Management Discussion

Julie Mehta - Analyst, 360 ONE Capital Markets Private Limited
Thank you, Leo, and good afternoon everyone. On behalf of 360 ONE Capital, we would like to welcome you all to the Q2 and H1 FY27 conference call of Caplin Point Laboratories Limited. Today we have with us senior management of the company represented by Mr. C.C. Paarthipan, Chairman, Mr. Vivek Partheeban, Vice Chairman, Dr. Sridhar Ganesan, Managing Director, Mr. D. Muralidharan, Full-Time Director and CFO. I would now like to hand over the conference to Caplin Point management for the opening remarks.

Over to you, sir.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank you, Julie, and thanks to 360 ONE Capital for hosting. Welcome everyone to our earnings call to discuss Q2 and H1 FY27 results. Please note that a copy of all our disclosures are available on the investor section of our website as well as on the stock exchanges. And do note that anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. This conference call is being recorded.

The transcript along with the audio will be made available on the company's website as well as the exchanges. And do note that the audio is copyright material of Caplin Point and cannot be copied, rebroadcasted, or attributed in press or media without specific written consent of the company. I would like to hand over the floor to our chairman for his opening remarks.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Okay, good afternoon everyone. Welcome to our investors call. The two important words of our business are build and sustain. Gut, grit, and gumption to build unique model systems and standards to sustain. We are also aware that processes does not live in people's head, and the two people who can damage shop floor to everywhere- one, the one who knows the job but does not work with the discipline. Number 2, the other one works but does not actually know the job. Hence, we are doing the following in our factories for institutional intelligence.

One is automation. Number 2, digitized architecture. Number 3, video SOP. Number 4, CCTV 24/7. Number 5, biometrics. Number 6, quality oversight team. Number 7, AI cameras, which is work in progress. Coming to automation, number 1, most of actually our machineries that we are installing now in CSL and also the COL actually, which is likely to be completed in 1 or 2 years' time from now, all are imported machineries from Germany, Italy, and USA. And we are digitizing the entire shop floor. We have already completed LIMS in most of the areas like QC and micro, and in 2 to 3 months' time, our factory will be paperless.

The third one which we are introducing is video SOP. This is something new. We are trying to capture most of this manual crucial and critical areas so that it becomes easy to teach to the trainees, and also it becomes easy for us to watch as a reviewer. Then biometrics, it helps us to understand when exactly people enter and what time actually they left the places using Please digitize architecture and biometric. We'll be in a position to understand who has done what and where. Then 6, quality oversight team 24/7.

We are going to use the videos and CCTV to review the performance of the people who are working in the factory. 7, we are trying to actually integrate our normal cameras with edge AI and create AI

cameras for which the work is in progress. We'll be completing the entire digitization, video SOP, and everything, as I told you, in 3 months' time, so that the entire factory will become paperless, and this will ensure quality with productivity. After the completion of our 3 factories in India, which is likely to happen in 2 to 2 and a half years, In addition to the factories that we have completed for the anti-cancer, for the anti-cancer products and the general API, we are also planning to go to Mexico to start a facility for liquid orals and IV fluids.

Once we start our manufacturing in Mexico, the products, especially the liquid orals and IV fluids, will be exported to Central American countries in our own trucks, and the goods will be stored in the warehouses where our business is up and running currently. This will increase the revenue, both top and bottom line, for our Central American business and also in Mexico. Here, Central America- here it will not be out of place to say that Central America is well connected with Mexico by road. The digitized model of our CSL will also be replicated in the factory that we are planning to build in Mexico too.

Further, our second innings of asset-light model will start from China for API and also for biosimilars. We first exported our formulations from China to Latin America when most of the Indian companies imported the Chinese API from China to India. Now we plan to import the drug substances from China to India for biosimilar full finish, which we are planning to do in our COL facility. We will also go for large volume APIs from China, which is cost competitive compared to some other Indian companies.

Other- we also started the due diligence for acquiring a distribution company in Mexico. My visit in January will complete the entire, actually, acquisition of this distribution company. We also have opportunities to acquire product registrations in LATAM and USA. Coming to US product acquisitions, the Vice Chairman will detail you everything, actually, when he gives his presentation. Our business model in larger geographies of Latin America will be more on private market sales, which is not the playground of the big players.

Especially, we will concentrate on the small chains, wholesalers, and individual pharmacies, and that will be our target to increase the profitability and cash flow in the bigger markets such as Mexico, Brazil, Chile, and Colombia. This helps us to eliminate the intermediaries so that we will directly go from manufacturing to the last mile, which is- which we have done in the smaller geographies of Central America. Now that we are moving to the bigger markets of Latin America, we'll also manufacture products Of the local companies to increase our basket of registration in Mexico.

There are companies who are not in a position to sell their products in Mexico. They do contract manufacturing for other companies, and you would be one of the few who would use this opportunity and manufacture the products locally. It will also be an asset-light model for our future operations. Mexico. But the, introduction of VBP, volume-based purchase, in China, which of course the recent actually introduction by the Chinese government resulted in price erosion for local companies, hence there is a good opportunity to repeat our asset-light model in the form of sourcing raw materials to all other products for the larger geographies of LATAM Our focus will be more on bigger geographies such as Mexico, Chile, Colombia, further US, Europe, and South Africa, and Brazil also, using our Indian facilities and also the facilities of our associates in China and Mexico.

The next 2 to 3 years, we will manufacture most of our finished products from our own factory And except some of the products such as, penicillin, cefalosporin, and large volume APIs, we would go for a networking opportunity with a Chinese manufacturer. After the completion of all this factory, our networking arrangement will definitely help us to strengthen our bottom line in the years to

come. But there, in a commodity world, there are only 3 ways to win. Be cheaper. Number 2, be faster.

And number 3, be different. The first 2, I think they are temporary, and the third is more durable. The strongest models are built around these things that compound. Trust compounds, culture, data, communities, and learning also compounds. Products eventually become generic, but an ecosystem that teaches and improves every day becomes very difficult to replicate. The future value of Caplin may not come only from the medicines themselves, but from the unique ecosystem that we build around manufacturing excellence, video SOPs, data-driven learning, rural development, and trust across Latin America and beyond.

Thank you. Thank you. Thank you very much. Now I invite Vice Chairman to give his presentation.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank you, thank you, Chairman, and good evening, once again to everyone, and thanks for joining us today. We are pleased to share that Caplin has delivered another quarter of steady growth with strong performance across our businesses during the first half of 2026-27. Our CFO will go into more granular details on the numbers for this quarter. While these numbers reflect the consistency of our underlying business, I would like to spend a little bit more time today discussing an important development in our growth journey, our expanding presence in the US market, particularly the progress that we are making with our own front-end platform, which is Caplin Steriles USA, or CSU that we call internally.

The US remains one of our long-term growth opportunities, and we are already starting to see the results of the investments and groundwork that we have put in place over the last decade or so. At the manufacturing level, Caplin Steriles continues to make steady progress both in terms of product portfolio and market reach. We have now launched 40 products in the US while continuing to expand our regulatory pipeline and commercial presence across other regulated markets also like Canada, UAE, etc.

While 40 products being launched is a good start, it is also equally important for us to have consistent inventory of these products in the market. We don't want there to be a situation where we launch on time but go into backorder immediately. So the next 12 months is going to be a lot of focus on ensuring adequate inventory levels are maintained and decent market share is achieved. Our own label CSU is now entering its second full year of operations, and the traction we are seeing has been very encouraging.

During the first half of this year alone, we have surpassed the sales that we have done in the last, full year. We have been very successful in adding several direct sales contracts with both large and small integrated delivery networks alongside our relationship with the 3 large wholesalers. Our daily average sales has doubled from- nearly doubled from $33,000 last year to $61,000 on a daily basis currently. We believe this is a good milestone to achieve for the business. We feel that it demonstrates that our tried and tested model of keeping the product closer to the customer continues to serve us well, not just in LATAM but also in the US more and more now.

Our expectation is that CSU will double its revenue and profitability, uh, in FY27. While we are at an early stage in building this platform, we believe it has the potential to become a meaningful contributor to the group over the coming years. Alongside this commercial expansion, we continue to invest in strengthening our manufacturing and product development capabilities Caplin Steriles facility has completed exhibit batches for 2 pre-filled syringe products, with another 12 products

under development, which is a new area and a new segment that we are getting into in the injectable space.

We also plan to launch an additional 10 products in the US in the next financial year. Our COL2 facility in Gummidipoondi is progressing well and is expected to be completed by August '27. The facility will initially accommodate six injectable lines ophthalmic, which includes ophthalmic and blow-fill seal line, with provision for further expansion. The capabilities and capacities we're putting together in this facility is going to comply with the latest expectations from FDA and EU Annex 1, and we are confident this will be one of the best state-of-the-art sterile facilities in India once it is completed.

We're also making considerable progress on the backward integration journey, particularly on the API front. We have completed scaling up of 5 APIs from the site. 4 of which are secondary source to our existing approved products and one is a primary source. We continue to work on scaling up multiple more APIs, both for regulated markets and Latin America, and we expect to file the first few DMFs from this site within next year. Oncology API site also will be coming up before end of next calendar year.

We'll keep you updated on the progress. When it comes to our CRO, we are making good progress in recent times with multiple internal pipeline products completing, uh, multiple BE studies, and we are seeing an increase in the requirements, uh, for BE studies at the site because we have our own oncology products, soft gel products, in addition to the regular OSD products requiring BE studies. So taking this into account, we're expanding our CRO from 72 beds to 120 beds by the end of this financial year.

This should help us get to around six to eight BE studies per month going forward from the site. As we look ahead, our priorities remain very clear: to strengthen our existing business, accelerate our presence in the regulated markets, and build CSU into a larger and more meaningful commercial platform, and continue investing in manufacturing capabilities and backward integration. We are conscious that these investments will take time to translate to their full potential. However, the foundations that are being laid today will position Caplin very well for the next trajectory of growth, and we are Doing all of this without taking any debt from the bank, and we are living within our means.

Thank you, and I look forward to discussing the results and answering your questions. I will hand over to our CFO to throw some light on the color- sorry, throw some color on the numbers for this quarter. Over to you, sir.

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Thank you, thank you, Mr. Vivek. Good evening once again to all of you who have taken time off to take part in this conference call. Having well begun the year in the next quarter, we are pleased to report that the momentum has continued, and we will take you through the consolidated financials for the second quarter and first year- first half of 2026[Phonetic], which is already there in our website and also the stock section of this website. But before that, one point which is to be noted is All these parameters, EBITDA, PBT, and PAT of current year H1 is either equal to or more than whole year of whole FY22-'23.

That means we are able to more than double last 4 years, all the 3 parameters. So having said that, uh, let us go to the Q2 and H1 numbers. As already reported, we have had an operating revenue of INR1,240 crore. Which is about 18.2% growth, equally coming- it is distributed between the US and

also the Latin American market, right? So the US has been a solid book. Our strategy to go to B2C has paid huge dividends, and as against the whole year of INR92 crores last year turnover, first half has already given us a realization of INR103 crores.

And they are highly profitable as well. And the PSU- CSL as a company has contributed INR271 crores, uh, to the total, uh, revenue for next one, which is about 21% growth over the previous year. Then the gross profit for the current quarter has improved by about 1.5%, primarily because we have taken some orders on P&L basis and high cost, high price prices, which are supplied on P&L basis. Also, we have to engage certain, via media commission agents to get those orders. So this has resulted in, uh, while this has resulted in increase in contribution, our operating expenses have slightly gone up, both on account of freight and also certain selling expenses.

So having said that, so the EBITDA has EBITDA stands at 38.7% and PBT at 38% and then PAT at 27.2%. Effective tax rate also is hovering around 15%. Our target is around 20% to 21% is what we will be ending at year as a whole. And the operating expenses, we are really conscious and we are keeping them under check, and this is resulting in the entire contribution flowing into the medical level. The depreciation has gone up compared to the last year, considerably, because of the capitalization what we have done.

The oncology facility injection has been capitalized in the month of April, and other nominal capitalization because it happened in other entities as well. This has resulted in the depreciation going up during the current actual, and as we go along the next few quarters and, Yes, as well, the depreciation will keep increasing, but our top line also will go in tandem with that to absorb all the expenses, and we will be well on target to yield that 25-26% of PAT what we are committed. Cash and coming to the balance sheet, it is worth noting that our net worth is close to INR4,000 crores with INR3,963 crores equity size, and the cash and cash equivalents is about INR1,500-odd crores.

Which will enable us to both fund our expansion and also acquisitions, both organic and inorganic growth out of our own accruals and without having to borrow anything. Cash flow from operations is worth noting that as against INR250 crores last year, it was about INR205 crores. It may look like assets have dipped, but this is a conscious decision to increase inventory About INR115 crores is increase in inventory and about INR70-odd crores is increase in receivables. The inventory, 50% of it will get sold this year.

About INR115 crores increase, INR45 crores is towards supply tender and ancillary that now will get built in the current quarter. But inventory will definitely come down and come to about normal level as in the month of March. Also receivables are receivables from the government tenders what we have supplied in the last 6 months or so, they will all be received during the- partly received at least during the Q4, and inventory will hover around 120-150 days, which we have said will be our benchmarking number of days.

The capex program is on course, and, we have spent cash, spent over INR130 crores This is the current year, mostly towards advance payment. As Mr. Vivek said, about 2 lines have already arrived out of 6. 4 lines we have paid in advance. This is the major capex that we have spent for some small capitalizations in our API facility and the OSD facility in Pondicherry. So the other capex in the tune of 500-600 crores in COL2 will happen in the next 12 to 18 months. Thereby, it indicates we will take about INR100 crores to INR120 crores, which also are awaiting certain approvals.

And once the approvals are received, we'll be spending close to INR100 crores in that facility. And OSD, under Caplin One Labs in Pondicherry, will have the capital expenditure of INR120 crores to INR150 crores, which will be spent over the next 12 months. So as I said, these will all be funded

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

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

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank you, Mr. CFO. I think we can turn this around for questions from the participants, please.

Questions & Answers

Operator
Sure, thank you very much. We will now begin the question and answer session. [Operator Instructions] The first question is from Abhi Jain from AJ Capital. Please go ahead.

Abhi Jain - Analyst, AJ Capital
Good evening. Hope I'm audible.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Yes.

Abhi Jain - Analyst, AJ Capital
First of all, congratulations, sir. Your team has done a good job of growing every quarter. Obviously, it is understandable that you are making certain investments. So the profitability can be haywire in a quarter or so. But otherwise, on a top-line basis, it has been a good quarter. Congratulations. So my first question is around the cash use. You have INR15 crores of free cash now on the books, and I think you are evaluating that, or you have already evaluated the Mexico distribution acquisition and 12-plus oncology ANDA, towards which this last part of this INR15 crores would be going, INR1,500 crores would be going.

So I just want to understand, how do you, you know, how much do you expect to spend on these in the next 12 to 18 months? And what sort of a return on capital are you projecting from these 2 investments? That is my first question.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Yeah, so when it comes to the return on capital investment, etc., I think it's a little too early to get into those areas right now. What we are looking for is when it comes to Mexico We are looking at anything that will give us a little bit of a jumpstart into the distribution area, which is something that we've always been, you know, very comfortable with.

In fact, our Latin American business is what we call internally much more as a distribution concept with a strong supply chain backend compared to more traditional sales over there. So this is something that we look forward to in Mexico as well. Of course, the numbers have to make sense. Overall underlying business in that distribution entity also needs to make sense, which is what we are evaluating right now. When it comes to this oncology assets we are talking about, these are basically filed and approved products in the US, which will also, you know, give us a little bit of a kickstart rather than doing everything from scratch.

And our idea is always to try and pay, you know, uh, lesser than what it would cost us to do

everything from scratch on our own, you know. So That's another thing that is, uh, you know, undergoing due diligence, as we say.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Yeah. Let me add a few words also to his question. We don't try to grow on shaky ground. You know very well that our main business is from LATAM. We- the market, whether it's a small or big, actually the market- actually the information with regard to the market is one of the same. We always systematize before we scale. And the products that we buy in the form of actually the restations or the distribution company that we are planning to go for in Mexico will give us the correct inputs in the form of actually what is happening in the private market in the interiors and the peripheries.

Most of the time we make money only when we go to the peripheries and interiors. Interiors. That's where you see small chains and polyclinics and individual pharmacies. And big companies will always focus on the tender business and the leading chains because they can balance the economies of scale. In ours, if you look at it in the past, actually we went to countries which are smaller, and that time we didn't even have this type of factories also. Today we are building actually the best assets. On one side is this asset-light model, on the other side is asset-right models.

So what we do, we are sure actually it may take a little time, but at the same time, this is actually in the form of something called delayed gratification, which is, which is not the absence of actually something fundamentally right. It is more of building something in the form of brick by brick. Thank you. I think,

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Uh, if I can add a few words, with Chairman's permission, I would like to add.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Please.

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Yeah, so to answer the gentleman, the ROE- each of you look at our business model, as Chairman rightly put it, we have a mix of both asset-light and asset-heavy model, and each of them complement each other. So each of the businesses what we are expanding into are growing, it will always be complementary to each other. So the facility what we have here will enable us to replicate it elsewhere, and then the ontology facility will also take us to the regulated market.

And the China too, what Chairman probably would have mentioned in his opening remarks, will complement the whole- the- I would request you to look at the basket as a whole and then the ROE, which is higher than the average of the industry. This is about 20% plus now with ongoing investment. And also it's an R&D-heavy company which directly does not yield to your immediate returns. So it is, as Chairman put it, it's a delayed gratification. Each facility what we put up will take anywhere between 3 years to 4 years to meaningfully add to the return on equity.

And the perseverance is the only goal. In the meantime, as I mentioned, there are other complementing business opportunities which will be there and which will improve my top line as well as sustain the PAT what we have promised to the investors.

Abhi Jain - Analyst, AJ Capital
Can I just first of all say that, Chairman sir, your passion, the passion that you have towards your business is quite infectious. And I mean, I, I've not met a founder who's so passionate about the

business. I just hope that the business like a snowball keeps compounding because your passion is really infectious. The amount of detail and the amount of thought- It's

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
A passion-driven business which in case possible-

Abhi Jain - Analyst, AJ Capital
Yeah, the thought and the amount of time and thinking that you give to your business and to ideas is just tremendous. I just have one more question if I can squeeze in. Yes,

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Please, please.

Abhi Jain - Analyst, AJ Capital
Okay. So my second question is that LATAM has been your bread and butter. It is now almost 68% of your revenues. And I can see that when one part of the business becomes so big, obviously, it starts slowing down. And LATAM has grown a bit softly against your balanced revenue. And your investments are towards the right areas in LATAM. But given the thought that you give to the business, given the way you are so passionate about it and you just to keep growing. I just want to understand from you that do you see that LatAm again growing back to higher 18% and 20% kind of numbers that it used to, or do you think that you will find different revenue sources to ensure that the growth rate continues?

Because I'm pretty sure that you're quite passionate and you might be sitting in every day thinking about what can I do more for this business.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
I'm, waiting in the wings actually to move to LATAM in the month of January. Before that, to put it simply, there are 2 reasons why again we'll have to go for Mexico and other larger geographies in the form of establishing some factories. You are aware that we went to Central America when there was no other Indian companies present, and that time, 20, 21 years ago when we went there, I didn't even see any Indians or Chinese there. But today what we are trying to do in the form of building the factory is something that no other Indian or Chinese has invested in, that particular bulky items.

These are actually companies, especially, you know, the one which I said openly, the liquid orals and IV players. Here the local companies, the mainstay is from the multinationals. Multinationals are the only focus on This IV fluid and other business. Coming to recolorers, it's actually the local companies who concentrate because you can't be exporting from India and China. It will be very costly. It will not be cost-effective. So as I told you before, first we went to places where there were not much of a competition from India and China.

Now we are going for factories where there is not much of a competition from Indian and Chinese entrepreneurs, which means we are confident of actually making it successfully, A. B, the business that we do in the form of keeping our goods next to the customer, we know you are aware that we have warehouses in 6, 7 countries in Central America. Right. And Mexico is just 1-hour drive from actually Guatemala. So once we start our factory, maybe in 2 years if we complete everything, or 2 to 3 years if we complete, We will- the way in which we are distributing our medicine from Guatemala City to various places, we will also do the same from Mexico to all other Central American countries and keep our goods in the- in our own warehouses, which means it becomes easy for the

customer to come and buy actually the products which are not there in that actually warehouse.

We never store actually IV fluids or liquid orals except one or two. But once we start the factory, it is, you know, 50-60 products. That value- value- the products in the form of addition will create a value add. We are very sure, you know, it may take little time for us to make it big, but when we make it, will be like actually the way in which we have created the liquid assets. We will again create it actually in the years to come.

Abhi Jain - Analyst, AJ Capital
Right,

Sir.

No, no, beautifully, sir. Uh, just one objective vision that I want from you, like you provided your investors back in 2021, 2020. You that time said that, you know, my top line will become, uh, my PAT in 5 years' time. So in the next 4 to 5 years, what sort of vision do you have for Caplin Point? If- have you objectively thought about, uh, you know, how do you- what do you see Caplin Point to be? By 2030? Yeah,

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
2030, we are very sure, you know, we'll do well. I'll tell you the reasons, 1, 2, 3, like that. A, once we complete all these facilities which we are currently completing, and then, you know, we'll get the restations, and then we'll start the commercial up and running. That's the time what we will do, we'll go for actually, uh, exhibitions for in major cities. You must be knowing CPHI and that kind of stuff. All over the world there are so many exhibitions happening,

Abhi Jain - Analyst, AJ Capital
Right? Right.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Since we know how most of the products under one umbrella, this will actually help us to exhibit actually to the customers, to the visitors who come all over the world. Which means all these days we have been going to the market to sell the products. Once we have everything lined up like all these top companies they will come to our place to buy. In the sense, no, whoever comes to our stall will give their address and they will be in a position to buy everything from us. The second advantage is most of the big companies, the overheads will be high.

If you look at them, whether it is a multinational or the Indian big company, they always get into discovery or get into actually areas which are high-tech. But company like us, actually even a product which is generated If we can create actually a price which is adaptable to the middle class and poor, and then, you know, quality medicines at affordable price will always reach the bottom of the pyramid. Probably one among the few people will cater to the BOP. So I'm very sure that we are very confident of actually increasing our profits and cash flow by 2030.

Abhi Jain - Analyst, AJ Capital
Right, sir. I still didn't get an objective answer, but I'm assuming that your book value growth will be almost similar to your return on capital that you're generating. I am hopeful for that. Congratulations, sir, and, uh, yeah, your passion continues with the business.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Thank you. Thanks for your kind words. Thank you so much.

Abhi Jain - Analyst, AJ Capital
Thank

You. Thank you.

Operator
The next question is from CA Garvit Goyal from Serene Alpha. Please go ahead.

CA Garvit Goyal - Analyst, Serene Alpha
Hi, am I audible?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Yes, yes.

CA Garvit Goyal - Analyst, Serene Alpha
Good evening, sir. So my first question is on the US front. I was checking the consolidated numbers, segment-level details that you people have shown there. Looking at the quarterly run rate, our US business went down as compared to the previous quarter, and the rate of change that we were earlier expecting for our U.S. Business. It's not in that line, sir. And also, if I look at PBIT, that has also fallen in the percentage terms. So I just wanted to understand from you, from the perspective of overall U.S.

Business, how we should look at the growth going forward as well as the margins, how we should look at this.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
So before I talk of the margin, I would like to convey one thing because I know you are a shareholder for quite some time in Caplin Point. That's why I want to tell you this openly. See, this margins which has come down is the one which makes me to go to the market actually starting from January, because there are some markets you understand you can actually manage. You can also create new versions in our business, but there are some markets which are monopolies and near place where you have to work with the system.

You can't create a new- something new in the form of unique business models. You have to go with the stream. And you know, no, when you are small, if you have to fight actually against the wind, there is a possibility to make it also. We always feel, you know, we don't want to go actually with the stream because dead fish only will go with the stream. And I would actually now has a way to give you actually that's replaced for your particular question also.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Yeah, so 2-3 things here. Number one is, uh, if you look at our, uh, overall numbers, I think we are still growing at around 24-25% and offer larger base as well. We're almost a INR500 crore company right now in, uh, in Caplin Steriles, and I think 24-25% is still a very decent number when it comes to the rate of growth, number one. Number two, I think quarter-on-quarter is not the right kind of metric to compare, you know, because even though much of the business is largely non-cyclical, it would still be very difficult for us to quantify each metric on a quarter-on-quarter basis.

So quarter from one year ago to what it is today, I think there is still Definitely good growth. One

more thing that we are doing is, especially this quarter and next quarter, there will be some amount of slowdown that we have put on ourselves because we are upgrading 2 of the lines that, uh, that are some of the older lines that were there from the inception of the facility. There were some areas that we needed to upgrade, and this would require some amount of downtime, you know. So on Line 1, we expect there to be some slowdown, and then on Line 3 as well.

Until December there will be a little bit of slowdown as well. So I think in Q4 and beyond we should be in a position to catch up to a large extent, but I would say that that is probably one of the reasons why we've shown a slightly lesser number compared to what we expected before. Also, as we slowly transition from a B2B to a B2C company in Caplin Steriles, you will see some amount of choppy waters when it comes to EBITDA and bottom line and stuff. And that is also because we're planning for the future, right, we do not do any new deals and we do not look for any milestone revenue and all of that in a large- to a large extent because we're focusing on our label to the maximum extent possible.

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

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Yeah, one more thing I would like to add is that in 2 to 2.5 years' time, I'm sure we will do very well in US too. Main reason is the kind of actually the machineries which we are going to install, all are imported machineries from the best of the best companies from Germany, Italy, and the US. And what has happened in the last 10-15 years, as Vivek has put it, some of the areas we have to do the retrofitting. That also, you know, affects the increase in production. It's not that, you know, you have a depth of order.

The issue is we have to complete the manufacturing, which is not that easy actually in a US FDA facility if the machineries are not in good shape. And we are trying our best actually to do everything today. Maybe in the next 2-3 months, as I told you before, it's going to become a paperless factory, which means there is nothing in the form of data integrity or any other issues because it's going to be, you know, like anyone who comes there, any auditor, whether it's from US or any other country, they will see the audit trail and find out everything is going well.

So we are very, very confident that, say, 2 years from now, we will have a huge opportunity in US market too. 2 and a half years from now.

CA Garvit Goyal - Analyst, Serene Alpha
So just to follow up,

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
The contribution margins have remained either same or it has improved only. That means There is no price erosion, there is cost control. The opex will vary from quarter to quarter depending on what activities undertake, and that will get set right by- as Mr. Vivek said, by Q4, and we'll be back on rails.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Definitely, US actually will continue to be a volume-based actually sales. The value-based sales comes only either from technically superior products or actually a business model which is much

superior and unique compared to other competitors.

Please, please go

Ahead. Yes, just

CA Garvit Goyal - Analyst, Serene Alpha
To follow up to the response, uh, I, just wanted to understand now, like, what I'm understanding is that we are planning for future, right? Uh, for, our US business. How we could, uh, look at the overall impact on, I would say, on, OPM percentage and net profit margins, uh, for all the kind of efforts we are doing, uh, for next, uh, 2, 2.5 years, uh, maybe in FY27 and FY28, uh, will we be able to maintain those FY26 levels, or, uh, or if not, what kind of Uh, drawdown we can see in those margins, uh, in, next, uh, 1.5 years?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
In the next 1.5 years, we will maintain actually what's happening now. The best will happen starting from 2030. The best of the best will happen actually starting from 2030, that is for sure. And before that, we don't want to actually overpromise and underperform. We'll do well, we are sure we'll do well. Even now, actually, whatever way we are doing will continue to work. There is an opportunity to increase our performance also, but again, I don't want to tell you something and then, you know, uh, this is the reason being when you get into the bigger geographies of the world, there are so many things which is actually beyond your comprehension in the form of registration, in the form of these studies, in the form of actually, you know, understanding the competitors and how to compete actually in the look at.

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

CA Garvit Goyal - Analyst, Serene Alpha
Uh, no, sir, my question is from the point of view of margins, uh, what are the kind of efforts we are doing?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Margin comes based on the business, right? Unless we create something unique the way in which we have created in Central America, other countries also will definitely will do well, but it takes time. It doesn't happen overnight, actually. That's the reason I said if, it takes 2-3 years, then of course we are very sure, we're very confident we'll be able to do it, because everywhere the registration is happening. And then, you know, our bio studies are happening. Even complex molecules, now only, you know, we have completed or we are about to complete actually the R&D.

So all these things will start fructifying maybe 2 to 3 years from now. And 1.5 years from now, we will continue to maintain what we have been doing now.

CA Garvit Goyal - Analyst, Serene Alpha
Okay. And, uh, secondly, uh, just I'm again coming to the same point which I used to highlight in every con calls, uh, We are stuck with nice-to-have problem. The cash reserves that we have, these are very large, I would say, kind of company we are. Again, I wanted to understand from you, if I look at last 3-4 years on a fully appreciated basis, our growth has been in the- on an average range

of 15%. Yes. While I agree that we are investing for future and things take time. I just wanted to understand from you because the plans with respect to utilization of this cash flow, which I understand is we are about to do some inorganic acquisition which hasn't happened yet now, right?

So I wanted to understand, do we have any plan of buyback or something like that to reward the shareholders? Because the kind of growth is 15-16%, it's still moderate, sir, right? I understand that we are focusing on the cash flows. And we are generating them. Uh, but again, uh, again, uh, this, point is valid, sir. So can you put some color on that, sir?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Uh, okay.

CA Garvit Goyal - Analyst, Serene Alpha
Do you have any plan of buybacks? And

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Since you mentioned, no, one of the opportunities, probably if we come across some extraordinary, actually, and meaningful acquisition, that will satisfy actually, you know, your, uh, your, question. Probably if you are able to acquire some company With the kind of money that we have as cash reserve, that probability also is there, but we can't say because it's not in our hands. There is- it can happen even 6 months from now, it can happen after 2 years also. So it's better to keep actually the liquid- liquidity which will help us actually.

On the contrary, instead of- we are rewarding the shareholder. One may be instant gratification. Other is actually, as I told you before, uh, see, uh, delayed gratification. I would only request you to wait 2-3 years because having waited with us actually for so long, we're not telling you actually that, you know, we are not in a position to show you the sunshine. We will definitely show you. It's a question of time. That's what I'm telling. That time also is not very far. It's 2-3 years maximum.

CA Garvit Goyal - Analyst, Serene Alpha
Thank you very much, sir, and all the best for the future.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Thank

You, thank you so much.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank you, thank you, thank you.

Operator
The next question is from Preetam Kamaji from Purnartha Investment Advises. Please go ahead.

Preetam Kamaji - Analyst, Purnatha Investment Advisors
Oh yeah, hello. Yes. Yeah, thank you for the opportunity and congratulations on great set of numbers. So, uh, my question is around US specifically. So, uh, basically, uh, earlier it was targeted that the US revenue would be growing by 25% to 30% in FY27, but as it was instructed now that we are planning for upgradation of some line there would be slowdown in second half of FY27. So considering the slowdown, are we still targeting that growth or what are the numbers for FY27? And also compared to Q1, the PBT margins almost fell half in Q2.

So was Q1 some exception or are we facing some kind of stress in U.S. Specifically?

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Yeah, 2 things. Uh, now question number one, like you said, uh, we are still targeting around 20% to 25% growth, uh, with this year, and I think we should be on target to achieve that. Number 2 is, uh, like I said, as we are slowly transitioning from, uh, B2B to a more B2C-heavy company, there are certain aspects of B2B business that will fall away, which is specifically on milestone revenue. Now milestone revenue is only received as and when you make deals with B2B companies for many of the products that you're doing or products that they want to use you as a CMO, etc.

Now as we are focusing maximum on our own label, we do not want to do non-exclusive, exclusive, or even semi-exclusive deals, you know, because what happens is eventually those companies will come onto the market and then will compete with our own label only. So as a company that has always been, uh, in the forefront of the marketing side of it, we are very comfortable. And the numbers that we are seeing also from our front end, you know, gives us more encouragement to focus our maximum efforts in terms of our own R&D, our own filings, and etc., to be promoted through our own label, right?

So because of this, you will start to see some moderation, at least on a quarter-to-quarter basis. I think been some sort of a moderation that you may see from time to time. But I would say that it's more of a timing issue rather than any stress in the market or anything like that. For example, of course, maybe CFO has more information on that, there might have been some rather large milestone revenue that was accrued in Q1 compared to Q2. But I would say by and large our EBITDA margins from last year should be very similar to the ones that you will see going forward as well.

Preetam Kamaji - Analyst, Purnatha Investment Advisors
Okay, okay. So thank you for such a detailed explanation. So my one more question was, uh, so in previous call it was guided that we will- we were planning around 14-plus new products in USA in FY28, but in latest PPT the number has been reduced to 10. So I just wanted to understand that what were the reasons because of which the number was reduced?

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Like, see, we rationalize

Our, uh, see, we rationalize our, uh, filings and also our launches based on, uh, the dynamism of the market in itself. You know, there are some products, by the time we get to market, you know, at the time of development there might have been like 2-3 players, and by the time we get to market there'll be seven or eight. So rather than focusing our attention and get it too diluted by way of focusing on numbers. I think it will serve us better to focus on areas and products where we feel that we are, uh, you know, much better focused towards the, um, you know, success of that product.

So I would say, uh, that rather than going after numbers- Yeah,

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
As he rightly said, actually product excellence also matters. There's no point in increasing the number of products On the contrary, you'll have to look at it actually, whether the product really makes sense. So that's one of the reasons actually, you know, we have to rationalize the numbers. And I hope you would agree with me, you know, in- as I told you before, in the next 2 years' time, we are very sure that we will grow at a very healthy clip. That is for sure. So

Preetam Kamaji - Analyst, Purnatha Investment Advisors
Yes,

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Okay. Yes, please.

Preetam Kamaji - Analyst, Purnatha Investment Advisors
Yeah, so thank you and all the best, and definitely believe in you.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank

You so much. Thank you so much. Thank you so much.

Preetam Kamaji - Analyst, Purnatha Investment Advisors
Yes, thank you.

Operator
Thank you. [Operator Instructions] The next question is from Arun from Unifi Capital. Please go ahead.

Arun - Analyst, Unify Capital
Uh, thanks for the opportunity, sir, and congratulations on the good set of numbers. Uh, sir, on the US FDA inspection at the Gummidipoondi the facility in August. Uh, could you update us on where we stand? Has the FDA come back with any classification yet? Are there any pending approvals or planned US launches on hold because of this,

Sir?

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

Arun - Analyst, Unify Capital
Got it, sir. And my second question is on the other expenses. Uh, so we have gone up 18% in our quarter and 33% YoY. So is it mainly because of the freight expenses that we are seeing, and how has it been- how has it been post-September, sir?

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
So freight definitely has gone up. Uh, of course, I'll let CFO answer this in a minute, but freight has definitely gone up in the last, uh, 3-4 months. Um, as you can imagine, the, global situation is not very conducive for air or sea freight. And typically between the months of August, September, October, you will see a lot more increase in freight because of the Christmas season and the holiday season in the US and Latin America and all of that, you know. So let me, uh, pass it to-

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
We have to

Export some of the goods actually by air also to El Salvador. Probably CFO is the right person to answer to this question.

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Yeah, thanks. Thank you, sir. As I was mentioning in the opening remarks itself, this- the freight, as you rightly said, is the main reason for this one. Most- okay, most part of my- we have 2 kinds of dispatches. One is FOB, where we recover the trade from the customer. One is on CIF basis. Basically, most of our subsidiaries- why most? All the subsidiaries we send on CIF basis, and certain orders we took on CIF basis. The prices have compensated for them. That is the reason why my contribution margin has gone up by 1.5% over the previous quarter.

That has been more than offset the increase in these. So what at the bottom line is that my PBT, EBITDA, PAT all remain at the same level as compared to the last quarter, and then we are on that. So whatever we have spent more on freight has been recovered from the customers in terms of pricing.

Arun - Analyst, Unify Capital
Got it. So it's between- it's matched between the gross profit margin and the EBITDA margin.

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Yes, yes. You see, and the general overall freight rate is there, and then that we are able to partly pass it on to the customers in

The market.

Arun - Analyst, Unify Capital
Got it. And I just wanted to understand the hedging policy as well of the company. So can you talk about how the impact has been in hedge funds?

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Uh, so we do not actually have a policy for hedging, or we try and do any hedging at all. Um, in fact, way back, almost on some 20 years ago, we, in fact lost a little bit of money trying to hedge.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
More than that,

We are natural hedging also. We are exporting actually some 30% of goods from China, which is more of a natural hedging.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
And so it's almost considered

Like an, uh, import, right? Because you pay for it in US dollars.

Yeah, other

Than that, we don't do any hedging.

Arun - Analyst, Unify Capital
Got it, sir. And is any inflation you are seeing on the raw material side, sir?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
This you have to ask the president of the country. So it's very difficult to answer. See, prices will

continue to rise. There will be no geopolitical risk. There will be a lot of wars and tariff wars. However, like, you know, the problems- somehow or other we love to hit the problems and doesn't allow that problem to actually affect our business. Or even if it happens, somehow we'll have to turn it around. That's how the business has happen. So these are few things which, will continue to happen.

No way, you know, we can stop it because beyond our actual control. Am I right, Mr. Arun? Is it Mr. Arun?

Arun - Analyst, Unify Capital
Yes, Arun from Unifi Capital.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Yeah, okay, okay. Yes, anything else you want me to answer also?

Arun - Analyst, Unify Capital
Got it, sir. That's it from my side, sir. Thank you,

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
thank

You, thank you.

Operator
Thank you. The next question is from Abhinav from Banyan Capital. Please go ahead.

Abhinav - Analyst, Banyan Capital
Hi, I hope I'm audible. I just have 2 questions. Uh, first one is that in our COL2 plant, you know, we were first finishing it in December '26, then March '27, then August '27 now. And just wanted to know, you know, When can we expect our first revenue view and how sort of firms are on this '27 deadline? And my second question is on the US, you know, PBT, which has halved from INR33 crores to INR16 crores. So what led to that and, you know, what should be the long-run sort of margin that we should expect?

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
I'm not able to hear it properly. Is it okay, Vivek, you are in a position to- Yeah,

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
If- yeah, but what you're Your voice was a little muffled, but yeah, if I'm not wrong, I think what you're asking is from COL2, when are we, uh, likely to expect revenues? Is that what the first question was?

Abhinav - Analyst, Banyan Capital
Yeah, yeah, that's the first question.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
So see, we are likely to complete the project by August of next year, and what we are planning to do is do some site transfer of, uh, some products, especially aseptically filled products from CSL2 COL2, because all aseptic products will be manufactured through isolator technology in this new site, which is the latest expectation as per FDA and EU Annex 1 guidelines, number one. But for that to happen, you will need to do the site transfer, run stability, file the product, bring in an inspection,

all that.

So it will take probably about 15 to 18 months from the time we complete the facility. So you can expect something meaningful, uh, FY28-'29 and beyond for COL2. And the second question you asked, I believe, was with regards to PBT on, uh, CSL, which, like I said in the previous one, it's probably more of a timing, uh, than, anything else. And it's not really a correct metric to discuss on a quarter-to-quarter basis. Of course, if CFO has any views on that, please. No, I just

D. Muralidharan - Chief Financial Officer, Caplin Point Laboratories Ltd
Just to give a comfort to the gentleman, to compare H1 of last year, it was 29.5% EBITDA, which has grown to 34.2% H1 to H1, and PBT was 19.9%, which has grown to 23.5%, clear 3.5% growth. So Q2 was an aberration which is for various factors, which will get moderated, and then we will be back on rails as it said, between Q3 and Q4, here as well be back on rails compared to the last year's percentages, and if not, we'll better it.

Abhinav - Analyst, Banyan Capital
Understood. Thank you, thank you. That's all from my side.

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Thank

You.

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

Vivek Partheeban - Vice Chairman, Caplin Point Laboratories Ltd
Uh, thank you to yourself. Thank you to Julie and 360 ONE for conducting the call, and to all the participants that took time out to join us, joined us for the earnings call today. Thank you, and we'll be in touch.

C.C. Paarthipan - Founder and Chairman, Caplin Point Laboratories Ltd
Thanks to all of you. Thank you, thank you very much.

Operator
[Operator Closing Remarks]