



Caplin Point
Laboratories Limited

At the cusp of the Next Phase of Strategic Growth



Accumulate

Key Data

DATE	25.04.2024
Reco Price	1320-1,330
Target	1,675
Sector	Pharmaceuticals
BSE Code	524742
NSE Code	CAPLIPOINT
Face Value (Rs.)	2.00
Market Cap (Mn)	100623
52-week High/Low (RS)	1619.05/646.80

Source : NSE, BSE

Shareholding pattern (March-2024)	%
Promoters	70.62
DII's	1.08
FII's	3.33
Public	24.95
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

Caplin Point Laboratories Limited

Company Background

Caplin Point Laboratories Limited (CAPLIPOINT) is an India-based pharmaceutical company. The company is engaged in the production, development, and marketing of a range of generic formulations and branded products, exporting them to overseas markets. Its products include tablets, dry syrups (bottles), soft gels, capsules, suppositories, liquid syrups (bottles), liquid injectables in ampoules and vials, lyophilized vials, prefilled syringes (PFS), emulsion injections in ampoules and vials, ophthalmic droppers, pre-mix bags, topicals, and sachets (liquids and powders). It also manufactures a range of ointments, creams, gels, and lotions. Its manufacturing facilities are located in Puducherry & Tamil Nadu in India. It has a presence in LATAM (Latin America), Southern Africa, and Francophone Africa, along with a presence in the United States of America and the European region. The company's subsidiaries include Caplin Point Far East Limited and Caplin Steriles Limited.

Outlook and Valuation

CAPLIPOINT has transformed itself into a player in generic formulations with a differentiated geographical presence. The company focuses on the emerging markets of LATAM and has taken an early-mover advantage in these largely untapped markets. The expected increase in a well-established distribution network, a new product pipeline, and expansion into new geographies are poised to drive future growth. We believe that Caplin Point Laboratories Limited is well-positioned to capitalize on these opportunities.

Looking ahead, we expect the company's revenue to grow at a CAGR of 22.3% from FY23 to FY26E. Therefore, we recommend Caplin Point Laboratories Limited with a target price of Rs 1,675, based on FY26E EPS of Rs 83.7 and a forward PE valuation multiple of 20. It appears to be a value buy with growth potential at current levels. **As a result, we recommend an ACCUMULATE rating for the long term.**

Financial Snapshot (Consolidated)

Particulars (Rs. in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Revenue	14,667.3	17,600.8	21,472.9	26,841.2	22.3%
EBITDA	4,417.6	5,332.3	6,548.3	8,274.0	23.3%
EBITDA %	30.1%	30.3%	30.5%	30.8%	
Adjusted PAT	3,750.0	4,208.4	5,070.8	6,355.9	17.1%
Adjusted EPS (Rs.)	49.0	55.4	66.8	83.7	
ROE (%)	19.9%	20.6%	22.3%	22.8%	
ROCE (%)	23.9%	25.8%	27.9%	28.5%	

Source: Company, ACMIL Retail Research

Company at glance

- A unique end-to-end business model encompassing manufacturing, exports, imports, and last-mile distribution.
- A technology and research-led marketing company.
- A mix of generics, branded generics, specialty molecules, and injectables.
- The launch of specialty niche products aimed at creating new markets across therapy segments.
- Selective use of credit to increase market share and maintain a cash surplus. Expansion into regulated markets (USA) with plans to enter Mexico, Canada, and Australia.

Company & Business overview

Caplin Point is a fast-growing, fully integrated pharmaceutical company with a dominant presence in Latin America, Francophone Africa, and a growing presence in regulated markets such as the USA and the EU. The company was established in 1990 to manufacture a range of ointments, creams, and other external applications. It was listed in 1994 following its Initial Public Offering (IPO), and the proceeds were deployed to set up a manufacturing facility in Pondicherry. Subsequently, the company expanded its product range and increased its production capacity.

Caplin has two segments - Generics and Branded Generics, which constitute around 75% and 25% of the company's overall turnover. The company has focused on emerging markets in Latin America, the Caribbean, Francophone and Southern Africa, and is now one of the leading suppliers of pharmaceuticals in these regions, holding over 4000 product licenses globally. As of the current date, the company has filed 20 ANDAs, with 18 approvals, of which 12 belong to Caplin Steriles (wholly owned subsidiary). It has got investments from investment funds like Eight Road Ventures and F-Prime Capital Partners Life Sciences Fund (Fidelity Group) through Compulsorily Convertible Preference Shares. The Company's manufacturing facility is also approved by EU-GMP, ANVISA-Brazil, INVIMA-Colombia, COFEPRIS-Mexico, etc. Caplin Point maintains a deep focus on innovative technologies and products, with a significant portion of its annual earnings invested in research and development for the creation of safe and effective products across various dosage forms.

Product Portfolio

The company has an extensive portfolio of pharmaceutical products, including 4,000+ registered products, 650+ formulations, and a presence in 36 therapeutic segments. It does not heavily rely on a single product or therapeutic segment for its revenues. The company follows an asset-light model and outsources approximately 45% of its products from various partners in India and China. The remaining 55% of products are produced by the company in its manufacturing plants, primarily located in India.

Caplin's product range includes liquid and lyophilized vials, prefilled syringes, ophthalmic dosages, premixed bags, tablets, dry syrups, liquid syrups, softgels, liquid injectables (ampoules and vials), emulsion injections (ampoules and vials), capsules, suppositories, topicals, and sachets. The company has a strong manufacturing presence, primarily in India. It has also engaged manufacturing outsourcing partners in China, in addition to those in India. These outsourcing partners are selected following stringent vendor qualification and audits by Caplin. The company develops and transfers product technology to approved manufacturing sites that possess all the required approvals and certifications, including those from the US FDA, WHO-GMP, ANVISA, and more.

Product Category List

- Tablets
- Injections (liquid & lyophilized, pre-filled syringes)
- Liquid Orals
- Ointments, Creams & Gels
- Suppositories & Ovules
- Inhalers & Sprays
- Capsules
- Ophthalmic
- Softgel Capsules
- Powder for injections
- Pre-Mix Bags
- Pre-filled Syringes



Source: Company, ACMIL Retail Research

Investment Rationale

The company aims to double sales from the LatAm (Latin America) region in the coming years:

LATAM is a key geography for Caplin and contributes 83% of the total sales. It had a strong first-mover advantage in these countries when it entered these markets in the early '90s. It has established its presence in LatAm markets of Guatemala, El Salvador, Nicaragua, Dominican Republic, Ecuador and Honduras with its own distribution network. Additionally, the company is now looking to leverage its expertise and experience to tap into other new markets in LATAM including Brazil, Mexico, Peru, and Colombia, Chile etc. The growth will be led by a strong product portfolio, new launches, and an expansion of the reach of B2B portal services. The management aims to double the topline from the LATAM region in the coming years.

Consistently growing 'Emerging Markets Business' (the Core Business) with further scope for margin improvement

The company's core business, which focuses on Latin America and Francophone Africa, is expected to grow at an above industry-average pace, with margins expected to improve due to increased branded generics business and efficient supply chain management.

Amaris Clinical CRO is expected to generate additional revenue in the future

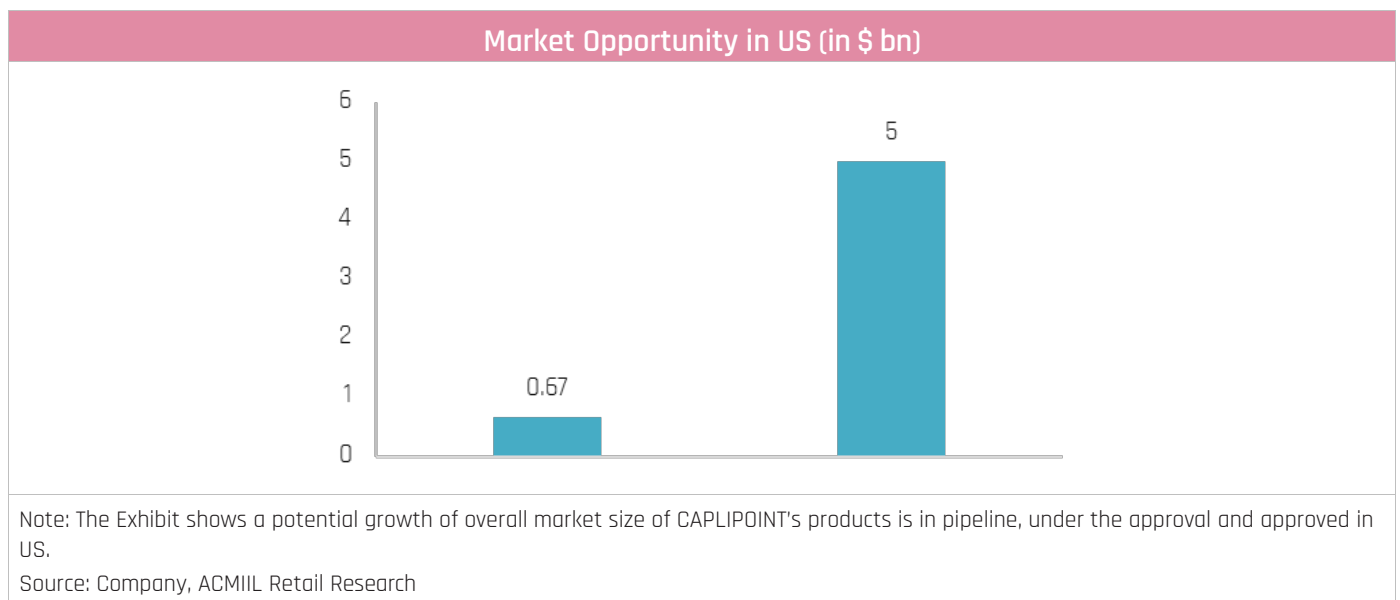
Amaris Clinical CRO, a wing of CAPLIPOINT, will cover BE/BA studies (Bioavailability/Bioequivalence) for captive consumption before scaling up as a commercial CRO. Their target markets in the future are China, the US, the EU, and LATAM. It has successfully completed back-to-back virtual and physical US FDA audits, and ISP Chile approval has also been received. Therefore, it appears ready to scale up further as a commercial CRO, which will generate additional revenue for the company. This move would significantly enhance the marketability of the products.

Large capital expenditure plans to support the next phase of growth

The Company has embarked on a capital expenditure plan that will support its growth across markets. The total capital expenditure plan is pegged at Rs 350Cr, which is for capacity expansion and maintenance in the next one and a half years. The company is undergoing a capital expenditure journey to expand existing capacities, widen its product portfolio, and backwardly integrate the majority of the products.

Growing Demand with an increase in the market size of the US Business, a significant opportunity

CAPLIPOINT caters to the rapidly growing demand for injectable and ophthalmic products in the US and other regulated markets. Caplin's injectable portfolio comprises 29 filed ANDAs (Abbreviated New Drug Applications), of which 20 have already been approved. The growth pipeline remains robust, with 55 ANDAs under development. The market size of the company's approved products and those under approval in the US is currently \$0.67 billion and is expected to reach around \$5 billion or more in the coming years, which will create a huge opportunity for the company for future growth.



Growth Strategy for US Market

CAPLIPOINT entered US Market in 2017-18. It has launched 20 products in total in the US, through partners such as Fresenius Kabi, Baxter, Sagent, Xellia, Somerset, Meitheal and others. The Company is in the process of setting up its own front end in US for launching Caplin Steriles labeled products in the US. It makes progress on establishing front end in the US with incorporation of Caplin Steriles USA Inc ongoing, as a subsidiary of Caplin Steriles Ltd. Further, licensing and other incorporation formalities to be completed within 6-8 months. Post incorporation of front end, Company plans to launch own label for 15+ products within the first 12 months in the US. It has made significant progress towards digitalization of all Quality processes with the implementation of the Labware LIMS system.

It's Core Strategy

- Continuously strengthening the US Credentials by entering niche high value Injectable and Ophthalmic segment.
- Filing a mix of Simple and Complex injectables in US under Caplin's name.
- Planning to have front-end presence by H1FY24 in the US market to launch its own label and expand

US sales expected to reach US\$ 100 million over the next 5 years:

The US is one of the key markets globally for pharmaceutical players and constitutes a significant chunk of the share of global sales. Considering this fact, the company expects revenues for the US business to reach US\$ 100 million (~Rs 750 crore) over the next five years. CAPLIPOINT's target is to backwardly integrate with its own APIs for 70% of all filings in the US by 2024, a critical differentiator for generic Injectable. A strong product pipeline, aspirations for market share gains, and plans to establish their own presence in the US are the key factors that will drive growth for the company in the US markets.

Backward Integration to provide a competitive edge:

CAPLIPOINT plans to utilize its API Plant to cater to both the U.S. and LATAM businesses, as well as the upcoming Oncology business. This backward integration will help the company in manufacturing and supplying APIs for complex injectable products.

Recent approval from the US FDA:

Caplin Steriles Limited, a subsidiary company of CAPLIPOINT, received final approval from the US FDA for its ANDA Cisatracurium Besylate Injection USP, 10 mg/5 mL (2 mg/mL) and 200 mg/20 mL (10 mg/mL) Single-dose Vials; and 20 mg/10 mL (2 mg/mL) Multiple-dose Vials (Preserved), a generic therapeutic equivalent version of (RLD) NIMBEX injection by AbbVie Inc. According to IQVIATM (IMS Health), the injection is a neuromuscular blocking agent indicated as an adjunct to general anesthesia to facilitate both rapid sequence and routine tracheal intubation and to provide skeletal muscle relaxation during surgery or mechanical ventilation.

'Plant to Portal' to generate big data and lead to better product positioning:

Proposed extension from product manufacture to the retail interface through a healthcare portal that automates pharmacies, clinics, and diagnostic labs. This deployment of a healthcare portal will generate big data for generics, leading to better product positioning in emerging markets for pharmacies and wholesale channel partners. As a result, the company will be able to circumvent trade channels and improve margins. Additionally, CAPLI's healthcare e-commerce portal 'QuetenX' caters to ~1,500+ unique customers in Guatemala, Nicaragua & Ecuador. These initiatives will help CAPLIPOINT to have a better cost advantage in future, gather better intel on the market it operates in, better understand the market trends and changing customer needs as well as better access to some of its markets.

Forward Integration to help scale up the value chain:

The company moves further up the value chain with the acquisition of its channel partners in Latin America, thereby controlling manufacturing, export, import, and distribution with direct access to retailers and wholesalers. It had acquired most of its Channel partners in Latin American markets.

Capacity expansion to provide further growth:

The Company is expanding various existing facilities. Softgel capacity expansion has been completed, providing double the current capacity established for existing markets. Additionally, the OSD facility for Global markets, where construction work will commence shortly on a new Oral Solid Dosages plant in Thervoy SIPCOT, near Chennai. This facility will increase the existing OSD capacity by three times and cater to additional demand from LATAM markets such as Mexico and Brazil, in addition to regulated markets such as the US and the EU.

Additional Key Growth Drivers

- Caplin Point is considering inorganic growth opportunities, and management is positive about rewarding shareholders through special dividends or buybacks.
- The company is focused on sustainable progress and long-term growth, with plans to become a vertically integrated company in the pharmaceutical formulations and API segments.
- Its investing in digitalization and automation to improve processes and increase efficiency.
- The Company's subsidiary, 'Caplin Steriles' Phase 2, became operational from Q2FY24, which will increase production capacity and boost profitability.
- The Company is in line with the development of 70+ APIs, both in the General Category and Oncology, at the R&D scale, to be scaled up when the Company's API units go live in the next few months.
- The company is expanding its presence in Latin America and has received a \$4 million order for oncology products in the RoW (Rest of the World) market.
- It plans to enter more regulated markets such as Canada, Australia, China, and Russia/CIS, as well as enter the larger LATAM markets of Mexico and Brazil in the near to medium-term horizon.

- The company has completed 4 complex product exhibit batches, including 3 injectables and 1 ophthalmic. It also plans to file all 4 with US and global markets during FY24.
- The company's exports to newer markets, such as Cambodia, Turkmenistan, and Uzbekistan, commenced in Q4FY23.
- The company has historically delivered on its growth commitments in terms of financial numbers. The 2016 top line is now the 2022 bottom line, and moving forward, it has a vision to achieve the current top line as the bottom line in the coming years. This gives confidence to investors about its commitment to growth.
- CAPLIPOINT's brand marketing segment in Latin America started to gain momentum, and meaningful revenue and bottom-line contributions are expected in FY25.
- The Company already filed 24 products in Mexico and received the registration of five in the recent past. They are sure of increasing filing to at least 60 to 70 before the end of 2024.
- Company ties up with existing and new third party manufacturers with Regulatory Approvals, for key Mexico market, especially in areas such as Penicillin, Cephalosporin range of products.

Industry Overview

A. Global Outlook

Increased Use of Medicine:

Medicine usage, measured in defined daily doses, has grown by 36% over the past decade, driven by increased access to medicines. The highest volume growth is expected in Latin America, Asia, and Africa, driven by a mix of population growth and expanded access, while North America and Europe will see very low growth.

Spending and Growth by Regions:

The global medicine market, using invoice price levels, is expected to grow at a 3-6% CAGR through 2027, reaching approximately \$1.9 trillion, with diverging trends by region. Growth in developed economies continues at relatively steady rates, with new products offsetting patent expires. Latin America, Eastern Europe, and parts of Asia are expected to experience strong growth driven by volume and greater adoption of novel medicines.

Growth in Spending on Specialty Medicines:

Specialty medicines will represent about 43% of global spending in 2027 and 56% of total spending in developed markets. Global spending on cancer drugs is expected to reach \$370 billion by 2027, with growth accelerating due to the launch and use of novel drugs and limited new biosimilar impact. Immunology spending growth will slow to 3-6% through 2027 due to price reductions associated with biosimilar competition, while volume growth continues at 12% annually. New therapies for rare neurological disorders, Alzheimer's, and migraines are expected to drive spending growth in neurology.

Biotech Spending:

Biotech will represent 35% of global spending and will include both breakthrough cell and gene therapies, as well as a maturing biosimilar segment. Major advances are expected to continue, especially in oncology and immunology. The outlook for next-generation bio-therapeutics includes a definitively uncertain range of clinical and commercial successes.

B. Indian Outlook

The pharmaceutical industry in India has unique characteristics, dominated by branded generics, local brands, and low price levels with intense competition. Known as the 'Pharmacy of the World,' India plays a major role in the manufacturing and global supply of medicines. Indian pharmaceutical exports reach more than 200 countries worldwide. Indian medicines are preferred globally due to their high quality and affordability. India ranks among the top 10 formulation-exporting countries globally, being the fourth largest by volume and the tenth largest by value.

India is also the largest 'generic-only' exporter globally, accounting for 20% of global exports in generics. The pharmaceutical industry has made tremendous progress in terms of infrastructure development, technology base, and a wide range of products. The industry has established GMP-certified (Good Manufacturing Practices) facilities to produce various dosage forms.

India has the second-highest number of United States Food and Drug Administration (USFDA) approved facilities, and labor costs in India are lower than in other manufacturing hubs, by up to 40%. Despite recent challenges, the pharmaceutical industry in India has experienced rapid growth. India is poised to become one of the top three pharmaceutical industries by 2030. Generic penetration in high-value healthcare markets, such as the US, is growing significantly, with India supplying over 20% of the demand in major geographies.

The Indian Pharmaceutical Market is expected to register a CAGR growth of 10.7% over the forecast period from 2023 to 2028. The pharmaceutical industry in India is significantly contributing to healthcare globally. The Department of Pharmaceuticals has estimated the current size of the industry at about US\$ 41 billion, including drugs and medical devices. India continues to play a substantial role in manufacturing various important, high-quality, and cost-efficient medicines for both Indian and global markets.

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth

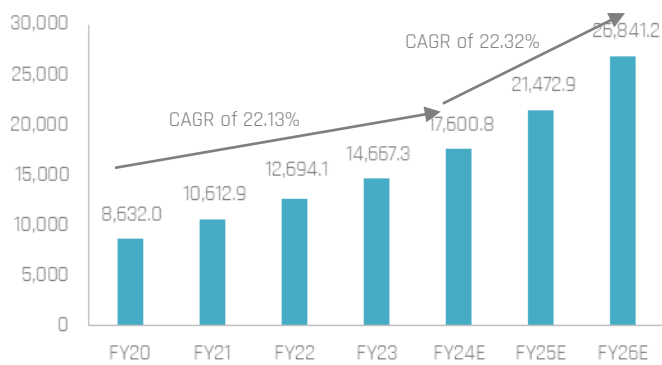


Exhibit 2: EBITDA & EBITDA Margin %

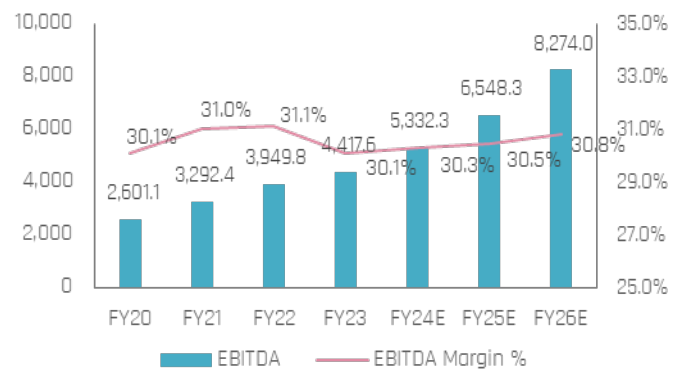


Exhibit 3: Adjusted PAT

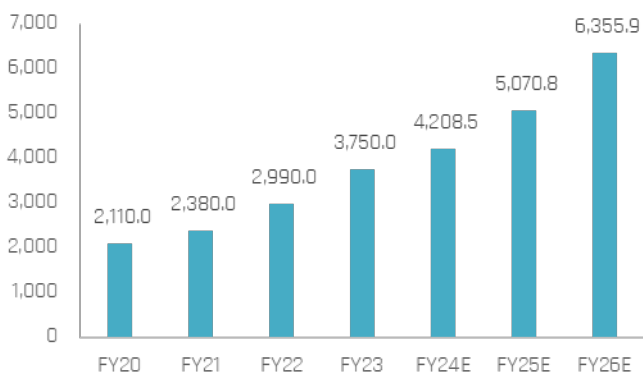


Exhibit 4: Product Mix

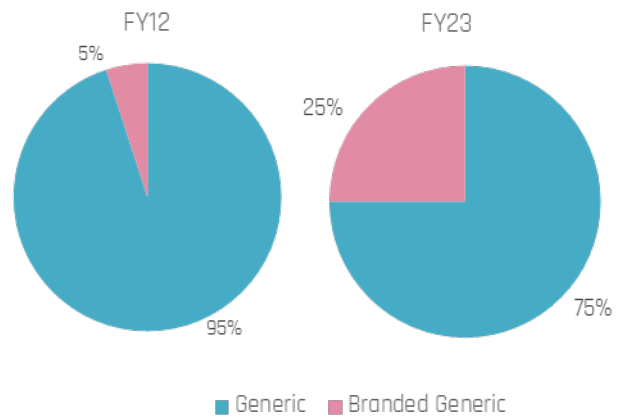


Exhibit 5: Location-wise Revenue Breakup (FY23)

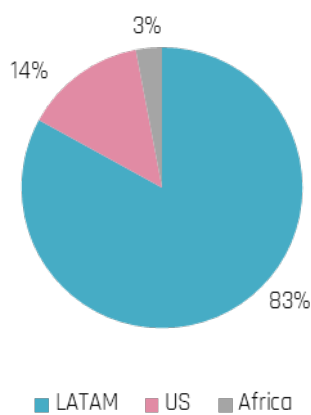
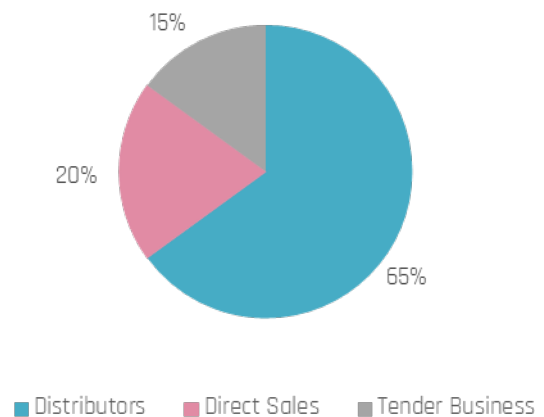


Exhibit 6: Revenue by Channel (FY23)



Source: Company, ACMIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (Rs. in Mn.)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	8,632.0	10,612.9	12,694.1	14,667.3	17,600.8	21,472.9	25,841.2
Expenses	6,030.9	7,320.5	8,744.3	10,249.7	12,268.5	14,924.6	18,567.2
EBITDA	2,601.1	3,292.4	3,949.8	4,417.6	5,332.3	6,548.3	8,274.0
EBITDA Margin %	30.1%	31.0%	31.1%	30.1%	30.3%	30.5%	30.8%
Other Income	412.9	229.4	384.4	553.6	655.0	683.0	705.0
Depreciation	316.2	369.7	469.0	449.9	693.8	859.7	1000.8
Interest	3.2	15.9	7.0	7.8	8.0	8.2	8.5
PBT	2,694.6	3,136.2	3,858.2	4,513.5	5,285.5	6,363.4	7,969.7
Tax	543.8	621.9	773.7	743.6	1,057.1	1,272.7	1,593.9
PAT	2,150.8	2,514.3	3,084.5	3,769.9	4,228.4	5,090.7	6,375.8
Adjusted PAT^	2,110.0	2,380.0	2,990.0	3,750.0	4,208.5	5,070.8	6,355.9
Adjusted EPS (Rs.)	27.7	31.2	39.2	49.0	55.4	66.8	83.7

[^]Note: Adjusted PAT is after considering exceptional items.

Source: Company, ACMIL Retail Research

Risks and concerns

- The company derives approximately 83% of its revenue from LatAm markets. A slowdown in the region's economy could hamper its growth prospects.
- Any negative outcome from the inspection of its key manufacturing facility by the US FDA or other regulatory authorities could affect the company's growth prospects. So far, the company has maintained a clean compliance track record.
- The company sources 45% of its products from China. Supply disruptions from China may impact overall growth.

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