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Initiating Coverage Caplin Point Laboratories Ltd.

12-August-2021

Caplin Point Laboratories Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 860	Buy on dips to Rs 813 & add more at Rs 720	Rs 894	Rs 951	2 quarters

HDFC Scrip Code	CAPLINEQNR
BSE Code	524742
NSE Code	CAPLIPOINT
Bloomberg	CLPL IN
CMP Aug 12, 2021	860
Equity Capital (Rs cr)	15.1
Face Value (Rs)	2
Equity Share O/S (cr)	7.55
Market Cap (Rs cr)	6498
Book Value (Rs)	157
Avg. 52 Wk Volumes	461209
52 Week High	1034
52 Week Low	402

Share holding Pattern % (Jun, 2021)	
Promoters	69.03
Institutions	02.63
Non Institutions	28.34
Total	100.0

Retail Research Risk Rating:

	Blue*	
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* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Caplin Point Laboratories is a formulations player with a differentiated approach as it focuses on the semi-regulated markets of LatAm and Africa, which contributes to ~92% of overall sales, while the balance is from the US. Over the years, the company has established its presence in LatAm markets of Guatemala, El Salvador, Nicaragua, Dominican Republic, Ecuador and Honduras with its own distribution network. The company has a leadership position and a strong first mover advantage in these untapped markets. Revenue from LatAm+Africa have grown at 28%+ CAGR over the last seven years. Now, the company aims to expand its presence in the bigger markets of Mexico, Brazil, Argentina and Colombia etc. Further with an expanding product portfolio, it plans to increase penetration in the existing markets which will also drive growth from the LatAm markets. Company has started supplying niche Injectables to Mexico and Brazil, on emergency procurement tenders. Currently, branded generics business contributed to 25% of revenue while 75% comes from generics in FY21. Caplin has presence across 36 therapeutic areas and 650+ formulations products as of Jun-2021.

After establishing a strong presence in the semi regulated markets of the LatAm, Caplin is now eyeing US market through injectables, which offers immense growth opportunities. Company has increased R&D spending from 3% of sales in FY17 to ~9% in FY21. Caplin has substantially increased R&D team from 100 people in FY17 to ~370 as on FY21. Caplin has a strong growth plan for the US, backed by expanding product basket and establishing front end presence by FY23. It has launched 8 products in the US in FY21 and 4 more in Q1FY22. Also it plans to launch another 4 products before Dec-2021 and this would drive US revenues. The product filling pipeline is strong and the company looks to file 7-8 products over the next 3 quarters. Overall development pipeline remains robust, with > 45 ANDAs under development with addressable market in US at around US\$ 3bn. Company expects phase 2 expansion of its injectable facility to get completed in the next 15 months. Management aims for US\$ 100mn sales from the US over the next 5 years and looks to double LatAm revenues as well in the similar time frame.

Valuation & Recommendation:

Caplin's operating margin contracted to around 30-31% levels from around 36% as of FY19. Contraction in the margin was due to change in the product mix as well as higher R&D spends, (~9% of sales) largely for the US business. A strong filing pipeline of 45 ANDAs in the next three years would boost the US sales. We estimate 19% CAGR in revenue led by strong 16% growth from LatAm markets and 48% CAGR in

US business on a low base over FY21-23E. We expect margin to expand by 120 bps to 32.2% by FY23. Net profit is expected to clock a ~21% CAGR over FY21-23E. As per the management, it aims to achieve a Cash Surplus of Rs.1000-1500cr in the next 5 years.

Despite its smaller size and aggressive capex for the US, Caplin has remained net debt-free due to sustained operational performance in the emerging markets (EMs). The company has cash & equivalents of around Rs 550cr as on Jun-2021. Institutional sales may contribute higher in the coming quarters, as the company received tender orders worth US\$ 18mn in two of its markets in LatAm.

At CMP, the stock trades at ~19x FY23E EPS. We recommend buy on Caplin Point Laboratories on dips at Rs 813 (17.5x FY23E EPS) and add more on declines to Rs 720 for base case target of Rs 894 (19.25x FY23E EPS) and bull case target of Rs 951 (20.5x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Total Revenues	300	240	25.1	279	7.8	649	863	1,061	1,279	1,522
EBITDA	93	72	29.3	86	8.1	231	260	329	412	487
Depreciation	12	9	34.4	10	22.2	23	32	37	46	59
Other Income	9	7	41.5	9	-2.1	19	41	24	32	39
Interest Cost	0	1	-40.0	0	0.0	0	0	2	2	2
Tax	18	14	27.7	17	5.3	50	54	62	85	105
APAT	72	55	31.2	68	5.1	177	215	242	302	351
EPS (Rs)						23.4	28.4	32.0	39.9	46.4
RoE (%)						35.4	27.2	22.7	22.8	21.6
P/E (x)						36.8	30.3	26.9	22.7	18.6
EV/EBITDA (x)						26.1	23.2	18.4	15.3	12.4

(Source: Company, HDFC sec)

Q1FY22 result update

Total sales increased 25.1% YoY at Rs 300.4cr driven by a strong performance in Latin America (LatAm) and Emerging markets. Operating margin improved 100bps YoY at 30.8% due to lower employee cost. Net profit was up 30% YoY at Rs 70.9cr. Cash and Surplus stood at Rs 522cr for Q1FY22 – an increase of Rs 52cr over March 2021. Cash flow from Operations (CFO) stood at Rs. 75cr in Q1FY22. Inventory stood



at Rs 193cr for Q1FY22 as against Rs 179cr in Q4FY21. Company's CRO wing Amaris Clinical received confirmation of virtual US FDA audit in the quarter.

Q1FY22 Conference Call highlights

- Geographical breakup of sales: LatAm & RoW - 91%, US - 9%. The company continues to witness strong growth momentum in core LatAm markets.
- Prior to entering the organic business in key target markets of Mexico and Brazil, the company started supplying speciality injectable products on an emergency procurement basis.
- Caplin has started manufacturing Covid-related products such as Liposomal Amphotericin and Enoxaparin for domestic market supply.
- Overall development pipeline remains robust, with 45+ ANDAs under development with addressable market in US at ~US\$ 3bn.
- Total capex outlay of Rs 300-350 crore in the next two years: injectable (~Rs 150 crore), oncology (Rs 100 crore), APIs (Rs 100 crore).
- Capacity expansion at CP-1 (RoW facility) - Order placed for additional Lyophilizer in view of increased demand in niche Lyophilized products in current markets. Expansion plans under evaluation for Softgel section.
- Caplin has launched four products in the US during Q1FY22, to launch pending four more ANDAs, which is targeted before Dec-2021. Market share for already launched products is in the range of 7-12%.
- The company aims to file eight ANDAs within the next three quarters, which will have equal mix of Injectable and ophthalmic products.
- The company is targeting US front end presence in 2023, by which time 30+ ANDAs are likely to be approved/under review. Management has maintained US\$ 100mn revenues from US by FY26.
- Capacity utilisation for injectable at 70%. Capacity expansion in Phase 2: Two vial filling lines from Syntegon (Bosch) ordered, delivery within 12 months. Pre-filled syringe line from Steriline ordered, delivery within 10-12 months. Company expects phase 2 expansion to be completed within 15 months.
- 55% of the products are outsourced from quality conscious partners in India and China.
- Current breakup of sales: Private Market sales to Distributors – 60%; Sales to Pharmacies/Retail – 20%; Institutional Sales – 20%.

Company looks to double sales from LatAm region in the next five years

LatAm is a key geography for Caplin and contributes to ~85% of the total sales. It has established strong presence (among the top 3 players in the region), a well spread distribution network, new product pipeline and expansion in new geographies. It has a strong first mover



advantage in these countries when it entered in these markets in early '90's, they were mainly dominated by branded players and there was a vacuum of any large affordable generic player and strong distribution network and presence across varied categories. The company's key procurement of generic drugs was routed through China and were dispatched to Latam in a finished dosage form. The company still outsources ~35% of its formulations from China. After a sizeable presence in Central America, it is now looking to leverage its expertise and experience to tap the key major markets in the LatAm including Brazil, Mexico, Peru and Colombia for further growth. Given the company's capabilities to offer affordable solutions to the masses at large, provides ample visibility. Caplin has commenced exports to Mexico supplying injectables which is a part of the emergency procurement from the government. Going ahead, Caplin looks to increase its presence in Mexico markets by the end of FY22. Strong product portfolio, new launches, expand the reach of B2B portal services and foray in the new markets in LatAm would be key growth drivers and the management looks to double topline from LatAm over the next 5 years.

US sales to touch US\$ 100mn over the next 5 years

US is one of the key markets globally for pharmaceutical players and constitutes a significant chunk of the share of global sales. US market is governed by extremely stringent regulatory norms. Caplin is one of the late entrants into the US. It has entered the US market in FY18 with a foray into the high growth and high margin injectables segment. Caplin Steriles recorded revenue of US\$ 12mn or Rs 85cr accounting for almost 8% of the overall sales in FY21. Going ahead, the company expects revenues for the US business to be US\$ 100mn (~Rs 750cr), over the next five years. Company targets being backward integrated with own APIs for 70% of all filings in US by 2024, a critical differentiator for generic Injectables. Company has launched 8 new products in the US markets in FY21 and 4 new products in Q1FY22. Over the next 3 quarters, the company plans to launch 4 more products in the US. Company guides to file 7-8 ANDAs over the next 3 quarters. Further by FY23, Caplin looks to have its own front end established in the US markets. With respect to the products launched, company has market share in the range of 7-12% and aspires for a double digit 10-15% markets share. A strong product pipeline, aspirations for market share gains, plans to establish own front in the US are the key factors that would drive growth for the company in the US markets.

Large capex plans to support next phase of growth

Caplin Point has embarked on a capex plan which would support the growth for the company across markets. Currently, US business (comprising of injectables only) is operating at a utilization level of around 45-50% (and including exhibit batches the utilization rate stands at ~70%), which provides headroom to ramp-up production. However, the company has lined up strong capex plans of Rs 300-350cr which includes Rs 100-110cr towards the oncology facility (with both Oral solids as well injectables) - In Oncology Facility – Process equipment ordering has been completed. Design drawing and detail engineering completed. First batches targeted within next 9 months. API segment

would entail capex of Rs 100cr (Design Drawing and Detail Engineering completed. Process equipment orders to commence shortly) and lastly the phase 2 of the injectables plant would entail an outlay of Rs 130-140cr. The above capex programme would be sufficient to support the company's goal of doubling the revenues from the existing markets and to achieve sales of US\$ 100mn from the US markets. Currently, the company has a total annual product capacity of 1000 million tablets, 400 million capsules, 65 million vials of liquid injections, 20 million liquid injection ampoules, 170 million soft gels, 30 million suppositories, 6 million bottles of liquids, 12 million pre-filled syringes and 12 million ophthalmic units.

Caplin Steriles got Rs 218cr investment from Eight Roads Ventures and F-Prime Capital

In Jan-2019, Caplin Point Laboratories announced an investment in its injectables subsidiary, Caplin Steriles, by Eight Roads Ventures, the proprietary investment arm of FIL, Fidelity International Limited and its US-based sister fund, FPrime Capital.

The Investors invested a total of Rs 218cr in the form of CCPS of Caplin Steriles Limited. The CCPS shall be converted into equity shares of Caplin Steriles Limited based on the agreed terms. Upon conversion of CCPS, the Investors will hold at least 25.3% of the equity share capital of Caplin Steriles on a fully diluted basis and it will continue to be a subsidiary of Caplin Point Laboratories Limited.

Caplin Steriles, its subsidiary, will cater to the rapidly growing demand for injectable products in the regulated markets, especially the US and Europe. Caplin Steriles established a 550-person business with R&D facilities in Chennai and high-quality manufacturing infrastructure that is approved both by the US FDA and European regulatory authorities. At that time Caplin Steriles had filed 8 ANDAs on its own and through partners with the US FDA, with 2 approvals. Eight Roads' healthcare investments in India and Southeast Asia include Carestack, Cipla Health, Core Diagnostics, Eywa Pharma, Laurus Labs, Medwell Ventures, Pharmeasy, Plasmagen Biosciences, Richcore Lifesciences and Trivitron Healthcare.

Caplin Steriles' injectable facility successfully passed through US FDA inspection in Jun-2019

Caplin Steriles, a Wholly Owned Subsidiary Company of Caplin Point Laboratories, announced that US FDA has completed inspection at its Sterile Injectable site at Gummidipoondi (Chennai) between Jun 6 and Jun 14, 2019. At the end of this scheduled GMP inspection, there were only two observations. The observations were procedural in nature. This was the last audit at the facility since then US FDA has not conducted inspection at the site. The observations made were not repeat observations or related to data integrity. This was the third US FDA audit at the plant since 2016.



Company Background

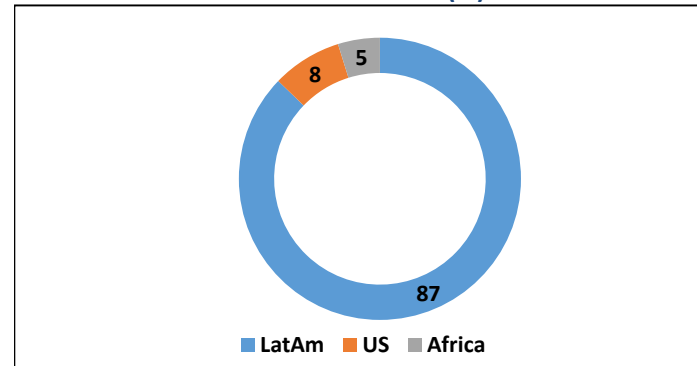
Caplin Point Laboratories has transformed itself to be a generic formulations player with a differentiated geographical presence. Company focuses on the emerging markets of LatAm (Central and South America), took early mover advantage in these largely untapped markets. LatAm and Africa constitutes around 92% of the overall sales, while the balance 8% is from the US. With respect to Segments, Caplin has two segments – Generics and the Branded Generics, which constitute around 75% and 25% of the overall turnover of the company. In the LatAm markets the company has a strong presence in the markets of Guatemala, which constitutes around one third of the LatAm revenues while the balance is spread across El Salvador, Nicaragua, Ecuador and Honduras among others. Over the years, the company has gained a leading position and is either amongst top-3 / top-5 in these respective markets and gradually is looking to tap the other key markets of Brazil and Mexico etc. in the LatAm region. In addition to the LatAm, Caplin is also building its presence in developed markets of the US with a focus on injectables segments. Also Caplin Point is also looking for entry in other regulated markets of Canada and Australia. China sourcing enables the company to garner better operational efficiencies. Caplin procures a part of its supplies from China for the LatAm markets (around 35%) while the balance is from in-house production and vendors based in India.

Key Risks

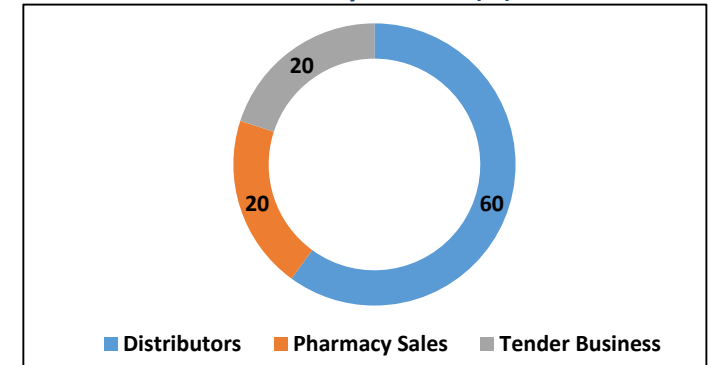
- Higher price erosion in the US
- Higher than expected erosion in the US may lead to decline in margin and profitability. Delay in approvals/launches may impact the US business.
- Inability to scale up highly competitive US business which is likely to be the key future growth driver for the company.
- Currency Risk
- Adverse currency fluctuations could hinder revenues and margin especially as the company derives about 92% of revenue from LatAm and Africa.
- Compliance Risk
- Any negative outcome of inspection of its key manufacturing facility by the US FDA could affect the company's growth prospects. Till now, the company has a clean compliance track record.
- Delay in approval of its key products
- Company continues to spend heavily in the R&D for ANDA filings. Any delay in approvals from the US FDA could hinder its growth prospects.
- Supply disruptions from China
- Company sources 55% of the products from China and India while the balance are produced in-house.
- Geographic concentration

- Company may be exposed to geo-political risk as it derives ~85% of revenue from LatAm markets. A slowdown in the economy of the region could hamper its growth prospects.

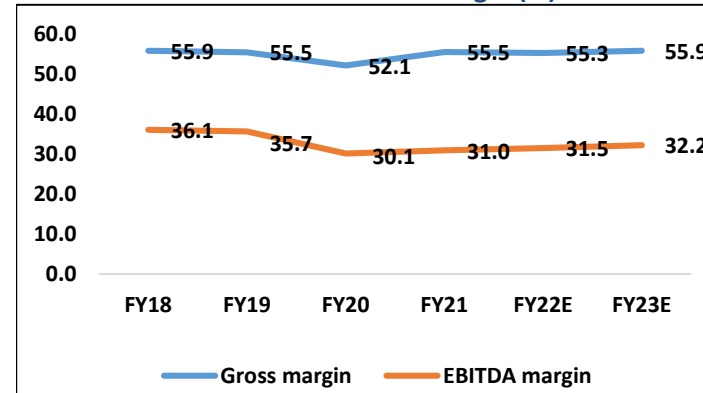
Revenue Mix (%)



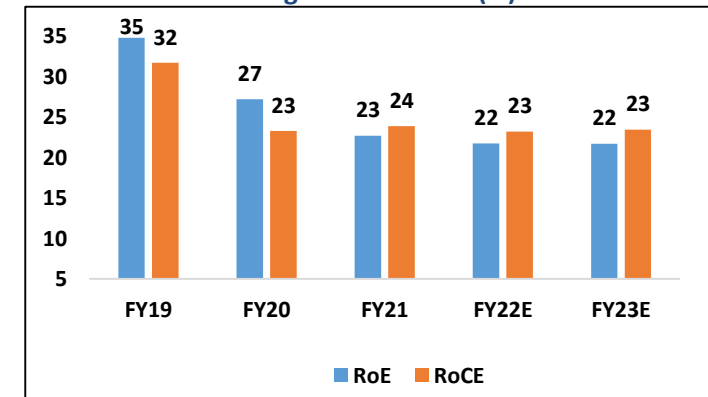
Revenue by Channel (%)



Gross and EBITDA margin (%)



Strong Return Ratios (%)



Source: Company, HDFC sec Research

Caplin Point Laboratories Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Revenue	540	649	863	1061	1279	1522
Growth (%)	34.4	20.2	33.1	22.9	20.5	19
Operating Expenses	345	417	603	733	867	1035
EBITDA	195	231	260	329	412	487
Growth (%)	56.5	18.8	12.5	26.3	25.2	23.3
EBITDA Margin (%)	36.1	35.7	30.1	31	32.2	32
Depreciation	19	23	32	37	46	59
EBIT	176	208	229	292	365	429
Other Income	13	19	41	24	32	39
Interest expenses	0	0	0	2	2	2
PBT	188	227	270	314	395	465
Tax	44	50	54	62	85	105
RPAT	145	177	215	242	302	351
Growth (%)	51.7	22.1	21.7	12.7	24.7	16.3
EPS	19.1	23.4	28.4	32	39.9	46.4

Balance Sheet

As at March	FY18	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS						
Share Capital	15.1	15.1	15.1	15.1	15.1	15.1
Reserves	349	618	933	1171	1451	1771
Shareholders' Funds	364	633	948	1186	1466	1786
Net Deferred Taxes	22	16	5	1	2	5
Long Term Provisions & Others	5	6	13	15	17	21
Minority Interest	0	0	9	18	18	18
Total Source of Funds	393	655	977	1221	1505	1833
APPLICATION OF FUNDS						
Net Block	183	234	288	312	416	497
Intangible Assets	2	2	5	7	7	7
Long Term Loans & Advances	9	11	5	8	9	10
Total Non-Current Assets	194	247	299	328	434	520
Current Investments	46	70	60	11	37	129
Inventories	29	37	238	179	245	296
Trade Receivables	126	160	229	279	343	396
Cash & Equivalents	79	153	224	460	488	564
Other Current Assets	24	74	72	107	121	131
Total Current Assets	307	494	823	1036	1234	1516
Short-Term Borrowings	0	0	37	18	22	31
Trade Payables	94	61	64	89	100	125
Other Current Liab & Provisions	14	24	42	37	40	45
Short-Term Provisions	1	1	1	0	1	3
Total Current Liabilities	109	86	144	143	163	203
Net Current Assets	198	407	678	893	1071	1314
Total Application of Funds	393	655	977	1221	1505	1833

Caplin Point Laboratories Ltd.

Cash Flow Statement

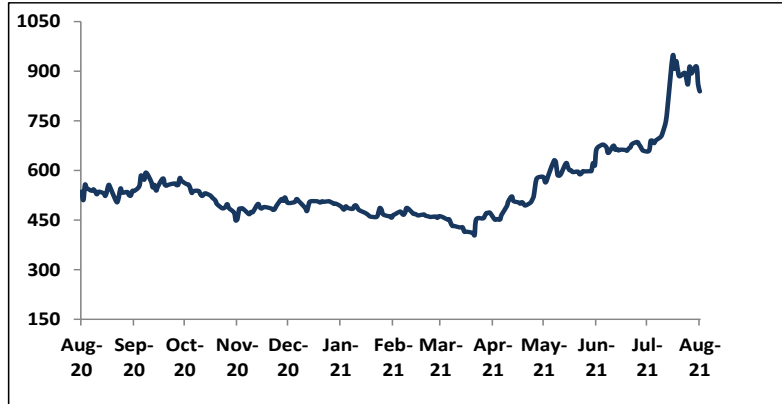
(Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	188	227	270	314	395	465
Non-operating & EO items	-13	-19	-41	-24	-32	-39
Interest Expenses	0	0	0	2	2	2
Depreciation	19	23	32	37	46	59
Working Capital Change	-92	-106	-161	5	-150	-167
Tax Paid	-36	-43	-55	-66	-85	-105
OPERATING CASH FLOW (a)	66	83	45	268	177	216
Capex	-28	-65	-77	-73	-150	-140
Free Cash Flow	-41	8	-86	215	27	76
Investments	-54	-54	-18	41	-2	-4
Non-operating income	13	19	41	24	32	39
INVESTING CASH FLOW (b)	-69	-100	-54	-8	-121	-106
Debt Issuance / (Repaid)	2	103	104	-19	4	8
Interest Expenses	0	0	0	-2	-2	-2
FCFE	-33	4	-85	206	29	82
Share Capital	0	0	9	0	0	0
Dividend/Buyback	-11	-15	-33	-3	-30	-40
FINANCING CASH FLOW (c)	-10	88	80	-24	-28	-34
NET CASH FLOW (a+b+c)	-12	71	70	236	28	76

Source: Company, HDFC sec Research

Ratios

	FY18	FY19	FY20	FY21	FY22E	FY23E
Profitability (%)						
Gross Margin	55.9	55.5	52.1	55.5	55.6	55.5
EBITDA Margin	36.1	35.7	30.1	31	32.2	32
EBIT Margin	32.5	32	26.5	27.5	28.6	28.2
APAT Margin	26.8	27.2	24.9	23.7	24.2	23.7
RoE	49.1	35.4	27.2	22.7	22.8	21.6
RoCE	44.9	31.7	23.3	23.9	24.3	23.4
Solvency Ratio						
Net Debt/EBITDA (x)	-0.6	-1	-0.9	-1.4	-1.2	-1.3
D/E	0	0	0	0	0	0
Net D/E	-0.3	-0.4	-0.3	-0.4	-0.3	-0.4
PER SHARE DATA						
EPS	19.1	23.4	28.4	32	39.9	46.4
CEPS	21.6	26.4	32.6	36.9	46	54.2
BV	48	84	125	157	194	236
Dividend	2	2.2	2.5	3	3.8	5
Turnover Ratios (days)						
Debtor days	85	90	97	96	98	95
Inventory days	17	19	58	72	70	71
Creditors days	122	65	49	56	53	55
VALUATION						
P/E	45.0	36.8	30.3	26.9	22.7	18.6
P/BV	17.9	10.3	6.9	5.5	4.5	3.7
EV/EBITDA	31.0	26.1	23.2	18.4	15.3	12.4
EV / Revenues	10.8	9	6.8	5.5	4.7	3.9
Dividend Payout	10.5	9.4	8.8	9.4	9.5	10.8

Stock Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical nature of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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