

CMP: ₹ 1275

Target: ₹ 1535(20%)

Target Period: 12 months

March 19, 2024

BUY

Well-poised to maintain growth with focused capex...

About the stock: Caplin derives almost entire revenues through exports with 83% of revenues from LATAM and ROW and the balance 17% from the US (Caplin Steriles). In some of the Central American LATAM markets, it has an end-to-end business model through last mile logistical solutions developed over the years.

- For LATAM markets, it outsources ~45% of products (China: 35%; Indian vendors: 10%) and in-house manufacturing remains at ~55%
- Caplin Steriles caters to the rapidly growing demand for injectable products in the US and other regulated markets.

Investment Rationale

- Q3FY24 numbers driven by strong Steriles (US) traction and steady LATAM growth – Revenues grew 11% YoY to ₹ 436 crore, driven by 71% growth to ₹ 89 crore in Caplin Steriles which is mainly US. LATAM markets grew 12% YoY to ₹ 347 crore. EBITDA grew 31% YoY to ₹ 142.3 crore driven by better GPM margins and lower total expenditure. EBITDA margins stood at 32.7%. PAT grew 21% to ₹ 117 crore.
- Firm expansion plans in place – The company has undertaken significant capex to the tune of ₹ 650-700 crore (~₹ 460 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.
- After achieving a critical mass in Central American LATAM markets, the company is aggressively preparing itself for entering into bigger LATAM markets of Columbia, Mexico, Brazil and Chile. It has identified tasks for filing and manufacturing for new products. On the US front, Caplin Steriles has developed and filed 37 ANDAs in the US on its own and with partners, with 25 approvals so far. 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. It is putting more automated new production lines for a better throughput and is also looking to expand its own front-end sales force in all the US states for better unit economics.

Rating and Target price

- We recommend BUY on the back of 1) Consistent growth from legacy LATAM markets and a calculated roadmap to penetrate into bigger LATAM markets, 2) Strong momentum in the Steriles in the US with focus on both manufacturing and front-end, and 3) Calculated capex decisions to expand capacity, widen portfolio and backward integration. We value the company at 25x FY26E of ₹ 61.5 with a target of ₹ 1535. We believe the premium valuation is justified given the revenue visibility, ability to generate FCF on a consistent basis despite capex momentum and strong debt free balance sheet.



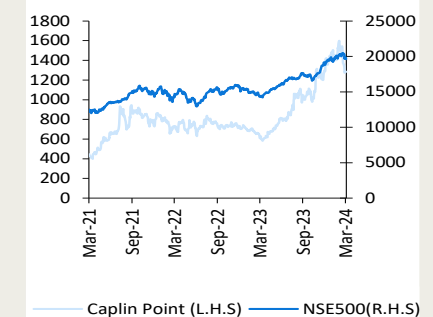
Particulars

Particular	Amount
Market Capitalisation	Rs 9766 crore
Debt (FY23)	Rs 5 crore
Cash (FY23)	Rs 493 crore
EV	Rs 9278 crore
52 week H/L	1619/575
Equity capital	Rs 15.2 crore
Face value	Rs 2

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	70.7	70.6	70.6	70.6
FIIs	2.4	2.7	3.1	2.8
DIIIs	0.6	0.3	0.2	0.4
Others	26.3	26.4	26.1	26.1

Price Chart



Recent Event & Key risks

Signs MOU with TN Government to invest ₹ 700 crore over a period of 5 years

Key Risk: (i) Regulatory risk due to growing US contribution (ii) Slower ramp-up in new markets

Research Analyst

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	CAGR (FY20-23)	FY24E	FY25E	FY26E	CAGR (FY23-26E)
Revenues	863.2	1061.3	1269.4	1466.7	19.3	1687.4	1910.9	2153.9	13.7
EBITDA	260.1	328.7	394.7	440.0	19.2	544.6	597.3	678.5	15.5
EBITDA Margins (%)	30.1	31.0	31.1	30.0		32.3	31.3	31.5	
Net Profit	215.1	242.3	299.8	374.2	20.3	444.1	417.2	467.0	7.7
EPS (Adjusted)	28.3	31.9	39.5	49.2		58.4	54.9	61.5	
PE (x)	45.4	40.3	32.6	26.1		22.0	23.4	20.9	
RoCE (%)	26.5	25.4	25.3	23.4		23.8	20.3	19.6	
RoE (%)	22.7	20.4	20.2	19.9		19.3	15.5	14.9	

Quarterly summary

(? crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Total Operating Income	274.4	278.7	300.4	303.5	326.2	339.2	346.3	359.1	372.0	389.3	395.3	410.1	435.5	17.1	6.2
Raw Material Expenses	123.9	118.7	136.0	125.8	143.8	151.9	157.2	165.5	163.9	176.6	178.6	164.1	190.1	16.0	15.9
% of Revenue	45.2	42.6	45.3	41.4	44.1	44.8	45.4	46.1	44.1	45.4	45.2	40.0	43.7	-41 bps	363 bps
Gross Profit	150.5	160.0	164.5	177.8	182.4	187.3	189.1	193.6	208.1	212.7	216.7	246.0	245.4	17.9	-0.2
Gross Profit Margin (%)	54.8	57.4	54.7	58.6	55.9	55.2	54.6	53.9	55.9	54.6	54.8	60.0	56.3	41 bps	-363 bps
Employee Expenses	25.5	25.9	26.7	29.0	29.4	30.2	32.4	34.0	35.5	36.0	35.1	35.1	36.7	3.2	4.5
% of Revenue	9.3	9.3	8.9	9.5	9.0	8.9	9.4	9.5	9.6	9.2	8.9	8.6	8.4	-113 bps	-13 bps
Other Expenditure	41.1	48.5	45.2	47.6	52.0	57.1	54.5	54.0	64.3	52.8	55.1	73.5	66.4	3.4	-9.6
% of Revenue	15.0	17.4	15.0	15.7	15.9	16.8	15.7	15.0	17.3	13.6	13.9	17.9	15.3	-202 bps	-266 bps
Total Expenditure	190.5	193.0	207.8	202.4	225.2	239.3	244.2	253.5	263.7	265.4	268.8	272.7	293.2	11.2	7.5
% of Revenue	69.4	69.3	69.2	66.7	69.0	70.5	70.5	70.6	70.9	68.2	68.0	66.5	67.3	-356 bps	84 bps
EBITDA	83.9	85.7	92.6	101.2	101.0	99.9	102.2	105.6	108.3	123.9	126.5	137.4	142.3	31.4	3.6
EBITDA Margin (%)	30.6	30.7	30.8	33.3	31.0	29.5	29.5	29.4	29.1	31.8	32.0	33.5	32.7	356 bps	-84 bps
Other Income	5.8	9.5	9.2	8.5	9.5	11.5	13.9	16.5	14.2	11.4	12.0	20.4	17.2	21.4	-15.9
Interest	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.4	0.2	0.3	0.2	0.2	-52.8	-5.6
Depreciation	9.3	9.9	12.0	11.7	11.7	11.5	11.0	11.5	11.4	11.1	11.4	11.8	13.9	21.6	18.2
PBT	80.2	85.0	89.5	97.7	98.7	99.9	105.1	110.5	110.7	124.0	126.9	145.9	145.4	31.4	-0.3
Total Tax	14.1	17.1	18.0	20.9	19.4	19.1	18.8	18.4	14.4	22.8	22.8	29.9	25.6	78.3	-14.3
Tax rate (%)	17.5	20.1	20.1	21.4	19.6	19.1	17.9	16.7	13.0	18.4	17.9	20.5	17.6	463 bps	-287 bps
PAT	64.5	66.4	70.9	75.0	75.0	79.1	85.0	91.7	96.4	101.1	104.2	116.0	119.8	24.3	3.2
Minority Interest	1.7	1.5	0.7	1.8	4.3	1.8	1.3	0.4	-0.1	0.1	2.6	2.9	2.6		
PAT after MI	62.8	64.8	70.2	73.1	70.6	77.3	83.7	91.3	96.5	101.0	101.5	113.1	117.2	21.4	3.6
PAT Margin (%)	22.9	23.3	23.4	24.1	21.6	22.8	24.2	25.4	25.9	25.9	25.7	27.6	26.9	97 bps	-68 bps
EPS (Adjusted)	8.3	8.5	9.2	9.6	9.3	10.2	11.0	12.0	12.7	13.3	13.4	14.9	15.4		

Financial Tables

Profit and loss statement (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Total Operating Income	1,466.7	1,687.4	1,910.9	2,153.9
Growth (%)	15.5	15.1	13.2	12.7
Raw Material Expenses	663.2	731.5	845.4	947.7
Gross Profit	803.5	955.9	1,065.5	1,206.2
Gross Profit Margins (%)	54.8	56.6	55.8	56.0
Employee Expenses	138.0	148.1	172.0	204.6
Other Expenditure	225.5	263.2	296.2	323.1
Total Operating Expenditure	1,026.7	1,142.8	1,313.6	1,475.4
EBITDA	440.0	544.6	597.3	678.5
Growth (%)	11.5	23.8	9.7	13.6
Interest	0.8	0.8	0.8	0.8
Depreciation	45.0	53.4	116.9	141.5
Other Income	56.0	67.3	76.2	85.9
PBT before Exceptional Items	450.2	557.7	555.8	622.1
Less: Exceptional Items	0.0	-0.2	0.0	0.0
PBT after Exceptional Items	450.2	557.9	555.8	622.1
Total Tax	74.4	102.8	127.8	143.1
PAT before MI	375.8	455.1	427.9	479.0
Minority Interest	1.7	11.0	10.7	12.0
PAT	374.2	444.1	417.2	467.0
Growth (%)	24.8	18.7	-6.1	11.9
EPS (Adjusted)	49.2	58.4	54.9	61.5
Other income as % of (Cash+ii)	8%	7%	6%	5%

Cash Flow Statement (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Profit/(Loss) after taxation	363.2	444.1	417.2	467.0
Add: Depreciation & Amortization	45.0	53.4	116.9	141.5
Net Increase in Current Assets	-213.4	-131.7	-73.4	-149.2
Net Increase in Current Liabilities	74.7	41.0	36.4	33.5
Others	2.2	0.8	0.8	0.0
CF from Operating activities	271.7	407.6	497.9	493.6
(Purchase)/Sale of Fixed Assets	-193.8	-200.0	-150.0	-100.0
Investments	-141.3	-100.0	-100.0	-100.0
Others	117.1	-0.5	-0.5	-0.5
CF from Investing activities	-217.9	-300.5	-250.5	-200.5
Proceeds from Preference shares	0.0	0.0	0.0	0.0
(inc)/Dec in Loan	2.9	0.0	0.0	0.0
Dividend & Dividend tax	-30.3	-22.8	-26.6	-30.4
Other	-0.8	-0.8	-0.8	-0.8
CF from Financing activities	-28.2	-23.6	-27.4	-31.2
Net Cash Flow	25.6	83.5	220.0	261.9
Cash and Cash Equivalent	463.0	493.5	576.9	796.9
Cash	488.6	576.9	796.9	1,058.8
Free Cash Flow	77.9	207.6	347.9	393.6
Free cash flow yield	1%	2%	4%	4%

Balance Sheet (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Equity Capital	15.2	15.2	15.2	15.2
Reserve and Surplus	1,865.3	2,286.6	2,677.3	3,113.9
Total Shareholders funds	1,880.5	2,301.8	2,692.5	3,129.1
Total Debt	5.2	5.2	5.2	5.2
Minority Interest	26.8	26.8	26.8	26.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Other Non Current Liabilities	15.5	16.2	17.0	17.9
Source of Funds	1,927.9	2,350.0	2,741.5	3,179.0
Gross Block - Fixed Assets	488.9	703.9	868.9	1,033.9
Accumulated Depreciation	209.1	262.5	379.4	520.8
Net Block	279.8	441.4	489.5	513.0
Capital WIP	220.7	205.7	190.7	125.7
Fixed Assets	500.5	647.1	680.2	638.7
Investments	229.7	329.7	429.7	529.7
Other non-Current Assets	65.9	67.2	68.6	69.9
Inventory	288.2	340.7	393.8	441.4
Debtors	394.1	462.3	471.2	560.6
ST Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	219.5	230.5	242.0	254.1
Cash	493.5	576.9	796.9	1,058.8
Total Current Assets	1,395.3	1,610.5	1,903.9	2,315.0
Creditors	164.4	200.4	231.6	259.6
Provisions	0.0	0.0	0.0	0.0
Other Current Liabilities	99.1	104.0	109.2	114.7
Total Current Liabilities	263.5	304.5	340.9	374.3
Net Current Assets	1,131.8	1,306.0	1,563.1	1,940.6
Application of Funds	1,928.0	2,350.1	2,741.5	3,179.0
	0.0	0.0	0.0	0.0

Ratio Analysis				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
Reported EPS	49.2	58.4	54.9	61.5
Cash EPS	53.2	62.4	66.8	76.1
BV per share	247.4	302.9	354.3	411.7
Cash per Share	64.9	75.9	104.9	139.3
Dividend per share	2.0	3.0	3.5	4.0
Operating Ratios (%)				
Gross Profit Margins	54.8	56.6	55.8	56.0
EBITDA margins	30.0	32.3	31.3	31.5
PAT Margins	25.5	26.3	21.8	21.7
Cash Conversion Cycle	166.2	170.0	160.0	165.0
Asset Turnover	3.0	2.4	2.2	2.1
EBITDA conversion Rate	61.7	74.8	83.4	72.8
Return Ratios (%)				
RoE	19.9	19.3	15.5	14.9
RoCE	23.4	23.8	20.3	19.6
RoC	37.5	37.5	34.4	35.0
Valuation Ratios (x)				
P/E	26.1	22.0	23.4	20.9
EV / EBITDA	20.7	16.4	14.4	12.2
EV / Net Sales	6.2	5.3	4.5	3.8
Market Cap / Sales	6.7	5.8	5.1	4.5
Price to Book Value	5.2	4.2	3.6	3.1
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	3.4	3.2	6.2
Quick Ratio	2.3	2.3	2.1	5.0
Inventory days	158.6	170.0	170.0	170.0
Debtor days	98.1	100.0	90.0	95.0
Creditor days	90.5	100.0	100.0	100.0

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