

25<sup>th</sup> Oct 2019

## Caplin Point Laboratories - Buy

**CMP : 446**  
**Target Price : 558**  
**Upside : 33%**  
**Stop Loss : 398 (closing basis)**

### About the Company:

Caplin Point was established in 1990 to manufacture a range of ointments, creams and other external applications. The Company was listed in 1994 following its Initial Public Offering (IPO) which was oversubscribed 117 times, the proceeds of which were deployed in setting up a manufacturing facility at Pondicherry. Thereafter, the Company expanded its product range and increased its production capacity. The Company focused on the emerging markets of Latin America, Caribbean, Francophone and Southern Africa and is today one of the leading suppliers of Pharmaceuticals in these regions, with over 2800 product licenses across the globe. The Company is entering into the Regulated Markets for Injectables through its state of the art manufacturing facility, capable of handling Liquid Injectables in Vials, Ampoules, and Lyophilized Vials and Ophthalmic dosages. The facility is approved by US FDA, EU-GMP, ANVISA-Brazil and INVIMA-Colombia. Caplin Point Laboratories Limited is a pharmaceutical company. The Company's product segments include Antibiotics, Non-steroidal anti-inflammatory drugs (NSAIDS), Ophthalmics, Pain Management and Anti-ulcers.

### Investment Thesis

#### US business Outlook

Guidance for US business, Caplin's plan for next 12 to 18 months for the US business they are looking to file at least 9 to 10 ANDA's every financial year they are going into complex Injectables and ophthalmic and also looking for contract manufacturing opportunity for the larger MNCs. they embarked on an initiative to expand our capacity in the current facility to almost double. They intend to complete capacity expansion within next six to seven months. Incorporated Caplin Steriles Ltd, a partnership with investment arms of Fidelity, USA, who will be Capital + Knowledge partners for Caplin, specifically for US market. Caplin has invested Rs 380 crs that they have spent on capex and operating expense in the injectables facility over the last four to five years. they don't have dent on their books.

#### Guidance given by Management

Management has given guidance as they have 5 ANDA's approvals and are working on a pipeline of 30 to 35 ANDA's over next four years and also they are looking CRO called bioequivalence studies starting up in three months. caplin has also created a cost effective alternate in form of best in class quality generics at affordable prices which created a value monopoly for them with comfortable cash flow and reasonable profits. They have brand presence in francophone, West Africa which has been showing promising growth. Management is expecting 15 to 20% growth in topline. They are currently focuses on the cash flow and the profit. They will continue in the form of 20% to 25%.

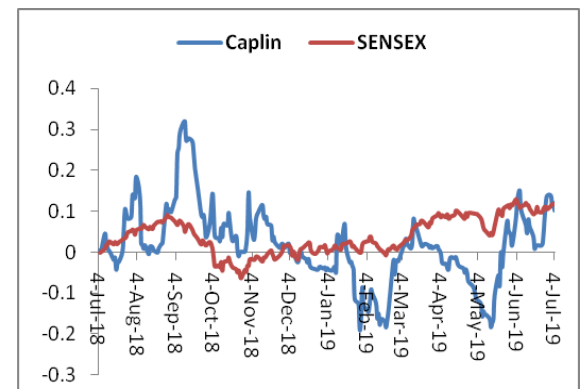
#### Diversified Product Portfolio

Total of 2,850 product licenses spread across Latin America & Africa. Early adopters from Indian pharmaceutical sector to enter West Africa, Central America and the Caribbean Product mix covers 50%+ of WHO essential drug list in countries of operations 90% of the revenues derived from simple generics to complex lifesaving products Latest focus towards complex spaces (Softgels, Long acting Injectables and Ophthalmics, Suppositories) Accounts for larger shelf share across pharmacies on account of a widening product basket Only player in current size segment to have a US FDA approved Injectable plant.

Stock Details	
Market Cap (RsCr)	3,263.23
BSE Code	524742
NSE Code	CAPLIPOINT
Sector/Index	A / S&P BSE500
Year End	March
52 w.High/Low	535/304
Shares in Issue (cr)	7.56
BSE Sensex	39908.06
NSE Nifty	11,949.40

Shareholding Pattern	
Indian Promoters	69.04%
FII's	7.32%
Others	23.63%

Key Ratios	
Div Yield	41.56%
TTM PE	18.86x
ROE	22.10%
TTM EPS (INR)	23.34



## JV with large Chinese distribution firm

Started JV with large Chinese distribution firm JointOwn Pharmaceuticals for entry into China with Intermediates, API and Formulations. Entered US Market in 2017-18 with launch of Ketorolac Inj. through Cycle Pharma initially revised target for ketorolac from 2.5 mn unit to 6.3 mn unit and later with Baxter. Agreements in place for CDMO with Fresenius-Kabi.

## Research & Development Capabilities

5 dedicated R&D setups (3 – DSIR approved and 2 under approval) with capabilities to develop safe and effective formulations. 180+ scientists working on development of varied dosage forms such as Complex Injectables, Liposomes, Microspheres, Suspension Injectables, Modified Release Oral Solid Dosages, Softgel capsules, Suppositories, Ophthalmic Suspensions/Emulsions, and Topicals. Around 25% of current PAT is investment into R&D in 2017-18 – a high number for a company in our size segment. Latest R&D facility at Hyderabad focuses on API R&D in a Kilo lab setup. Scale up and Commercial manufacturing of APIs will be done at CP-2 plant in Gummidipoondi.

## Financials

During the past 5 years, revenue of Caplin grew at a CAGR of 18% while PAT grew at a CAGR of 63.8% in the same period.

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net Sales	402	540	649	766	911
EBITDA	125	194	234	280	337
EBITDA Growth	93%	56%	20%	20%	21%
Net Profit	96	145	177	201	243
Growth	112%	51%	22%	14%	21%
Net Profit Margin	24%	27%	27%	26%	27%
EPS	13	19	23	27	32
P/E	34	23	19	16	14

## Key Business Highlights

### Consolidated 9 months ended December 2018

Revenue was Rs. 477 Cr upto 9M FY19 as compared to Rs. 406.2 Cr in the corresponding period of FY18, an increase of 18%. EBITDA stood at Rs. 182.9 Cr as compared to Rs. 155.8 Cr during 9M FY18, an increase of 17% and EBITDA Margin stood at 38%. Net profit was Rs. 126.7 cr for 9m FY19 as compared to Rs. 109.3 Cr in 9M FY18, an increase of 16%

### Standalone Q3 FY19 (YoY)

Revenue was Rs 147.1 Crs for Q3 FY19 as compared to Rs 113.1 Cr in the corresponding period of FY18, an increase of 30%. EBITDA stood at Rs 56.5 Cr as compared to Rs 39.2 Cr in the corresponding period of FY18, an increase of 44%. Net profit was Rs. 36.9 Cr for Q3 FY19 as compared to Rs. 23.6 Cr in Q3 FY18, an increase of 56%.

Revenue break up 85% revenue come from Latin America

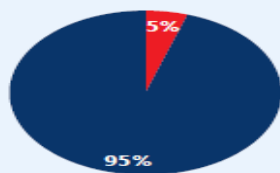
13% from Francophone, Africa and Angola

4% Revenue come from US business (US Injectable business)

90% of the revenues derived from simple generics to complex lifesaving products

Built an end to end business with focus on bottom of the pyramid

FY 11-12

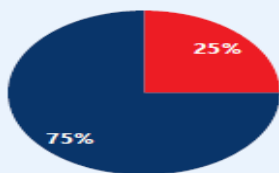


95%

5%

Branded

FY 17-18



75%

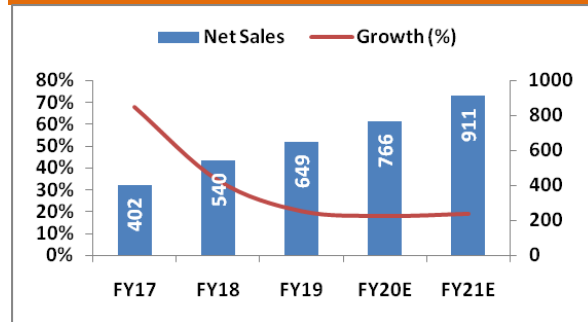
25%

Non-Branded

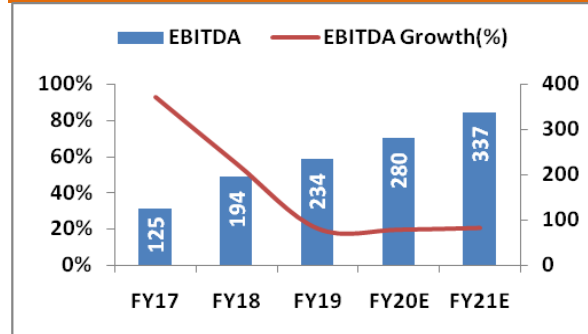
Branded sales increased from 5% of total revenues in 2012 to 25%

## Graphs & Charts

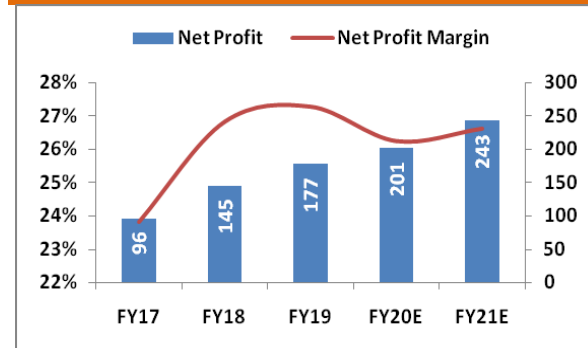
### Net Sales Trend



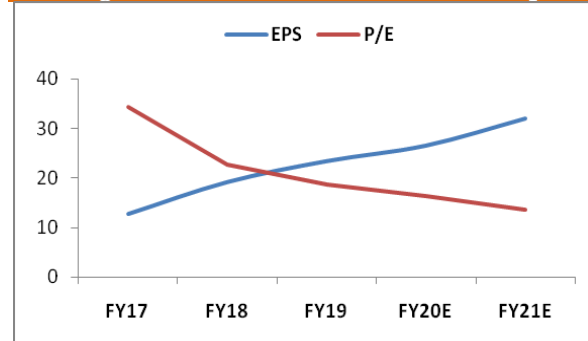
### EBITDA & EBITDA Growth



### Net Profit Trend and Margin



### Earning Per share Growth with PE multiple



## Risk & Concern

A slowdown in the economy might affect the Company's ability to fund operations.  
The Company passes on any increase in costs due to currency fluctuations as a part of its product cost.  
The Company's dependence on a particular region could hamper its growth.  
Changing policies regarding generic medicines might impact the business of the Company

## Valuation

We expect the company to maintain strong top line growth as per management it would be grow between 15 to 20% supported by US Injectables business, JV with large Chinese distribution firm and diversified Product, while operating profit will be benefited from low operating expenses and doubling the capacity of new product with in next 6 to 7 months time period. PAT will increase at 28% CAGR over FY17-21E and lead to improvement in ROE & ROCE. Buy rating on Caplin with target price of Rs based on FY21 EPS keeping with multiple 18.5x as indicating an upside of 33%.

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