

CMP: ₹ 2000

Target: ₹ 2400(20%)

Target Period: 12 months

November 11, 2024

BUY



Firing on all cylinders; 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 39 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:

- Q2FY25- Strong print propelled by the US and LatAm – Revenues grew ~18% YoY to ₹ 483 crore on the back of ~23% growth in Caplin Steriles (mainly US) to ₹ 92 crore which was driven by consistent launches in injectables and ophthalmics. Legacy LatAm markets grew 17% to ₹ 391 crore. EBITDA grew ~20% YoY to ₹ 165 crore with margins stood at 34%. PAT grew ~13% YoY to ₹ 131 crore and lower growth vis-à-vis EBITDA was attributable to higher EBITDA.
- Firm expansion plans in place- With 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. It plans to file close to 15 ANDAs in one year which would be a mix of Vials, Pre-Filled Syringes, Ready-To-Use (RTU) Bags and Ophthalmic products. The company has is strengthening its front-end in the US with the incorporation of Caplin Sterile USA Inc. having received licenses from 49 out of 50 states in the US. The company has entered into contracts with the 3 largest Wholesalers in the US, with 2 more mid-level wholesalers to be completed soon. 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. Another tie-up the company is exploring is for Biosimilars. For which, it has tied up with some Chinese companies for entry into Biologics/Biosimilars for Emerging Markets initially, with specific focus on Insulin Analogues and Biosimilars.

Rating and Target price

- Our target price is ₹ 2400 based on 24x FY26E EBITDA of ₹ 729.3.

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	1938.9	2192.9	14.3%
EBITDA	260.1	328.7	394.7	440.0	19.2%	551.4	640.5	729.3	18.3%
EBITDA Margins (%)	30.1	31.0	31.1	30.0		32.6	33.0	33.3	
Net Profit	215.1	242.3	299.8	374.2	20.3%	453.7	497.8	542.6	13.2%
EPS (Adjusted)	28.3	31.9	39.5	49.2		59.7	65.5	71.4	
PE (x)	70.7	62.7	50.7	40.6		33.5	30.5	28.0	
RoCE (%)	26.5	25.4	25.3	23.4		23.9	24.5	22.4	
RoE (%)	22.7	20.4	20.2	19.9		19.6	19.6	17.8	

Source: Company, ICICI Direct Research

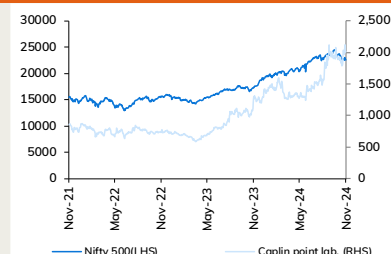
Particulars

Particular	Amount
Market Capitalisation	₹ 15200 crore
Debt (FY24)	₹ 1 crore
Cash (FY24)	₹ 553 crore
EV	₹ 14648 crore
52 week H/L	1655/895
Equity capital	₹ 15.2 crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	70.6	70.6	70.6	70.6
FIIIs	2.8	3.3	3.4	3.7
DIIIs	0.4	1.1	1.5	1.8
Others	26.1	25.0	24.6	23.9

Price Chart



Key risks

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

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Vedant Nilekar
vedant.nilekar@icicisecurities.com

Exhibit 1: Quarterly Summary

(₹ crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Total Operating Income	303.5	326.2	339.2	346.3	359.1	372.0	389.3	395.3	410.1	435.5	453.2	459.0	483.1	17.8	5.3
Raw Material Expenses	125.8	143.8	151.9	157.2	165.5	163.9	176.6	178.6	164.1	190.1	191.4	185.5	188.8	15.1	1.8
% of Revenue	41.4	44.1	44.8	45.4	46.1	44.1	45.4	45.2	40.0	43.7	42.2	40.4	39.1	-93 bps	-133 bps
Gross Profit	177.8	182.4	187.3	189.1	193.6	208.1	212.7	216.7	246.0	245.4	261.9	273.5	294.3	19.6	7.6
Gross Profit Margin (%)	58.6	55.9	55.2	54.6	53.9	55.9	54.6	54.8	60.0	56.3	57.8	59.6	60.9	93 bps	133 bps
Employee Expenses	29.0	29.4	30.2	32.4	34.0	35.5	36.0	35.1	35.1	36.7	36.8	40.2	44.3	26.3	10.3
% of Revenue	9.5	9.0	8.9	9.4	9.5	9.6	9.2	8.9	8.6	8.4	8.1	8.7	9.2	61 bps	42 bps
Other Expenditure	47.6	52.0	57.1	54.5	54.0	64.3	52.8	55.1	73.5	66.4	79.9	81.5	85.2	16.0	4.6
% of Revenue	15.7	15.9	16.8	15.7	15.0	17.3	13.6	13.9	17.9	15.3	17.6	17.8	17.6	-28 bps	-12 bps
Total Expenditure	202.4	225.2	239.3	244.2	253.5	263.7	265.4	268.8	272.7	293.2	308.0	307.2	318.3	16.8	3.6
% of Revenue	66.7	69.0	70.5	70.5	70.6	70.9	68.2	68.0	66.5	67.3	68.0	66.9	65.9	-60 bps	-103 bps
EBITDA	101.2	101.0	99.9	102.2	105.6	108.3	123.9	126.5	137.4	142.3	145.2	151.8	164.8	19.9	8.5
EBITDA Margin (%)	33.3	31.0	29.5	29.5	29.4	29.1	31.8	32.0	33.5	32.7	32.0	33.1	34.1	60 bps	103 bps
Other Income	8.5	9.5	11.5	13.9	16.5	14.2	11.4	12.0	20.4	17.2	17.3	18.6	20.8	1.7	11.9
Interest	0.2	0.1	0.1	0.1	0.1	0.4	0.2	0.3	0.2	0.2	0.2	0.1	0.2	16.7	320.0
Depreciation	11.7	11.7	11.5	11.0	11.5	11.4	11.1	11.4	11.8	13.9	16.4	16.0	16.8	42.5	5.0
PBT	97.7	98.7	99.9	105.1	110.5	110.7	124.0	126.9	145.9	145.4	146.0	154.4	168.6	15.5	9.2
Total Tax	20.9	19.4	19.1	18.8	18.4	14.4	22.8	22.8	29.9	25.6	24.8	29.5	37.7	26.1	27.8
Tax rate (%)	21.4	19.6	19.1	17.9	16.7	13.0	18.4	17.9	20.5	17.6	17.0	19.1	22.3	187 bps	325 bps
PAT	75.0	75.0	79.1	85.0	91.7	96.4	101.1	104.2	116.0	119.8	121.2	124.9	130.9	12.8	4.8
Minority Interest	1.8	4.3	1.8	1.3	0.4	-0.1	0.1	2.6	2.9	2.6	-0.4	1.0	0.0		
PAT after MI	73.1	70.6	77.3	83.7	91.3	96.5	101.0	101.5	113.1	117.2	121.5	124.0	130.9	15.7	5.6
PAT Margin (%)	24.1	21.6	22.8	24.2	25.4	25.9	25.9	25.7	27.6	26.9	26.8	27.0	27.1	-49 bps	9 bps
EPS (Adjusted)	9.6	9.3	10.2	11.0	12.0	12.7	13.3	13.4	14.9	15.4	16.0	16.3	17.2		

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- Caplin is advancing in oncology injectables and is developing peptide formulations targeting obesity and diabetes for regulated and ROW markets.
- Caplin is in the process of signing an agreement with a leading Chinese company that manufactured the insulin-based drug substance and formulations.
- Caplin is exploring joint ventures with mid-sized Chinese companies to enter the biosimilars market, targeting monoclonal antibodies and first- and second-generation products, initially for ROW markets and later in Latin America.
- The company continues to grow its presence in Latin America, particularly in Mexico, Chile, and Brazil, with 23 filings and a new Brazilian partnership for injectables.
- R&D expenses is 4.5-5% of current sales. The R&D expenditure rose due to increased filings, and higher employee expenses were noted due to ESOP costs and headcount expansion in key growth areas.
- Caplin sterile revenue during the quarter was ₹92.42 crore with COGS of 37%.
- The company's warehousing strategy to improve cash flow from inventory held in proximity to Latin American customers is now expected to be replicated in the U.S. market with three to four planned warehouses.
- In the long term the company wants to shift its U.S. strategy from just B2B to B2B and B2C. It has established partnerships with major wholesalers and a third-party logistics warehouse, allowing the first shipment of Caplin-branded products.
- Caplin Sterile is set to launch its first ready-to-use injectable bag in January, targeting a segment with limited competition.
- Management is cautious in deploying its ₹2,500 crore reserves, prioritizing projects that are strategically viable and contribute to sustainable growth.
- Management expects Onco Lab's (Just began operations) PAT to turn positive in its first full operational year.

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	1,938.9	2,192.9	
Growth (%)	15.5	15.5	14.4	13.1	
Raw Material Expenses	663.2	724.2	802.9	942.9	
Gross Profit	803.5	969.9	1,135.9	1,249.9	
Gross Profit Margins (%)	54.8	57.3	58.6	57.0	
Employee Expenses	138.0	143.6	174.2	197.4	
Other Expenditure	225.5	274.9	321.3	323.3	
Total Operating Expenditure	1,026.7	1,142.7	1,298.3	1,463.6	
EBITDA	440.0	551.4	640.5	729.3	
Growth (%)	11.5	25.3	16.2	13.9	
Interest	0.8	0.8	0.7	0.7	
Depreciation	45.0	53.4	84.6	122.5	
Other Income	56.0	66.9	79.2	89.6	
PBT before Exceptional Items	450.2	564.2	634.5	695.7	
Less: Exceptional Items	0.0	-0.3	0.1	0.0	
PBT after Exceptional Items	450.2	564.4	634.4	695.7	
Total Tax	74.4	103.0	129.4	139.1	
PAT before MI	375.8	461.4	505.0	556.6	
Minority Interest	1.7	7.8	7.2	13.9	
PAT	374.2	453.7	497.8	542.6	
Growth (%)	24.8	21.2	9.7	9.0	
EPS (Adjusted)	49.2	59.7	65.5	71.4	
Other income as % of (Cash+investment)	8%	7%	8%	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	497.8	542.6	
Add: Depreciation & Amortization	45.0	53.4	84.6	122.5	
Net Increase in Current Assets	-213.4	-274.8	-70.7	-106.3	
Net Increase in Current Liabilities	74.7	88.2	-1.5	49.0	
Others	2.2	-3.8	0.7	0.0	
CF from Operating activities	271.7	318.4	510.9	608.6	
(Purchase)/Sale of Fixed Assets	-193.8	-145.8	-201.1	-200.0	
Investments	-141.3	-93.8	-138.3	-100.0	
Others	117.1	18.6	13.8	-0.7	
CF from Investing activities	-217.9	-221.0	-325.5	-300.7	
Proceeds from Preference shares	0.0	0.0	0.0	0.0	
(inc)/Dec in Loan	2.9	-3.1	0.1	0.0	
Dividend & Dividend tax	-30.3	-34.2	-26.6	-30.4	
Other	-0.8	-0.8	-0.7	-0.7	
CF from Financing activities	-28.2	-38.1	-27.2	-31.1	
Net Cash Flow	30.6	59.3	-88.3	276.8	
Cash and Cash Equivalent	463.0	493.5	552.7	464.2	
Cash	493.6	552.8	464.4	741.0	
Free Cash Flow	77.9	172.6	309.8	408.6	
Free cash flow yield	1%	1%	2%	3%	

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	2,527.3	3,037.3	
Total Shareholders funds	1,880.5	2,315.7	2,542.5	3,052.5	
Total Debt	5.2	1.2	1.3	1.3	
Minority Interest	26.8	31.1	32.1	32.1	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	15.5	19.1	19.5	20.5	
Source of Funds	1,927.9	2,367.1	2,595.4	3,106.3	
Gross Block - Fixed Assets	488.9	715.2	880.0	1,005.0	
Accumulated Depreciation	209.1	262.5	347.1	469.6	
Net Block	279.8	452.7	532.9	535.4	
Capital WIP	220.7	116.6	152.9	227.9	
Fixed Assets	500.5	569.3	685.8	763.3	
Investments	229.7	375.6	513.9	613.9	
Other non-Current Assets	65.9	98.3	85.8	87.5	
Inventory	288.2	363.0	327.1	439.2	
Debtors	394.1	542.7	618.0	600.8	
ST Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	219.5	195.7	227.1	238.5	
Cash	493.5	552.7	464.2	741.0	
Total Current Assets	1,395.3	1,654.2	1,636.4	2,019.4	
Creditors	164.4	210.2	215.0	258.3	
Provisions	0.0	10.4	18.8	19.7	
Other Current Liabilities	99.1	109.7	95.0	99.8	
Total Current Liabilities	263.5	330.3	328.8	377.8	
Net Current Assets	1,131.8	1,324.0	1,307.6	1,641.6	
Application of Funds	1,928.0	2,367.1	2,593.1	3,106.3	

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	65.5	71.4	
Cash EPS	53.2	63.7	73.1	83.5	
BV per share	247.4	304.7	334.5	401.6	
Cash per Share	64.9	72.7	61.1	97.5	
Dividend per share	2.0	3.0	3.5	4.0	
Operating Ratios (%)					
Gross Profit Margins	54.8	57.3	58.6	57.0	
EBITDA margins	30.0	32.6	33.0	33.3	
PAT Margins	25.5	26.8	25.7	24.7	
Cash Conversion Cycle	166	194	167	170	
Asset Turnover	3.0	2.4	2.2	2.2	
EBITDA conversion Rate	61.7	57.7	79.8	83.4	
Return Ratios (%)					
RoE	19.9	19.6	19.6	17.8	
RoCE	23.4	23.9	24.5	22.4	
RoIC	37.5	34.1	33.0	34.8	
Valuation Ratios (x)					
P/E	40.6	33.5	30.5	28.0	
EV / EBITDA	33.1	26.1	22.6	19.3	
EV / Net Sales	9.9	8.5	7.4	6.4	
Market Cap / Sales	10.4	9.0	7.8	6.9	
Price to Book Value	8.1	6.6	6.0	5.0	
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	3.6	5.3	
Quick Ratio	2.3	2.2	2.6	4.2	
Inventory days	159	183	149	170	
Debtor days	98	117	116	100	
Creditor days	90	106	98	100	

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA; Shubh Mehta, MBA(Tech); Vedant Nilekar, MBA; Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.