

CMP: ₹ 1550

Target: ₹ 1980(28%)

Target Period: 12 months

August 8, 2024

BUY

## US mometum intact; focus on new capex...

**About the stock:** Caplin derives almost entire revenues through exports with 81% of revenues from Emerging Markets (LatAm + RoW) where it has an end-to-end business model through last mile logistical solutions for its exclusive distributors.

- For LatAm markets, it outsources ~45% of products (China: 35%; Indian vendors: 65%) and in-house manufacturing remains at ~55%
- Caplin Steriles caters mainly to the US and other regulated markets. So far, it has developed and filed 42 ANDAs in the US on its own and with partners, with 30 approvals as on date. The Company is also working on a portfolio of 40+ simple and complex Injectable and Ophthalmic products, that it intends to file over the next 4 years

### Investment Rationale:

- Q1FY25- In-line revenues but margins better – Revenues grew ~16% YoY to ₹ 459 crore on the back of ~69% growth in Caplin Steriles (mainly US; 17% of revenues) to ₹ 78 crore which was driven by consistent launches in injectables and ophthalmics. Legacy LatAm markets (83% of revenues) grew 9% to ₹ 381 crore. EBITDA grew ~20% YoY to ₹ 152 crore with margins stood at 33%. The growth in EBITDA was driven by 477 bps improvement in GPM to 59.6% but pulled down by higher other expenses. PAT grew ~22% to ₹ 125 crore. During the quarter the company generated FCF of ₹ 59 crore (ex-capex of ₹ 37 crore).
- Firm expansion plans in place–With the US run-rate maintaining high tempo, the company is increasingly looking for new launches, product registration, backward integration besides looking for new expended production lines. The company plans to launch 8 new products in the US in the current fiscal, in several niche segments of Injectables and Ophthalmic. Besides US, it is augmenting plants for bigger geographies of Mexico, Columbia and Chile. Overall, it has undertaken significant capex to the tune of ₹ 650-700 crore (~₹ 500 crore already consumed) for expansion of Caplin Steriles plant for new lines, expansion of Latam focused plant, General API facility, Oncology API facility, Oncology OSD/ Injectables facility, new OSD facility among others. All these efforts are likely to maintain the growth trajectory and also are expected to maintain consistent improvement in the margins. The company is also working on the front-end in marketing mechanism both in the US and the larger LatAm markets in order to control the integrated business model.

### Rating and Target price

- Our target price is ₹ 1980 based on 28x FY26E EPS of ₹ 70.7.

### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	CAGR (FY20-23)	FY24	FY25E	FY26E	CAGR (FY23-26E)
Revenues	863.2	1061.3	1269.4	1466.7	19.3%	1694.1	1914.4	2165.6	13.9%
EBITDA	260.1	328.7	394.7	440.0	19.2%	551.4	624.8	720.3	17.9%
EBITDA Margins (%)	30.1	31.0	31.1	30.0		32.6	32.6	33.3	
Net Profit	215.1	242.3	299.8	374.2	20.3%	453.7	478.7	537.6	12.8%
EPS (Adjusted)	28.3	31.9	39.5	49.2		59.7	63.0	70.7	
PE (x)	56.1	49.8	40.2	32.2		26.6	25.2	22.4	
RoCE (%)	26.5	25.4	25.3	23.4		23.9	21.6	20.7	
RoE (%)	22.7	20.4	20.2	19.9		19.6	17.3	16.4	

Source: Company, ICICI Direct Research



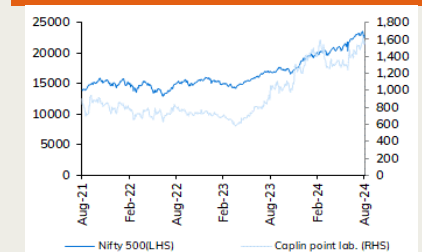
### Particulars

Particular	Amount
Market Capitalisation	₹ 11780 crore
Debt (FY24)	₹ 1 crore
Cash (FY24)	₹ 553 crore
EV	₹ 11228 crore
52 week H/L	1655/895
Equity capital	₹ 15.2 crore
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	70.6	70.6	70.6	70.6
FIIIs	3.1	2.8	3.3	3.4
DIIIs	0.2	0.4	1.1	1.5
Others	26.1	26.1	25.0	24.6

### Price Chart



### Key risks

- Regulatory risks due to growing US contribution
- Slower than expected ramp-up in larger LatAm markets

### Research Analyst

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Exhibit 1: Quarterly Summary

(₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	300.4	303.5	326.2	339.2	346.3	359.1	372.0	389.3	395.3	410.1	435.5	453.2	459.0	16.1	1.3
Raw Material Expenses	136.0	125.8	143.8	151.9	157.2	165.5	163.9	176.6	178.6	164.1	190.1	191.4	185.5	3.9	-3.1
% of Revenue	45.3	41.4	44.1	44.8	45.4	46.1	44.1	45.4	45.2	40.0	43.7	42.2	40.4	-477 bps	-181 bps
Gross Profit	164.5	177.8	182.4	187.3	189.1	193.6	208.1	212.7	216.7	246.0	245.4	261.9	273.5	26.2	4.4
Gross Profit Margin (%)	54.7	58.6	55.9	55.2	54.6	53.9	55.9	54.6	54.8	60.0	56.3	57.8	59.6	477 bps	181 bps
Employee Expenses	26.7	29.0	29.4	30.2	32.4	34.0	35.5	36.0	35.1	35.1	36.7	36.8	40.2	14.5	9.2
% of Revenue	8.9	9.5	9.0	8.9	9.4	9.5	9.6	9.2	8.9	8.6	8.4	8.1	8.7	-12 bps	63 bps
Other Expenditure	45.2	47.6	52.0	57.1	54.5	54.0	64.3	52.8	55.1	73.5	66.4	79.9	81.5	47.9	2.1
% of Revenue	15.0	15.7	15.9	16.8	15.7	15.0	17.3	13.6	13.9	17.9	15.3	17.6	17.8	382 bps	14 bps
Total Expenditure	207.8	202.4	225.2	239.3	244.2	253.5	263.7	265.4	268.8	272.7	293.2	308.0	307.2	14.3	-0.3
% of Revenue	69.2	66.7	69.0	70.5	70.5	70.6	70.9	68.2	68.0	66.5	67.3	68.0	66.9	-107 bps	-103 bps
EBITDA	92.6	101.2	101.0	99.9	102.2	105.6	108.3	123.9	126.5	137.4	142.3	145.2	151.8	20.0	4.5
EBITDA Margin (%)	30.8	33.3	31.0	29.5	29.5	29.4	29.1	31.8	32.0	33.5	32.7	32.0	33.1	107 bps	103 bps
Other Income	9.2	8.5	9.5	11.5	13.9	16.5	14.2	11.4	12.0	20.4	17.2	17.3	18.6	54.2	7.3
Interest	0.3	0.2	0.1	0.1	0.1	0.1	0.4	0.2	0.3	0.2	0.2	0.2	0.1	-82.1	-66.7
Depreciation	12.0	11.7	11.7	11.5	11.0	11.5	11.4	11.1	11.4	11.8	13.9	16.4	16.0	40.2	-2.7
PBT	89.5	97.7	98.7	99.9	105.1	110.5	110.7	124.0	126.9	145.9	145.4	146.0	154.4	21.6	5.7
Total Tax	18.0	20.9	19.4	19.1	18.8	18.4	14.4	22.8	22.8	29.9	25.6	24.8	29.5	29.4	18.8
Tax rate (%)	20.1	21.4	19.6	19.1	17.9	16.7	13.0	18.4	17.9	20.5	17.6	17.0	19.1	115 bps	210 bps
PAT	70.9	75.0	75.0	79.1	85.0	91.7	96.4	101.1	104.2	116.0	119.8	121.2	124.9	19.9	3.1
Minority Interest	0.7	1.8	4.3	1.8	1.3	0.4	-0.1	0.1	2.6	2.9	2.6	-0.4	1.0		
PAT after MI	70.2	73.1	70.6	77.3	83.7	91.3	96.5	101.0	101.5	113.1	117.2	121.5	124.0	22.1	2.0
PAT Margin (%)	23.4	24.1	21.6	22.8	24.2	25.4	25.9	25.9	25.7	27.6	26.9	26.8	27.0	132 bps	19 bps
EPS (Adjusted)	9.2	9.6	9.3	10.2	11.0	12.0	12.7	13.3	13.4	14.9	15.4	16.0	16.3		

Source: Company, ICICI Direct Research

## Q1FY25 Results / Conference call highlights

### Emerging markets (LatAm)

- Segment sales break-up- Generics- 70%; Branded Generics- 30%
- Caplin One Labs Oncology site has commenced exports to LatAm markets. The company targets breakeven within next 12 months. Product registration work ongoing in 7 countries in LatAm including Mexico. Once fully functional this facility can facilitate growth as well as healthy GPM.
- The company has filed 22 products in Mexico with another 35 to be filed in the next 12-18 months, including products from outsourcing partners.
- Expansion works ongoing at CP-1 (Puducherry site) for higher Lyophilized Injection capacity due to enhanced demand from markets.
- The API R&D division has completed development of 80+ molecules, to be scaled up once GMP facilities in Vizag (General APIs) and Thervoykandigai (Oncology API) go onstream.

### Caplin Steriles (mainly US)-

- The management has reiterated aspirational sales target of US\$ 100 million by FY27.
- US front-end team currently comprises of 5 personnel.
- US sales break-up- 74% from product supplies and milestone; 26% from profit sharing.
- For launch of own label products, the company has already received licenses from 45 out of 50 states in the US.
- The company has received approvals for 4 Ophthalmic products so far, all have been launched till date. Approvals for 3 more are expected within this year.
- Newly Installed Line 5 output surpasses Line 1 and 2, within first 9 months of operation and slated to improve further with better scheduling and product mix.

## Financial Tables

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Total Operating Income	1,466.7	1,694.1	1,914.4	2,165.6	
Growth (%)	15.5	15.5	13.0	13.1	
Raw Material Expenses	663.2	724.2	811.3	931.2	
Gross Profit	803.5	969.9	1,103.1	1,234.4	
Gross Profit Margins (%)	54.8	57.3	57.6	57.0	
Employee Expenses	138.0	143.6	171.1	194.9	
Other Expenditure	225.5	274.9	307.1	319.2	
Total Operating Expenditure	1,026.7	1,142.7	1,289.5	1,445.3	
EBITDA	440.0	551.4	624.8	720.3	
Growth (%)	11.5	25.3	13.3	15.3	
Interest	0.8	0.8	0.6	0.6	
Depreciation	45.0	53.4	91.8	117.3	
Other Income	56.0	66.9	76.8	86.9	
PBT before Exceptional Items	450.2	564.2	609.2	689.2	
Less: Exceptional Items	0.0	-0.3	0.0	0.0	
PBT after Exceptional Items	450.2	564.4	609.2	689.2	
Total Tax	74.4	103.0	120.4	137.8	
PAT before MI	375.8	461.4	488.8	551.3	
Minority Interest	1.7	7.8	10.0	13.8	
PAT	374.2	453.7	478.7	537.6	
Growth (%)	24.8	21.2	5.5	12.3	
EPS (Adjusted)	49.2	59.7	63.0	70.7	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	363.2	455.3	478.7	537.6	
Add: Depreciation & Amortization	45.0	53.4	91.8	117.3	
Net Increase in Current Assets	-213.4	-274.8	-6.4	-135.0	
Net Increase in Current Liabilities	74.7	88.2	18.1	39.2	
Others	2.2	-3.8	0.6	0.0	
CF from Operating activities	271.7	318.4	582.9	559.7	
(Purchase)/Sale of Fixed Assets	-193.8	-145.8	-200.0	-200.0	
Investments	-141.3	-93.8	-100.0	-100.0	
Others	117.1	18.6	-1.0	-1.0	
CF from Investing activities	-217.9	-221.0	-301.0	-301.0	
Proceeds from Preference shares	0.0	0.0	0.0	0.0	
(inc)/Dec in Loan	2.9	-3.1	0.0	0.0	
Dividend & Dividend tax	-30.3	-34.2	-26.6	-30.4	
Other	-0.8	-0.8	-0.6	-0.6	
CF from Financing activities	-28.2	-38.1	-27.2	-31.0	
Net Cash Flow	25.6	59.3	254.6	227.7	
Cash and Cash Equivalent	463.0	493.5	552.7	807.4	
Cash	488.6	552.8	807.4	1,035.1	
Free Cash Flow	77.9	172.6	382.9	359.7	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	15.2	15.2	15.2	15.2	
Reserve and Surplus	1,865.3	2,300.5	2,752.6	3,259.8	
Total Shareholders funds	1,880.5	2,315.7	2,767.8	3,275.0	
Total Debt	5.2	1.2	1.2	1.2	
Minority Interest	26.8	31.1	31.1	31.1	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	15.5	19.1	20.0	21.0	
Source of Funds	1,927.9	2,367.1	2,820.2	3,328.3	
Gross Block - Fixed Assets	488.9	715.2	840.2	965.2	
Accumulated Depreciation	209.1	262.5	354.3	471.6	
Net Block	279.8	452.7	485.9	493.5	
Capital WIP	220.7	116.6	191.6	266.6	
Fixed Assets	500.5	569.3	677.5	760.2	
Investments	229.7	375.6	475.6	575.6	
Other non-Current Assets	65.9	98.3	100.2	102.2	
Inventory	288.2	363.0	377.9	433.7	
Debtors	394.1	542.7	524.5	593.3	
ST Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	219.5	195.7	205.5	215.8	
Cash	493.5	552.7	807.4	1,035.1	
Total Current Assets	1,395.3	1,654.2	1,915.2	2,277.9	
Creditors	164.4	210.2	222.3	255.1	
Provisions	0.0	10.4	10.9	11.4	
Other Current Liabilities	99.1	109.7	115.2	121.0	
Total Current Liabilities	263.5	330.3	348.4	387.5	
Net Current Assets	1,131.8	1,324.0	1,566.8	1,890.3	
Application of Funds	1,928.0	2,367.1	2,820.2	3,328.3	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY23	FY24	FY25E	FY26E	
Per share data (₹)					
Reported EPS	49.2	59.7	63.0	70.7	
Cash EPS	53.2	63.7	71.6	82.2	
BV per share	247.4	304.7	364.2	430.9	
Cash per Share	64.9	72.7	106.2	136.2	
Dividend per share	2.0	3.0	3.5	4.0	
Operating Ratios (%)					
Gross Profit Margins	54.8	57.3	57.6	57.0	
EBITDA margins	30.0	32.6	32.6	33.3	
PAT Margins	25.5	26.8	25.0	24.8	
Cash Conversion Cycle	166	194	170	170	
Asset Turnover	3.0	2.4	2.3	2.2	
EBITDA conversion Rate	61.7	57.7	93.3	77.7	
Return Ratios (%)					
RoE	19.9	19.6	17.3	16.4	
RoCE	23.4	23.9	21.6	20.7	
RoIC	37.5	34.1	35.9	38.0	
Valuation Ratios (x)					
P/E	32.2	26.6	25.2	22.4	
EV / EBITDA	25.9	20.4	17.5	14.7	
EV / Net Sales	7.8	6.6	5.7	4.9	
Market Cap / Sales	8.2	7.1	6.3	5.6	
Price to Book Value	6.4	5.2	4.4	3.7	
Solvency Ratios					
Debt / EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	3.4	3.3	3.2	5.9	
Quick Ratio	2.3	2.2	2.1	4.8	
Inventory days	159	183	170	170	
Debtor days	98	117	100	100	
Creditor days	90	106	100	100	

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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