ourselves as a unique company.

The numbers automatically will follow, we are sure to do well. That's the reason I told in course of our discussion, in course of my speech, the markets which went initially are not the market which has been noticed by others. The same way we are looking for opportunities, not only in terms of these products, also in terms of the markets. That's one of the reasons wherever we go, we don't sell to -- we don't enter into B2B. We go for our own warehouses. I'm sure we'll do well. I'm not in a position to give you the exact numbers, please.

Sachin Kasera: Sure. But if you could share some sort of a tentative timeline by which you think all these four will get commercialized in the next 12 to 18 months or in more like a 24 to 30 months sort of a time frame?

C.C. Paarthipan: Yes, it will be 24 to 30 months. But again, yes, the 24 to 30 months is better to actually tell the outer limit rather than telling you like 12 to 18 months for that kind of stuff. It will be 24 to 30 months. Here, what happens, when you get into a larger geography, the registration is cumbersome.

And then when it comes to developing a product also, which is high tech that involves not only the R&D, but also like some kind of CRO activities, the BE studies, then, of course, the dossiers have to go. So at times, there will be a lot of questions asked from the authorities and we have to answer. So 24 to 30 months would be the best period, 24 to 30 months.

Sachin Kasera: Sure. And just from an aspiration perspective, how do you see the contribution in next three to five years from some of the newer geographies like Brazil, Mexico and Chile versus where I think right now, the contribution is fairly small. But do you think that in three to five years, the contribution from some of these new geographies could be very large?

C.C. Paarthipan: I'm sure, I'm confident we should do at least actually double the business of what we do in next five years. I'm talking of only the Latin American business that we do. These all put together, the population may be lesser than Tamil Nadu. I'm sure it's less than Tamil Nadu, not, maybe. And these are like one geography like Mexico itself is like double or triple the population of the Central America, and Brazil will much, much bigger . But before we go to Brazil, we'll do very well in Mexico because I worked in the market, we are focusing on the market actually.

There are two types of market. One is the institutional business, the other one is the private market. And most of the Indian companies, of course, they have established at least 10 or 12 companies are established, but they don't go directly. See, in countries like Central America, we replace the importer. In countries like Mexico, we'll replace the wholesalers. So that's an advantage which would create because we have worked in the market, we'll go and work again and then create a niche there.

Sachin Kasera: Sure, sir. And just one last question. I believe we have some investors in Caplin Steriles. So what is the timeline in terms of either going in for listing or buying back their stake? Or if you could give some sense on that?

C.C. Paarthipan: Yes. That, of course, we haven't discussed, and they are also happy. We also continue to do our work there. I even shifted my headquarters from Chennai to next to the factory. They are so comfortable with us. They never brought this subject. We also never thought of that one. And it has to happen. But when it will happen, we are not in a position to tell you now. It will happen.

Sachin Kasera: Sure. Sir, just one last question. We have been talking about doing some acquisitions and utilizing this INR 1,000 crores plus of cash and liquid that we have. Can you give us some update on what is the progress there? What type of opportunities we are looking at? What could be the size of acquisitions, which areas we are looking in there?

C.C. Paarthipan: Yes. Considering the anti-globalization and protectionism, which is actually working in many of these countries, the best is to think of acquiring some domestic company where they have a domestic presence. This is one thing which has come to our knowledge in the recent past.

And then when we go for domestic presence, the advantage is we can even choose some people from the domestic business and put them for brand marketing outside the country also. Currently, we are more into generic, as you know well. It will also help us to get into brand marketing in overseas countries, too.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Vivek Partheeban: Thank you once again, Motilal Oswal and to everybody that had joined us for discussing the results, and we continue to remain very confident that you will join us in future calls as well. Thanks for your time. Thank you.

Moderator: On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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