



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

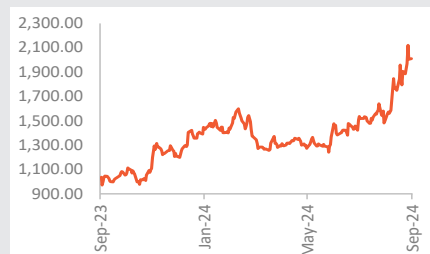
Company details

Market cap:	Rs. 15,190 cr
52-week high/low:	Rs. 2,158/950
NSE volume: (No of shares)	3.58 lakh
BSE code:	524742
NSE code:	CAPLIPOINT
Free float: (No of shares)	2.2 cr

Shareholding (%)

Promoters	70.6
FII	3.4
DII	1.5
Others	24.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	28.7	37.4	46.4	93.2
Relative to Sensex	26.3	30.7	36.3	71.7

Sharekhan Research, Bloomberg

Caplin Point Laboratories

New US Market Entry Could Drive Key Growth

Pharmaceuticals

Sharekhan code: CAPLIPOINT

Reco/View: Positive

CMP: Rs. 2,004

Upside potential: 18%



Upgrade



Maintain



Downgrade

Summary

- ♦ The company has obtained approval for distribution in 45 out of 50 U.S. states.
- ♦ Company holds 24 ANDAs and emphasizes efficient distribution over conventional marketing strategies.
- ♦ The new distribution approach involves sourcing products from contract manufacturing organizations (CMOs) in India and other countries.
- ♦ The company plans to establish a direct presence in the U.S. market, with intentions to introduce over 30 products within the first 12-15 months with its first product launch due in Oct 24.

Caplin is strategically positioned for significant growth through a series of well-planned initiatives that boost its market presence and operational efficiency. The company has reached a key milestone by securing distribution approvals in 45 out of 50 U.S. states, which not only expands its market reach but also lays a strong foundation for nationwide expansion. Caplin is set to introduce its first product in the U.S. in October 2024. Looking forward, the company plans to further solidify its U.S. presence by launching over 30 new products within the next 12 to 15 months. This bold product rollout strategy aims to quickly enhance market penetration and seize emerging opportunities, positioning Caplin for substantial growth and a more prominent role in the pharmaceutical industry.

♦ **Leverages 24 ANDAs with a focus on efficient distribution Over Traditional Marketing:** Caplin Point has strategically positioned itself in the pharmaceutical market by holding 24 Abbreviated New Drug Applications (ANDAs), which underscores its robust portfolio of generic drug offerings. The company prioritizes efficient distribution as a cornerstone of its business model, opting for this approach over traditional marketing strategies. By focusing on optimizing its distribution network, Caplin Point aims to ensure that its products are readily available to healthcare providers and patients, thereby enhancing market access and improving service delivery. This emphasis on distribution efficiency allows the company to streamline operations, reduce costs, and respond more agilely to market demands, all while maintaining a competitive edge in the pharmaceutical industry.

♦ **Secures distribution approval in 45 u.s. States, Expanding Market Presence:** Caplin Point has achieved a significant milestone by securing approval for distribution across 45 out of the 50 U.S. states. This accomplishment not only demonstrates the company's strong regulatory compliance but also reflects its strategic expansion efforts within the American market. Gaining approval in such a large number of states provides Caplin Point with a substantial foothold and positions it well to leverage opportunities for growth and market penetration. By navigating the complex regulatory landscape and meeting the diverse requirements across numerous jurisdictions, the company has laid a solid foundation for its continued success and increased presence in the U.S. pharmaceutical sector.

♦ **Plans Major U.S. Market Entry with 30+ Product Launches Starting October 2024:** Caplin Point is setting ambitious goals for its entry into the U.S. market by planning to establish a direct presence and significantly enhance its footprint. The company aims to introduce over 30 new products within the first 12 to 15 months of its market entry, demonstrating a robust pipeline and a commitment to delivering a diverse range of offerings. The initial product launch is scheduled for October 2024, marking the beginning of this strategic expansion. By targeting a substantial number of product introductions in a relatively short timeframe, Caplin Point seeks to quickly gain traction, build brand recognition, and capitalize on market opportunities in the competitive U.S. pharmaceutical landscape. This proactive approach highlights the company's dedication to rapid growth and its confidence in navigating the complexities of the American market.

Revision in estimates – We have updated our estimates to account for the upcoming U.S. launch next month and the introduction of an additional 25-30 products over the next 12-15 months. We have also included projections for FY27 in our revised estimates.

Our Call

Valuation: Maintain Positive view with 18% upside: Revenue growth is being fueled by increased traction in both the U.S. and emerging markets. With a strong order book and ANDA approvals secured, management is confident in achieving around 50% year-over-year revenue growth in the U.S., driven by upcoming launches following approvals in 45 out of 50 states—representing about 15% of revenues, particularly in niche high-value injectables and ophthalmic segments for FY25E. Caplin is also nearing the completion of its planned Rs 600-650 crore capital expenditure, which aims to enhance production capacities, expand the product range, and achieve backward integration for most products. Near-term growth is expected to be driven by several key factors: robust expansion in Latin America, the launch of products under its own label in the U.S., a strong pipeline of 33 ANDAs to be filed in FY25E in the U.S., a shift towards branded generics, and further growth in branded Rest of World (RoW) markets. Given these growth drivers, we maintain a positive outlook on the stock. Currently trading at approximately 24x/20x FY26E/FY27E EPS estimates, the stock is positioned to benefit from the nearing end of the capex cycle and expected productivity gains, leading to an estimated upside potential of around 18%.

Key Risks

- 1) Adverse change in the regulatory landscape and a delay in procuring product approvals can affect growth prospects.
- 2) Supply disruptions from China
- 3) Adverse forex movements.

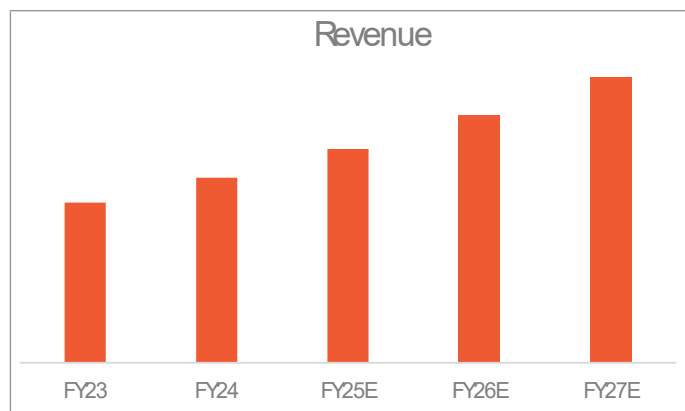
Valuation

Particulars	FY23A	FY24A	FY25E	FY26E	FY27E
Total Sales	1467	1694	1957	2260	2610
Operating Profits	441	551	655	768	914
OPM (%)	30%	33%	34%	34%	35%
Reported PAT	377	461	551	641	751
EPS (Rs)	49.69	60.73	72.55	84.40	98.93
PER (x)	40x	33x	28x	24x	20x
EV/Ebitda (x)	33x	27x	22x	18x	15x
ROCE (%)	21%	21%	22%	21%	20%
RONW (%)	20%	20%	19%	18%	21%

Source: Company; Sharekhan estimates

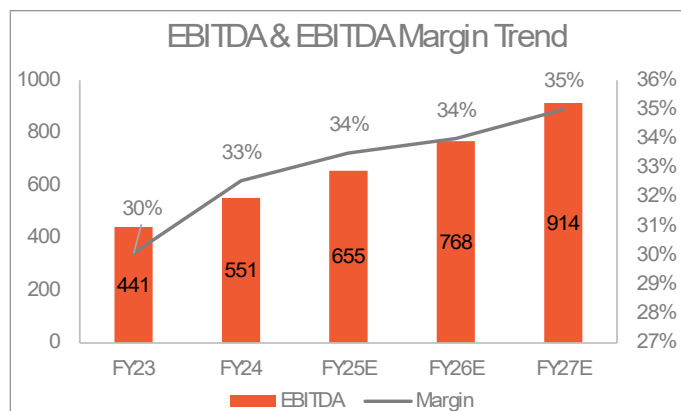
Financials in charts

Revenue Trend FY23-27E



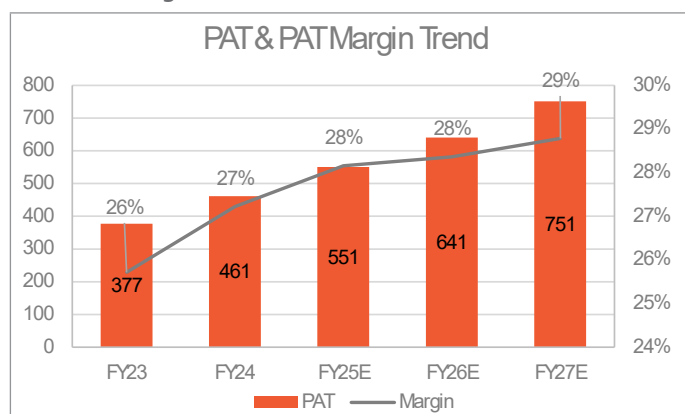
Source: Company, Sharekhan Research

EBITDA & EBITDA Margin Trend



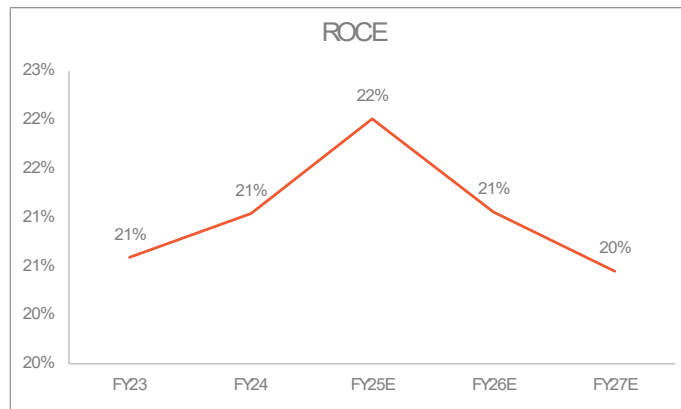
Source: Company, Sharekhan Research

PAT & PAT Margin Trend



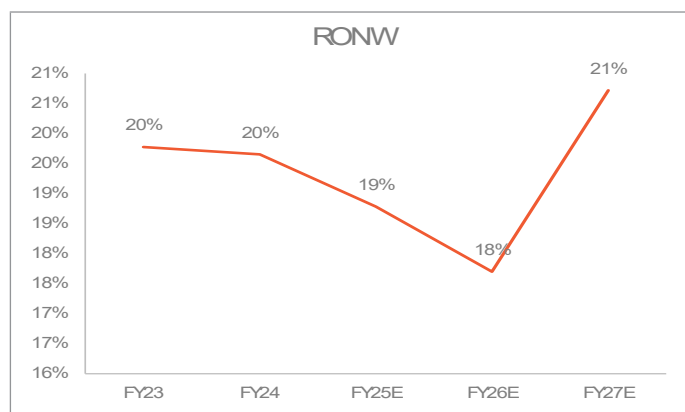
Source: Company, Sharekhan Research

ROCE Trend



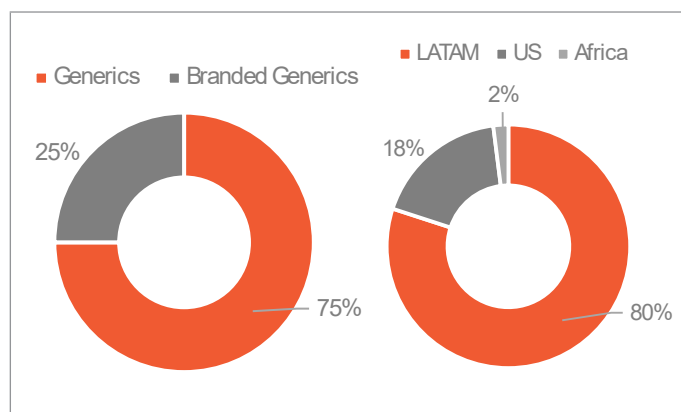
Source: Company, Sharekhan Research

ROE Trend



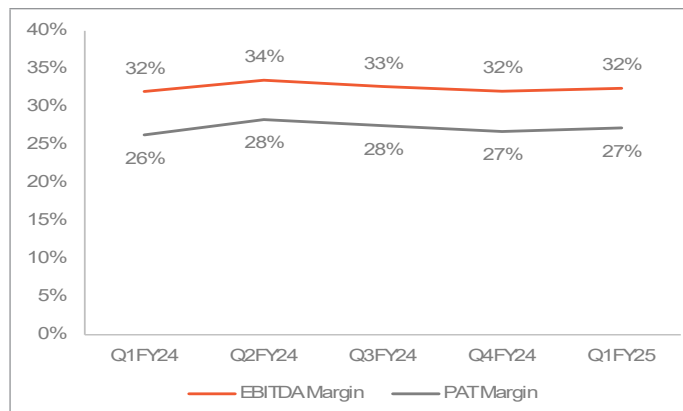
Source: Company, Sharekhan Research

Revenue Mix



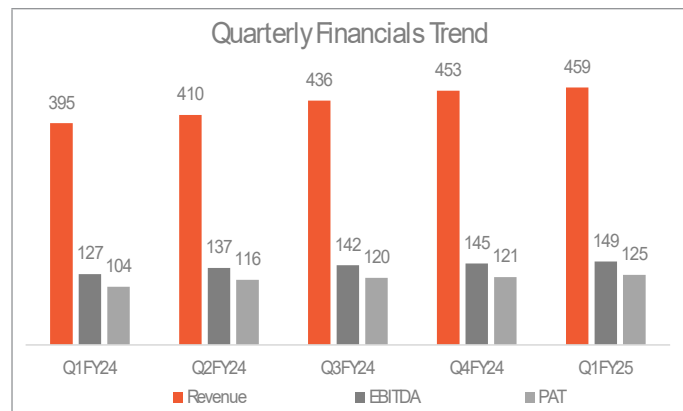
Source: Company, Sharekhan Research

Quarterly Margin Trend



Source: Company, Sharekhan Research

Quarterly Financial Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global peers. Multiple factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing an easing of input costs – of raw material, freight and power, which should aid the sector expand margins. The sector is also witnessing an easing of price erosion followed by increasing contribution from product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases the operational profit of companies. The sector is mainly a low-debt sector and increasing operational profit followed by experiencing the advantage of low tax rate due to its operations in the SEZ sector, hence overall, we stay positive on the sector.

■ Company Outlook – Well-placed to harness growth opportunities

Caplin is predominantly an established player in the semi-regulated markets of Latin America, with Central America constituting a large share of revenues, followed by South America. After establishing itself as a player with a sizeable presence in semi-regulated markets, the company is now looking to penetrate regulated markets. Newer markets in the US offer substantial growth opportunities. However, given the company's strong capabilities, we believe Caplin would be able to make its presence felt in new markets. In the US, Caplin is targeting the fast-growing and lucrative injectable space. Moreover, it has a healthy pipeline of new launches, which would aid growth in the US and management is eyeing \$100 million of the topline from the US over the next 5-6 years. In the existing markets of LatAm, the company is looking to foray in bigger markets of Brazil and Mexico, while also enhancing the geographical reach in existing markets. The company has filed for product registrations in Mexico and looks to foray there soon, which would be later followed by a foray in Brazil. Therefore, a focus on tapping new geographies for growth, a healthy new product pipeline, and increasing geographic penetration in existing markets would be key growth drivers for Caplin. By flourishing in lesser-known LatAm markets and foray into the US injectables markets, Caplin is gradually building its presence in the developed market and this offers ample growth visibility going ahead. The geographic and product expansion plans are well backed by capex plans, which would enable Caplin to capitalise on growth opportunities in its respective markets.

■ Valuation – Maintain Positive view with 18% upside

Revenue growth is being fueled by increased traction in both the U.S. and emerging markets. With a strong order book and ANDA approvals secured, management is confident in achieving around 50% year-over-year revenue growth in the U.S., driven by upcoming launches following approvals in 45 out of 50 states—representing about 15% of revenues, particularly in niche high-value injectables and ophthalmic segments for FY25E. Caplin is also nearing the completion of its planned Rs 600-650 crore capital expenditure, which aims to enhance production capacities, expand the product range, and achieve backward integration for most products. Near-term growth is expected to be driven by several key factors: robust expansion in Latin America, the launch of products under its own label in the U.S., a strong pipeline of 33 ANDAs to be filed in FY25E in the U.S., a shift towards branded generics, and further growth in branded Rest of World (RoW) markets. Given these growth drivers, we maintain a positive outlook on the stock. Currently trading at approximately 24x/20x FY26E/FY27E EPS estimates, the stock is positioned to benefit from the nearing end of the capex cycle and expected productivity gains, leading to an estimated upside potential of around 18%.

About the company

Caplin was established in 1990 to manufacture a range of ointments, creams, and other external applications and till date has transformed itself to be a generic formulations player with a differentiated geographical presence. Caplin is primarily a generic formulation company present across a wide range of therapies and derives 100% of its revenue from export markets. LaTAm constitutes around 90% of its overall sales, while the balance 10% is from regulated markets – US. In LaTAm markets, the company has a strong presence in the markets of Guatemala, which constitutes around one-third of LaTAm revenue, while the balance is spread across El Salvador, Nicaragua, Ecuador, and Honduras among others. Over the years, the company has gained a leading position and features either among the top three or five in these respective markets. Caplin procures a part of its supplies from China for LaTAm markets (around 40%), while the balance is from in-house production and vendors based in India. China sourcing enables the company to garner better operational efficiencies.

Investment theme

After establishing itself as a player with a sizeable presence in semi-regulated markets, Caplin is now looking to penetrate the regulated markets of the US. Newer markets such as the US offer substantial growth opportunities. However, given the company's strong capabilities, we believe Caplin would be able to make its presence felt in new markets also. In the US, Caplin is targeting the fast growing and lucrative injectable space. Moreover, the company has a healthy new launch pipeline, which would aid its growth in the US. In the existing markets of LaTAm, the company is looking to foray in the bigger markets of Brazil and Mexico, while enhancing the geographical reach and expanding the product portfolio in existing markets. Therefore, focus on tapping new geographies for growth, a healthy new products pipeline, and increasing geographic penetration in existing markets would be the key growth drivers for Caplin's LaTAm business. The geographic and product expansion plans are well backed by capex plans, which would enable Caplin to capitalize on growth opportunities in respective markets. Over the long-term horizon, the company looks to achieve \$100 million in revenue from the US, while it looks to double its revenue in LaTAm over FY2020-FY2025.

Key Risks

1) Any adverse change in the regulatory landscape and delay in procuring product approvals can impact growth prospects; 2) Supply disruptions from China; 3) Adverse forex movements.

Additional Data

Key management personnel

Chingelput Chellapan Paarthipan	Chairman
Dr. Shridhar Ganesan	Managing Director
D Muralidharan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	MAY INDIA PROPERTY	2.79
2	INVESTOR EDUCATION & PROTECTN FD	2.72
3	UTI Asset Management Co Ltd	1.47
4	Dimensional Fund Advisors LP	0.49
5	FIRST DIMENSION HLDG PVT LTD	0.49
6	Principal Financial Group Inc	0.28
7	State Street Corp	0.20
8	KIRAVIZ PROPERTIES & CONSULTANCY	0.20
9	WisdomTree Inc	0.19
10	BlackRock Inc	0.12

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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