



**“Caplin Point Laboratories Limited
Q2 & H1 FY26 Earnings Conference Call”
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MODERATOR: MS. JULIE MEHTA – 360 ONE CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY26 Caplin Point Laboratories Conference Call hosted by 360 One Capital. 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.

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

Julie Mehta: On behalf of 360 One Capital, we would like to welcome you all to the Q2 and H1 FY26 Conference Call of Caplin Point Laboratories Limited. Today, we have with us senior management of the company represented by Mr. C.C. Paarthipan, Chairman, Mr. Vivek Partheeban, Vice Chairman; Dr. Sridhar Ganesan, Managing Director; Mr. D. Muralidharan, Chief Financial Officer and Mr. Sathya Narayanan M, Deputy CFO.

I would now like to hand the conference over to Caplin Point management for the opening remarks, post which we will open the session for Q&A. Over to you, sir.

Management: Thank you, Julie and thanks to 360 One Capital for hosting. Welcome, everybody. Thanks to all of you for taking time out and joining the Q2 H1 earnings call to discuss the 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.

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 also note that the audio is copyright material of Caplin Point and cannot be copied, rebroadcast or attributed in press or media without specific written consent of the company. I'd just like to hand over the floor to our Chairman for his opening remarks.

C.C. Paarthipan: Thank you. Good afternoon, and welcome all to our investors call. Let me start with what has been told by Harvard cognitive scientist and psychologist, Dr. Pinker, about private knowledge and common knowledge. He makes a crucial distinction between private knowledge, say X, which resides only in an individual's mind and common knowledge where everyone knows X and everyone knows that everyone knows X and so on ad infinitum.

The private knowledge alone could create something unique and also the competitive advantage to any company. Now, the unique and competitive advantages of Caplin Point. Number one, higher revenues in smaller geographies of Latin America with personalized patient engagement.

Number two, liquid assets exceeding the annual revenue that stands at INR 2,358 crores. Number three, catering to the bottom of the pyramid of essential medicines cannot be replaced by new age biosimilars tool. Number four, we are not competing with the big pharma, but creating a new ecosystem in the markets and manufacturing.

First, market. The focus of the big pharma is always on institutional and brand marketing, whereas we focus more on the private market, especially the last mile, which always sells to the poor and middle class in rural markets. We currently 50% of our products are outsourced either more from both from China and India. And this asset-light model has created the hard assets in India.

Then manufacturing. We found the rural women are more disciplined. Hence, we are empowering the women by increasing the women employees in our shop floor, which alone is not digitized in our factory currently. We also still retain the skilled and loyal men to continue in our journey with us. We are training the new grades and they are quite good in enforcing integrity, quality, safety with productivity in our facility.

We are in the process of digitizing the shop floor like all other areas of our CSL. This will be a digital privilege to the underprivileged women. In the next two years, after we complete the COL injectables, we will be one among the four or five injectable exporters to the U.S.A. with 12 lines, both put together of CSL and COL and we'll be mainly catering to the U.S. market.

Number six, we are in the process of buying a land in Mexico where we are planning to start our factory. This is only to avail the benefits offered by the Mexican government recently and the Vice Chairman will detail the number of fill stations in U.S., Mexico and Chile from India and China.

Number seven, we also have plans to start a liquid oral facility in Guatemala, which would increase our revenue and profit by selling a big range of liquid products in Central America. And exporting liquids from India or China does not have a competitive cost advantage. Number eight, we are also looking for a meaningful acquisition to increase the top-line and bottom line of the company and the Vice Chairman will detail an opportunity which came to our place in the recent past.

However, we felt that particular opportunity is not a good fit for our business, hence, we told them that we could look for something later. Number nine, we are also aware that one day artificial human intelligence and machine learning will rule the world. Robots will replace the routine to difficult to manufacture jobs. Keeping this in mind, we should also legally look for a country which supports robots for manufacturing of generics.

However, we know that these robots will not have empathy or a feeling for the poor. Of course, we don't even know whether the future robots will have common sense and the gut feel. We at Caplin, we still feel stepping to the bottom of the pyramid is a compassionate journey, which will continue forever.

Finally, we also accept that no competitive advantage is an iron clad and it must be earned on a daily basis. Everything worthwhile is always uphill and we should never give up to go up. Now let me pass on this to the Vice Chairman, Mr. Vivek, to give his presentation. Thank you.

Vivek Partheeban:

Thank you, Chairman. I'll touch upon the U.S. business a little bit before moving on to the rest of the world also. We are happy with another set of consistent numbers that we have done, both in Caplin Point and Caplin Steriles. And in Caplin Steriles, we've seen growth in both the B2B and the B2C businesses, which I'll touch upon in a minute. The growth is seen predominantly due to the new approvals that we've received over the last few months and also capturing a larger share of the existing market for the products that were already approved.

In addition to our existing pipeline, we've been actively building up a pipeline of ANDAs that we are acquiring from outside, which helps fast track our entry into some of these products because typically, when you acquire an approved ANDA, you can get to market within 6 to 9 months compared to starting from scratch, which is around 18 to 20 months on a best case scenario.

We've already acquired around four ANDAs so far, and we're in the process of acquiring five more as we speak. This should happen in the coming few weeks. Once everything is completed, we should be touching around 45 - 46 ANDAs, which we feel is a very decent number considering our first ANDA was approved only in 2018.

To ensure that we're also utilizing our capacity effectively and also being true to our original DNA of being asset-light and focusing on outsourced manufacturing as well, we are also starting to outsource some products for CSL. We have already started with the first two products being outsourced from another highly quality conscious company in South India.

And we're in the process of discussing with them to move a few more products to them so that only the high-value and very tricky products or complex products are being manufactured in-house until our complete capacity expansion in COL 2 or Phase III as we call it internally is completed.

Our large offering and variety of sterile products from CSL is getting even larger and even more diverse as we start doing more exhibit batches of products like prefilled syringes at this plant. We have around 11 products that are at advanced stages of development and we plan to file almost all of these 11 by the next financial year.

Some of these are additional to the existing approved ANDAs. So these would be what we call as post-approval supplement, where we get the approval within six months rather than the traditional time line of 10 months to 15 months.

We are also adding cartridges from the same line, which includes the GLP-1 products. In fact, in four countries in Latin America, we've already filed the dossier and we should be in the first wave of generics when the patent expires. We are also working on another very niche technology

at CSL, which is BFS or blow-fill-seal technology, where we are working on a pipeline of products that includes unit dose ophthalmics and inhalation products.

When it comes to CSU, which is our own label in the US, Caplin Steriles US, we are very happy with the progress so far. We targeted breaking even within the second year of operation, but I'm glad to inform that not only have we broken even within the first quarter, we actually have become profitable in that entity and the numbers are very similar to the parent companies, which, as you all know, is fairly robust as well.

We have launched 24 products within the first 12 months and we are targeting another 15 products in the next financial year. And going forward, we expect our own label to occupy a significant share of Caplin Steriles' sales in the coming years. We are also looking to license more products from other partners, other licensing companies, both in India, China, etc., for our front-end as we get more comfortable with how the whole sales network happens over there.

In addition to the US, we are making good progress in our next very high focus market of Mexico. We have already filed 35+ products. We have 20 approvals along with our partners. And we are also working on a larger pipeline of 80 to 90 products that we are confident will be filed within the next 12 months. Most of these are internal products and the rest of it is all from our partners in China, which are basically ANDA products or EMA products, where we expect the approval to come through quite quickly.

Another highly focused area for us is Chile, where we already hold around 125 product licenses. We have recently started our warehousing for private market sales and local tender sales over there. This is picking up pace as we speak.

And just like the Chairman said, we are also aligning with the global push for onshore manufacturing. In this account, we are also not against the concept of an inorganic acquisition. In fact, we are now getting more and more comfortable with that idea.

And along this line, there was an opportunity that had come up in the US for something that was sizable. But as the Chairman was saying, we were able to engage with a private equity company that was able to actually make those numbers work, which were actually quite significant for a company our size.

So it goes to show that as long as we continue to do things the right way with a very sharp focus on cash flow, bottom-line and top-line, our valuation will put us in a good position as and when we do something inorganic. It is very important that it fits in with our line of growth and fits in with the overall models and things that the company always stands by.

When it comes to capex, our Vizag facility is cleared. We have received the CTO, which is a consent to operate. We are working on the first few scale-up of APIs as we speak. And our oncology API facilities also coming up at a good speed and we expect this to be completed by next year.

Finally, there is nothing specific to be reported on the tariff position as status quo, we are still exempted from tariffs, and we are in the same boat as everybody else on that. So happy to take any calls later. I will request our CFO to throw a little bit of light on the numbers before we open up the floor for questions.

D. Muralidharan:

Thank you, Mr. Vivek. Good evening, everyone, who has taken time off to attend our investor call. Let me briefly take you through the Caplin Point performance for Q2 and H1 FY26. Overall, results are gratifying and company has grown to almost all financial parameters.

Operating revenue grew by 11% year-on-year. Our growth continues to be broad-based across geographies. Total income grew by 12% year-on-year. H1 revenue of INR 1,098 crores exceeded full year revenue of FY21 was INR 1,085 crores. The growth in other income of INR 14.18 crores has primarily come from deployment of incremental cash.

As we have in the past explained our target is to accrue at least –INR 300 crores to INR 350 crores year-on-year, and that has put us in good state. And again, INR 14.8 crores the exchange rate has also helped us another 2-point increase in exchange gain. It's the extent of INR 2.3 crores compared to last H1. While the revenue grew by 7%, COGS grew by 8.2%. That means our operational efficiency has improved and this is directly from its contribution margin.

Employee expenses also grew just by 7% year-on-year with productivity growing up. So Opex also grew 8.2%. That means we are constantly monitoring the spending. We are discreet in our spending. This has resulted in only 8.2% increase in miscellaneous, resulting in increased contribution in the profitability.

Next, the Opex as a percentage of total revenue of 24.8%, as against 25.6% last year. Above factors have resulted in a growth of 18.2% in EBITDA margin, way above the revenue growth of 11%, 12%. So capitalization of INR 48 crores accounted for additional INR 2 crores of depreciation. PBT grew by 19.4% year-on-year from INR 322.8 crores to INR 385.5 crores, stands at 35.1%, as against 32.9% previous year. PAT of INR 311 crores is higher than the PAT of INR 380 crores achieved in full year of FY22.

All above positive factors have resulted in growth of 21.6%. PAT stands at 28.3% as against 26.1% which we achieved in the corresponding period. It may be pertinent to note that we have been promising about 25% as our target PAT. So we are way ahead of that.

Coming to the balance sheet, the company's net worth crosses INR 3,000 crores mark. Precise stands at INR 3,159 crores. Our Chairman has already talked about the liquid assets, which stand at INR 2,358. Cash and cash equivalents stand at INR 1,334 crores, as against INR 1,180 crores as of March 2025. We have incurred a cash expense of INR 94 crores on capital related items. So capitalization during the H1 was INR 48 crores.

This year in WIP (Work in Progress). We have a WIP of about 174 crores, which is primarily an account of Caplin One Lab injection projects, which is almost in the final stages, which is about INR 90 crores and probably by December, we'll go on stream. Others related to Caplin

One Labs expansion, which Mr. Vivek explained, like, API oncology, and the Phase 3 or COL phase 2. So these are the other projects that are going on.

Inventory at customer locations and in transit accounts for 67% of our total inventory, and receivables are at 117 days, I think it's 118 days as of March. As you may recall, we think that we can take that below 120 days. We are working on this.

Coming to cash flow, CFO stands at INR 254 crores as against INR 186 crores in the past year corresponding period, and free cash flow after capex stands at INR 160 crores against INR 109 crores in the corresponding period.

Compared to peers, we are happy to announce that we are way ahead of our peers, comparable peers in terms of healthy margins and the strong returns. That's because discipline and efficient business model.

Just to summarize, the Caplin Point stands on a foundation of unique business model, which our chairman explained. Operational excellence, which is evidenced by increasing contribution margin. Financial prudence evidenced by our containing of cost and discrete spending, and sustainable growth is evident by decent growth in both revenue and PAT ahead of the target.

So, thank you for your continued trust and support in the company, and we'd be glad to take any questions. Over to you, Mr. Vivek.

Management: Thank you, sir. We can open up the floor for questions now, please.

Moderator: Our first question comes from the line of Garvit Goyal from Nvest Analytics Advisory.

Garvit Goyal: Sir, my question is on the capital allocation side. So, we are having free reserves of more than INR 1,300 crores, while our average annual capex in the last 3 years has been around INR 200 crores and it seems like for the next few years, we will be in a similar range.

So, at the same time, the ROCE that we are doing is well above 25%, but a larger part of the cash is lying in the sales instruments, maybe earning 8% to 9%, right? So even in the PAT period in recent years, the peer who have outpaced the sales growth is largely due to this treasury income.

So, from a shareholder perspective, wouldn't it make sense to preserve what's required for the capex or the inorganic opportunity that you are talking about and distribute the excess cash through dividends or buyback instead of letting such a large amount earn some optimal return. So that's my first question, sir.

C. C. Paarthipan: Okay. See, we still feel that going for a meaningful acquisition at a later date, which would actually give more benefits to our investors. The reason being although our top line is not growing very fast, I hope you would agree with me about the cash flow and the profits, which are now very, very comfortable.

And if you compare with any of our peers, we have definitely cut above the rest. And if you look at most of the big companies, they have become big not only by organic growth, but also by inorganic growth, which means the most important one, I feel actually, is looking for some meaningful opportunities in the form of acquisition. That's why we need to keep some cash actually in reserve.

Garvit Goyal:

And can you share, like I mean if you are speaking about like we are very much open to the inorganic acquisition. So, you must be currently having something in inventory. So can you share some insight on that, like whether we are evaluating some inorganic acquisitions right now? What is the status?

C. C. Paarthipan:

Somebody who met us actually recently, it has been told by me and the Vice Chairman, they were ready to actually fund us, provided that they wanted us to dilute our stake, which we were ready, because that particular opportunity was very attractive in terms of actually, in fact, at the face of it.

The investment would be in the region of 300 million from that side. We have to reduce our stake actually by 20% and other thing. And the company, which they told us also is doing around \$200 million. But the issue is that's not a meaningful fit.

They are not complementing actually, something in the form of what we are not doing, and this is not going to be a good fit. And they accepted and because of the fact that they were doing well, and the sales was decreasing and also the profits.

So, why I'm telling this one only to say that there are people who are approaching us, one such, actually, one such PE fund, which is one of the top 10 in this world. And they came to us, they told us this opportunity. The others, of course, we didn't give much importance because they were asking for some other priorities, which is not the best priorities for us.

So definitely, there is an opportunity for an acquisition. And again... I'm telling it should be meaningful.

Vivek Partheeban:

Yes. Just to add to the Chairman's point, a couple of other things also. We get these opportunities almost on a weekly basis. And we have to evaluate what really fits in with our line of growth, which is specifically towards the larger markets of Latam, also in the US and to the distribution model that we have been successful in the past with.

Also whatever acquisition we do, we need to make sure that the rest of the world markets, which we are very, very strong in also is benefited by. So it should not be very specific to one particular region itself, which was the case with the one that was on hand.

On paper, it was excellent numbers. In fact, the size of the acquisition was a significant one, and we were open to it. But once you started peeling away the layers and understanding the next 5 years, it just didn't seem like what we expected it to be. So just to strengthen the point that we are very much for it, if it makes sense to us.

- Garvit Goyal:** And were they're asking for the equity deal, like instead of cash acquisition?
- Vivek Partheeban:** No, We don't want to go into too many details of it because it's not happening also, right? What we are trying to say is, see, as a family, we own around 71%. Now for this deal to have happened, this was several hundred million, right? So we were even open to the concept of liquidating some of our thing just to make sure that we take a much larger company on.
- But again, it just didn't fit in with our line of growth. And just to show you that we are not being too conservative or anything like that. And we're also preserving some of that cash because if we go for an acquisition like that, there needs to be a larger check price as well, and which we are not shy of writing, that's what we are trying to say.
- C. C. Paarthipan:** To add it in one line, probably when they invest actually \$300 million that kind of money, the overall actually equity will expand. So, some percentage which is said will be reduced to the promoters, that's exactly what I was trying to convey.
- Garvit Goyal:** Understood. And just one last thing on USA operations. We saw year-on-year decline in the PBT there despite a top line growth of 25%. So is there any specific reason for that, sir?
- Vivek Partheeban:** I would request Sathya, CFO of CSL, to answer this because we have not really seen a decline at least, yes.
- M. Sathya Narayanan:** Thanks for the question. This is Sathya Narayanan here. So, if you look at the CSL plus CSU consolidated, what we have been tracking now, the Q2 PBT is around INR 20.2 crores as compared to last year INR 17.13 crores. So, it has actually increased.
- Vivek Partheeban:** So, it's not only that. So, CSU, if you look at it, it's literally nine months old, right? So, I think it's far too early to consider anything or compare anything on a quarter-to-quarter basis, please.
- Garvit Goyal:** Got it. Maybe I have some doubt, but I will take that offline. Thank you very much and all the best for the future.
- Vivek Partheeban:** Thank you.
- Moderator:** The next question comes from the line of Aditya Pal from MSA Capital Partners.
- Aditya Pal:** Thank you so much for the opportunity. First of all, I want to congratulate Mr. Vivek and also would like to extend my congratulations to Mr. Ashok for becoming Vice Chairperson in the company. Going to the question part. So my main doubts were mainly around Caplin One Labs.
- So now that our injectable facility is also online in oncology, how should one read the asset turns and increase in revenue, say, over the next two years from that facility? And also, when you're answering, if you can also touch upon how are we in terms of the regulatory time lines getting this facility audited?
- C. C. Paarthipan:** Okay. See, as I told you before, our growth actually, which has come only from the smaller geographies. Now that we are moving to the larger geographies, whether it is South America or

North America. So, it may take a little time actually to complete the registration and some of the products which are in the form of OSD, whether it is oncology or general product, we'll have to go for actually biostudies also. So, it takes time to complete the registration.

But the biggest advantage is the markets are big. Although we have not been concentrating much on actually the institution business, the opportunities have come to us for the institution business also in the recent past in the smaller geographies, too. And we have found it's very lucrative. The same thing will happen in the larger geographies, too. The reason being the larger geographies are dominated by the big players.

First, it's multinational. Next, it's actually Indian top companies. And our size is a midsize. So we are not trying to compete actually with somebody of our actual size. We are trying to go with actually the big sized company, which means their overheads will be high.

They will always quote the higher price in the tender, even if it is a private market. That means the opportunity for us for growth is multifold. It's a question of time before we really make it. In every market, what is important for generics? Generic actually is nothing but a commodity business.

Only thing we should not be the commoditized characters in the sense you should not have a model which should be commoditized. If your model is actually that you cater to a particular segment with variety and actually novelty and quality generics at affordable cost, you still have a say with the middle of the pyramid and the bottom of the pyramid. So, we are very sure that we'll continue to grow, but it's a question of time its little here and there, that's it.

Aditya Pal:

No, I completely understand, and I also understand the broader business. My question was more to do with the oncology facility, because if I see, the oncology facility has come online, we are already doing OSD doses and now our injectables have also come online. We are targeting both the existing markets as well as regulated markets. We have a very good gloss block over there, close to around INR 96 crores with around.

C. C. Paarthipan:

I think I was able to give you the answer.. Is it okay to give the answer now?

Aditya Pal:

Yes, yes. Just either you or CFO sir can answer that. I don't mind.

C. C. Paarthipan:

I'm Paarthipan talking to you. Yes, I can tell and of course Vice Chairman also will add to it. As I told you before, the business that we do today is more like a vertically integrated business, something similar to the big boys. The only difference is the volume of the business is high, but the model, especially in some countries is very unique.

In some countries, of course, you have to follow them also. But while following them in the tender, we have an added advantage. Advantage is our price will be like our price may be slightly lesser than the big boys, but it will be much more effective and much more profitable for us.

So we will not only concentrate on the smaller geographies to start with, we'll go for the bigger geographies also in future, whether it is oncology product or general product or injectable products. And everywhere the products are sold.

In some areas, it's more of a private market. In some areas, in the private market itself, you have to go for leading chain. In some areas, you have to go with the small chain. In some areas, the tender, if you keep the goods next to the customer, right from the government to the private customers will come to you. That's exactly the model we have been doing for the last 20 years.

In the last 20 years, unlike other companies of our size, we are in a position to have a cash flow and liquid assets is mainly because of this model. So, markets doesn't change, but the model, when there is a change in the model, model attracts the customer to come to your place.

So, whether it is an oncology product or actually other products. The only difference, suppose if the product cannot be sold through pharmacies, then you have to sell through clinics. Then what is needed is you'll have to go actually, you'll have to appoint somebody who will go and tell the doctor, here is a company which has got a warehouse and so on and so place, and we have got all these products in our warehouse.

The doctor himself will say, either I will place the order online or you come next visit, I'll buy it from you. This is the model which is happening everywhere for generics.

Aditya Pal:

Understood. Sir, also, I just wanted to understand now with regards to our API facility upgradation as well as oncology facility that is injectable phase that has been completed. So just wanted to understand the accreditation. Now where are we in terms of obviously, the healthcare authorities would have accredited. But what about EU GMP or US FDA,

Vivek Partheeban:

Yes. I think we are going ahead with, Aditya, in the beginning is we are first going to go for our INVIMA inspection, which is what we have done in our Pondicherry facility also. So this will happen hopefully early next year.

In fact, we have an INVIMA inspection happening once again for our injectable section in Pondicherry for general category products because many of the semi-regulated markets, the ampules sell a lot more than the vials, which is what we do in Caplin Steriles.

Having said that, we are also going to be applying, in fact, we've already applied for the audit of our oncology facility as well. They've not yet given us a date, but we expect that to be sometime next year, post which, of course, we are not sitting idle, right? So once the facility has come on stream, we are doing exhibit batches for products that we have developed.

And once the INVIMA approval comes through, we will be filing all those products. So, from a pure time line angle, for the existing markets, we are already doing business for the larger ones such as Mexico, Colombia, Chile and all of that, this will probably start by Q4 of next year.

Aditya Pal:

Understood. Just one last question before I come back in the queue. So now that we are filing the product registration, either be it ANDA, or be it with CEPs, or be it with other geographies,

and we are attaching our own API to that, especially in the general section because our oncology API is yet to come online.

So how should one read that in terms of our gross margins, because we are already posting really strong gross margins, at least for the last 4 quarters. So how should one read that?

Vivek Partheeban:

I would probably put it in a slightly different manner. So of course, definitely, gross margins, I think, over a mid to long-term will be enhanced because we have our own API. But more importantly, what happens is because we are into injectables and ophthalmics, the amount of API that goes into a product is very, very less, okay?

So, we don't really occupy a large percentage of anyone's value chain because it's not like OSD where you have 500 milligrams in a tablet or 700 milligrams in tablet. In most injections, it's like 10 milligrams, 20 milligrams and stuff. So many times, what happens is the API vendors, they prefer to supply their products, they give preference to the larger buyers, which are the OSD players. So, for us, making sure that we have API available at all times is going to be very, very important.

Number two, which ensures continuity of supply, right? And #2, the compliance factor is also in our hands. In the past, we've been burnt a little bit by some API player that goes into warning letter or things like that, by which case, our approval also doesn't come through. So, these are all things that can be avoided in addition to the cost. Cost is something I feel you will look at it from more of a mid to long-term perspective.

Aditya Pal:

No, makes a lot of sense, And this also clarifies the way Caplin is looking at things, and really hopeful for the company, and wishing you and the team all the very best.

Vivek Partheeban:

Thank you so much.

Moderator:

The next question is from the line of Karan from Anubhuti Advisors.

Karan Dubey:

Sir, my question is regarding the hedging policy of the company. As we are well geographically diversified, so how do we manage this currency risk?

C. C. Paarhipan:

Yes. See, the currency risk actually in places where we have our warehouses is managed this way. See, currency risk actually in a country that cannot be managed by us because you know very well, this is something in the form of an international issue.

But when you keep your goods in the warehouse, even if the receivables actually take a beating because of currency risk, you have an advantage of actually increasing the price of the goods that are in the warehouse and sell it actually to offset the loss, which has happened because of the currency risk.

Karan Dubey:

Okay. So do we enter into any derivatives contract or so.

- C. C. Paarthipan:** No, we don't. Of course, we don't because currency risk is universal, which you know very well. And then because of the currency risk, we never lost anything in a big way.
- Vivek Partheeban:** Yes. In addition to that, two more points also is, please remember that almost 35% of our products goes out of China, which can technically be called as like export, right? Yes. So we sort of have a natural hedge a little bit. So we've not gone for any hedging.
- A couple of the countries where we operate in, the local currency itself is the US dollar. So that also helps out. Yes.
- Karan Dubey:** Okay. So, for FY25, I'm just looking at our annual report. So, in the annual report, we had the foreign exchange earned is INR 720 crores and foreign exchange used is INR 25 crores. Export is INR 720 crores and import is INR 25 crores. So, it shows that we are facing some currency risk
- D Muralidharan:** I've understood the question. What is reported in the annual report is pertaining to the standalone market. The exchange, the exposure and the import currency outflow and the inflow does not belong to the group as a whole.
- What our Chairman, Mr. Vivek was explaining was the group as a whole, right? So Caplin standalone market here, doesn't depend much on imports. So naturally, the 25% is absorbed by cash outflows, right? So, the INR 725 crore.
- Karan Dubey:** Yes. On a consol basis, it acts as an actual hedge. It will match this imports and export number.
- C. C. Paarthipan:** I would like to add one more thing. Our business model is such actually that we don't import APIs except in actually CSF. Most of our business that happens from China is exporting formulation directly to Latin America through our subsidiary. I don't know whether that helps actually to understand your ratio.
- Karan Dubey:** Okay. No,. Because from last, I guess, from 12 quarters, I have seen the numbers, we have this INR 47 crores of translation gain. So that's the reason I have raised this question.
- D Muralidharan:** That is pertaining to the foreign exchange translation, the term of the subsidiaries across the globe. Whatever is happening in India is taken to the P&L, whatever is happening in terms of the revaluation of the receivables, revaluation of liabilities, and I think the rest of that goes through the OCI route because we can't consider that as an income. So that's gets reversed in the next quarter.
- Karan Dubey:** It's OCI. Yes.
- D Muralidharan:** Its OCI. So, the P&L INR 11 crores what we talked about PAT does not include that figure, right?
- This is a notional thing which is valued on 31st of every quarter or 30th of every quarter and then reversed on the 1st of next quarter. And what happens that quarter the next quarter is the

next quarter's thing. As we said, as Chairman also said, we have not lost INR 1 on account of currency rates. Rather, we have been gaining substantially over the period, that's what it is.

Karan Dubey: Okay, understood. Thank you.

D Muralidharan: Thank you very much.

Moderator: The next question is from the line of Harsh, an Individual Investor. Please go ahead.

Harsh: So first of all, congratulations on another good quarter. So I'm sort of new to the company and the sector. And I was just going through our company, and I mean, what exactly is our edge, because we enjoy very high margins compared to our competitors. Is it just because we are forward integrated or we are asset-light, what essentially gives us that edge? Or is it maybe our product portfolio is such that we have higher pricing power, etc?

C. C. Paarthipan: No, I would like to actually tell you something here. As I started in course of my actually speech, see, generic business is generalized. It's not customized only to us. What is customized is the business model. We went to places like Central America, that is Latin America, 20, 21 years ago.

And we made it a point to go to countries where there were not many Indians and Chinese present, this is one of the reasons actually. We entered and we increased the number of registrations very fast. Today, we have 500 to 600 products actually in most of the geographies where we are present today in the smaller markets.

And over a period of time, if you can give good quality product at affordable price, people who buy the products, you also know, not that actually, we also will go to doctors every time. If you want some products to be bought, you can as well buy it from the pharmacy also.

Even diabetic people, if everything is controlled with the diabetic medicine, will not go to a doctor, you will buy the same medicine by going to the pharmacy. This is something is the same case everywhere in the world. So the people who bought our medicines continue to go to the pharmacy and buy.

And doctors who are also happy with our medicines, although it's generic, they started prescribing actually generics in this part of the world. So there is nothing extraordinary technology. The one if you have to say very important, we were early to the market. We went for an end-to-end model.

Like today, we have liquid oral suspension tablet, capsule, ointments, powders, injectables, everything actually not only in India, but we also source from China, because we can't compete Chinese in some areas like cephalosporins and penicillin. We identify the best company, we source it from that, test it on our quality control laboratory in China and export to Latin America. Like various factors that has really contributed to what we have today.

If you look at other companies, most of the companies which are doing well, you will not be able to find one company which has made money in a nonregulated market in generic. That's because no company has to take a risk actually, it is risk to go to these types of smaller geographies.

If you sell your product in a smaller geography, you will become very visible in the market and the guy actually who has been doing well, the local, you'll lose business. He will try to do all kinds of trouble, so this trouble has been actually handled by the family, the promoter of the company, who took all these struggles, and the blessings that you see in the form of profits and cash flow.

Harsh: So essentially, but now as we enter into more competitive markets with Chinese and Indian players, now our plan is essentially to have a backward integration in order to retain margins. Is my understanding sort of correct?

C. C. Paarthipan: Yes. In some markets, the backward integration may work. As our Vice Chairman said, it all depends upon the product. If the constant of actually raw material is much lower in the form of grams or kilos, there's no point in manufacturing that product as a backward integrator.

But actually, if you look at some of the products which are tablets or capsules, it sells in huge volume, then of course, you have to manufacture in tons and tons.

But here in most of our products and injectables, you have to manufacture in only tens and tens, not in tons and tons. So it all depends at the end of the day. I know this is vertically integrated model helps, volume differs based on the products that we promote.

Harsh: Understood. Thank you.

C. C. Paarthipan: Thank you very much.

Moderator: The next question is from the line of Shrinjana Mittal from MS Capital. Please go ahead.

Shrinjana Mittal: Hi. Thank you for the opportunity. I have two questions. One is I understand that the tariff situation is in the flux right now and it's not very clear. But just wanted to get an understanding of what is the current situation as per your need and especially given that we are trying to set up front end. So, if you can just throw some light on that, that would be wonderful.

Vivek Partheeban: So, as I mentioned, status quo remains on the tariff situation. The generic products are not tariff. And in whatever the information that we've received over the last 7 or 8 months with this new administration, nowhere it was mentioned that generics will be subject to tariffs. So status quo remains, and even if something like that happens, we're in the same boat as everybody else, right?

So I don't think we would be at an unfair advantage compared to anybody else. I think there is nothing to really report on over there.

- Shrinjana Mittal:** Understood. Second is just a bookkeeping number. Sathya-ji, if you can help us with the Caplin Sterile EBITDA number for this quarter, that would be great.
- Vivek Partheeban:** Sathya, can you take this?
- M. Sathya Narayanan:** Sure, Vivek. Thank you. See the EBITDA for Q2 FY26 is INR 37.2 crores.
- Shrinjana Mittal:** Understood, thank you.
- Moderator:** The next question is from the line of Deekshant Boolchandani from DB Wealth. Please go ahead.
- Deekshant Boolchandani:** Congratulations on the good numbers, sir. First question is you were traveling to China as you spoke in the last quarter. And we already have a plan in place to do our backward integration better and set up a better distribution channel, so that we can expand our market. And you have said that, we can expect the 20%, 25% growth in the next, let's say, 2 years. Yes, what about further than that?
- What is it that we are looking at? Because we are a visionary company. And what is it that we are looking at after that?
- C. C. Paarthipan:** Okay. I would like to convey something here very important. See, we started with actually marketing and markets. That's what has brought us to where we are today. And then as both of us told in course of our conversation, the asset-light model has created actually the assets that you see, which are in the form of completion, some are actually , work in progress.
- So, it takes time for us to complete the projects. And then when it comes to US FDA and other regulated market, it's not that easy for us to actually delegate and get it done. It's possible. But again, we don't want to take a chance because we have to stay here and then also travel.
- So, there is a huge opportunity in the market. There is also opportunity by staying actually in a facility, which gives us good returns, in the sense, we never expected that we would do actually in our front end in US so faster. And now that as the Vice Chairman said, we are in the process of acquiring brands, acquiring ANDAs.
- The more and more ANDAs when it comes to us, by the time in one year, or one and half year, we will complete the next phase of, this one, injectables. Currently, we have 6 lines. We are going for one more line in the Phase I and Phase II here. Our Phase III is going to be the COL, that is again, injectable for the US market. We'll have 5 lines then.
- Once, you have 5 lines, as I told you in course of my speech, we will be 1 among the 4 or 5 actually top injectable exporting company in India, which means we should do well. What I have seen in China, they're extraordinary in innovation, but coming to injectables, probably they must have felt why export injectables and lead a very tough life and make less money probably that's the way as it looks because after the erosion of prices.

They are focusing more on actually innovative products in the form of biosimilars and some of the products like semaglutide, all that kind of those thing. So now what we are doing is, when the semaglutide kind of a stuff with peptides, if you see India, you don't see many API peptide companies in India. Whereas when we went to China, there was a time we paid \$500 per gram for semaglutide.

The same company, one of the biggest in the country has come down to \$150. I've seen actually a seller for \$50 with the same quality, which means when we will look at it, which one is going to be good to us, we will buy from there. Which one, of course, we are not in a position to innovate. We will associate with actually with, what do you call, start-up for the mid-sized company.

In India, biosimilars are only in the hands of a few companies who are at the top, maybe 7 to 10 companies. In China, the government supports the start-up and mid-sized companies, there are plenty of companies, maybe 500 to 600 companies. The only issue, we have to stay there for a month or so to understand, because these things you need to understand, actually go for a deep actually patterns, to understand the deep patterns of what is happening in China.

Then, we'll have to create a pattern of our own business, which will actually take us to the next target. There is an opportunity in China, in US, in Latin America, in every market, there is an opportunity. How are we going to position ourselves, what kind of products? We need to understand the why first and then how later?

Deekshant Boolchandani: Okay. So just to dig a bit deeper, sir. One, it's amazing and inspiring what you're doing at the age of 70, sir. It's really inspiring.

C. C. Paarthipan: Thank you so much.

Deekshant Boolchandani: But just talking about peptides, sir, so what is the larger idea that we continue our trading business from China, or do you think that there is a possibility for us to integrate and create our own peptides? Because I mean, it's really looking at US markets and even European markets, the adaptability of peptides after the whole GLP-1 thing, it seems like it's inevitable now that that will be the next frontier of growth for a lot of pharma companies.

Now, we have probably the contacts in China to like trade it pretty well. and as you said that \$50 per gram is what you see in some time, I don't know the time. But like are you thinking to manufacture it and be a manufacturer in India, US or like just trade it for now?

C. C. Paarthipan: No. Currently, what we are planning is, we are planning to go for a formulation of actually peptide. But again, as you rightly said, we are not 100% sure that we will make huge money and all. Those days have gone now. Maybe one or two, it happens, it all depends upon the technology with luck.

Those days Japanese are skilled at bringing nature with technology together instead of man versus nature, rather the union of two. So like that luck and technology is a union of two, sometimes you know it brings you actually profitability.

Sometimes if you don't have the luck, somebody else actually has already gone and the number of players are more, automatically the price erosion comes in. That's why there's nothing which you will say in the form of this technology will make it big. I hope you would agree with me.

We all talk of AI, and how far actually, we are still in the artificial general intelligence. We have not reached to the level of artificial human intelligence. Is the human intelligence going to replace the common sense and the hunch of a person who comes with an idea that idea gets executed into business?

We have to wait for 10 years, I think, or at least 10 years. So, there are many things to know in the form of opportunity and challenge. And it's not that we know the answer to everything. We cross the bridge when we reach that. Many a time it happens like that. But we make it because as long as you don't borrow money and you don't go by borrowed wisdom, when your hunch works and you also see the patterns, the bright patterns and dark patterns.

And as I told you before, the deep patterns, if you are in a position to understand the deep patterns and it helps the bright patterns that happened in our life, that's how I look at it.

Deekshant Boolchandani: Sir, last question. Firstly, very insightful, but last question. So now you're saying that the 20%, 25% growth, do you think it's going to happen in FY28, H1 or H2? That means, can we expect it in, let's say, 18 months down the line?

C. C. Paarthipan: No, it is 24 months after, but it will definitely happen, the reason one, see, I don't want to repeat again and again. You know also we have enough cash, which means enough cash and the equity of the promoters also is something not in the form of 15% and 16%, 17%.

And I never expected somebody would come to my door and tell me, I can invest \$300 million. Our ticket size is only minimum \$300 million. And we have found something in US. Is it a good attractive opportunity for you, they asked us, but we found it's not an attractive opportunity.

So the idea of telling this one, if we continue to do well the way we are doing, and we are sure of actually doing well, the reason being, we are going for hard assets, we are also going for asset-light products. We are also having actually primitive products, which cannot be replaced by biosimilars.

The reason is, do you think for pain and headache and all other things which is helpful in the form of all these penicillins and cephalosporins, will be replaced by the latest product. The latest products are going to help only to the rich and rich. Otherwise, the governments have to buy actually.

I'm talking of biologicals actually. The government has to buy and subsidize to the poor. So if someone can cater to actually the bottom of the pyramid or the middle of the pyramid, they'll continue to do well. The only thing which can actually create issue is, as I told you before, if the robots come, and robots replace actual human being and if I'm not in a position to use the robot and manufacture my product, especially the cheaper generics, I will not be comfortable.

That's why much in advance we are going for actually facilities in overseas, be it actually in Mexico, be it in Guatemala, maybe we may go for one facility in US also because the world is moving towards protectionism. We will do it also. We have enough resources. We also found opportunities coming our way because there are not many peers.

It's not that in all humility I'm telling there are not many peers of our size who have the fundamentals that we have today. And we have the exposure in Latin America and North America, who have the exposure of actually having office and doing business from China for the last 20 years.

So we are very sure two years, maybe 18 months, I don't know, but definitely after two years, we will do well. We will always focus on the bottom line because , top line is quantity bottom line is sanity.

Deekshant Boolchandani: Sir, last question. you have been saying that margins will improve now? But do you think that in 24 months, we can expect like going close to those 40s number on our operating margin, or like is it going to be 100, 200 basis point improvement?

Part B of this question is what about our cash conversion cycle, because now that we are creating the whole supply chain, do you think that the cash conversion cycle will be the same? Will it improve or will it deteriorate? And if you could quote some numbers here as well?

C. C. Paarthipan: For the next two years, as I told you, of course, we may not have an extraordinary growth. The growth will be there the way it is. Sometimes it may mute. Quarter-to-quarter, we cannot give you a guarantee to you very honestly, but after two years, the fundamentals which you have seen in this company will be much better also. The reason being we are not actually focusing on the smaller geographies.

We are going to focus on the bigger geography. And when we go for some of the unique products from China, which we already started, we will take it to our existing geographies, although it's a smaller market. They also will absorb these types of products, and the profitability will be higher actually in the smaller geography also for specialized products.

Deekshant Boolchandani: So, you think 40% operating margin is possible in two years?

C. C. Paarthipan: After two years, yes, it's definitely possible, if the markets are not commoditized totally, because that's one thing you know. And then if the rulers don't come with some policy like what has happened today to some other industry, that's the reason today, probably individual excellence has to outpace or outscore actually the politics.

So, what is that you are trying to do? How are you going to question yourself, if one country is not going to help you? Maybe if you have some issue for 6 months or 1 year, you have to bounce back in other countries, that's the kind of business which we are doing now.

So, I'm sure even that one country, some countries, there is an issue, they are not going to actually do something to us because we may be the last one in terms of getting into that country, but it

will be the last one to get affected and the least one to get affected. This I'm very confident, that's is the question.

Deekshant Boolchandani: Yes. And on the cash conversion cycle, because that is one of a concern that I'm...

C. C. Paarthipan: That of course to be very honest with you, this I'm not a finance guy, I'll leave it to actually CFO, what actually you are trying to convey. Yes, please. Are you with me, Mr. Murli and Sathya?

C. C. Paarthipan: See, our focus all this year, as I told you, 75%, 70%, 75% private market, which we control. Because what we can do is if I don't get money from my customer, I can stop the supply so that you will come to me, because he cannot find an alternative where you will get actually 150, 200 products because I cannot control the government.

What I can control is my actually price at which I sell at a higher, actually, this thing, , with a higher profit. But what they do is sometimes the government may delay the payment. But they won't deny. You'll never had that kind of a loss in the past. Yes, there's a delay in the process, it may go to 120 days or whatever it is, maybe a little more or less, all these things, which is very difficult to say because the priorities are too many now.

And we are trying to focus on something which is very, very important in the form of increasing the sale, increasing the cash flow, increasing the profit. In the process, once or twice it can happen. So that's why I said the next two years is not going to be the bedrock of our future business. –The bedrock actually is in the form of work in progress. Once it starts rectifying, you will see something different.

D. Muralidharan: Sir, one more thing, I just want to add is that, while our forward integration has given us the gross margins higher and then the value addition and then what is going into our PBT and then the sales, the moment you say you are forward integrated, our inventory takes 90 days before it to be sold. So, the high end from here today, it takes about 60, 75 days.

C. C. Paarthipan: There are so many, can we tell him some of the factors which are important because of actually the turbulence that is happening next to Yemen and other turbulence in the form of tariff turbulence, the containers movement has got affected and it takes more time to reach the destinations.

So, if I get the government's order, sometimes they say we like to supply this within so and so date. If it is delayed, then the payment also gets delayed. So there is some challenges which we cannot avoid because of the geopolitical and geoeconomic scenarios.

Deekshant Boolchandani: So, in a nutshell, it would be fair to assume that maybe it would remain the same or maybe a little bit, a 10% deterioration in our overall cash conversion cycle can happen, if we are trying to get for higher sales and margins right now. But nothing you could.

C. C. Paarthipan: Yes, nothing to. It may go a little up or less, high or low, but that's not going to result in actually inventory loss or loss of actually not receivables. Those things are not going to happen because we don't do that kind of a business.

Deekshant Boolchandani: Of course, no, sir. I was just trying to understand the...

C. C. Paarthipan: No, I fully understand. Your questions are worth actually asking. No issues.

D. Muralidharan: Also, one more thing is that we have not done any borrowing, right? So the longer the cycle, the interest cost will eat into the profit. So that should be our own cash accruals and we are managing both Capex and Opex for our own cash accruals. And we don't depend on any borrowing. We hope to be so for the near future as well.

So, the slightly longer working capital cycle should not really impact the company's performance. What we should be looking at is higher the turnover and higher the margins and looking at inventory there, here, receivables there.

Deekshant Boolchandani: Yes. So, there must be return on equity and return on capital employed would be the same because the margins and volumes will take care of it.

D. Muralidharan: No, that is arithmetic, but business will grow.

Deekshant Boolchandani: Yes, got it. So please continue to inspire us like this.

Moderator: Yes, no but please continue to inspire us like this. And congratulations to our company and wish you the best.

C. C. Paarthipan: Thank you so much.

Moderator: The last question comes from the line of Aditya Pal from MSA Capital Partners.

Aditya Pal: Hi, thank you so much for taking up the follow up. Sir, just missed asking last time when I was speaking is that when you're talking about acquisition, first of all, a very good thing in terms of utilization of the free cash. Just wanted to understand your thought process. What is the kind of capability or product or geography that you are looking to acquire the asset for?

C. C. Paarthipan: Yes. See, as the Vice Chairman said, it has to be in the form of actually something chain of distribution. Why a chain of distribution? When you have your warehouse, say, assume that in Mexico, people will think of establishing a factory. I even also told you that we are going to for a factory.

We will not invest in the factory in a big way. We are thinking of a factory, which is not going to be highly capital intensive. It will be very cost effective. But 50-60 products without even actually doing bioequivalence and bioavailability will get it registered. And then in fact, another son of mine who also has become Vice Chairman recently is staying there.

He has been working in the market. So why I said this thing, why actually even Vivek said it's good to go for a distribution. Only a distribution company will be in a position to tell us where all they are marketing their products. So that this company will give us actually the exposure of without even going to the market and understanding the market mechanics in 1 year or 1.5 year. So first is that one.

Second, if some company in actually China or somewhere, we will not invest big because China is for the Chinese. At the end of the day, if Chinese is interested in taking care of that factory and they will allow us actually to do the marketing, we have to look at the kind of investment, we'll not go for something big.

We'll go for a start-up or a midsize, which can also give us the biological product, which the big companies are manufacturing today. At the end of the day, it's not the size of the company, it's the quality of the product and the amount of products which we are capable of selling and if he is in a position to supply that one, that's the kind of actually acquisition which is interested.

The third one, you are also aware that some of the companies which manufacture control drugs are drugs which are actually to be manufactured in U.S. to supply to the U.S. citizen, that kind of acquisition. So anything which is meaningful, it is not the place. It is actually the quality of that organization, which will be a good fit for our company, is the right acquisition for us.

Aditya Pal: Understood. So good thing is largely the bigger piece of acquisition will be the continued vertical integration strategy and then the smaller things is could be a product or capability.

C. C. Paarthipan: It can be a part of actually vertical integration, it can be a part of actually some in the form of product ANDA, maybe some brands in countries like Latin America, Mexico and all, if you find some brand which is very good and there is no deterioration in growth, if it is an incremental growth in the form of a brand OTC, also can be a good asset because that will give us, when you buy a product in OTC, you see, going to generate, and we will come to know where all people buy.

If someone has bought that particular product, that gives an opportunity for me to actually knock the door of that particular retail shop, which has been buying that product. So this will be like a breadwinner. The other products will piggyback on the product to the market.

Aditya Pal: Understood, understood. Makes a lot of sense.

C. C. Paarthipan: Thank you so much.

Aditya Pal: Thank you.

Moderator: Thank you so much. As there are no further questions, I now hand the conference over to the management of Caplin Point Laboratories for closing comments. Over to you, sir.

Vivek Partheeban: Thank you. Thanks to 360 ONE Capital and Julie and yourself for hosting, and thanks to all the participants and their wonderful questions. We'll continue to be in touch. Thank you so much.

Moderator: Thank you, sir. Thank you, everyone. On behalf of 360 ONE Capital, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.