

## Background & Business

Caplin Point Laboratories Ltd. (Caplin) incorporated in 1990 is engaged in the manufacture of a wide range of ointments, creams and other external application preparations in addition to the regular segments of pharmaceutical formulations. At a time most drug makers were exclusively focusing on the United States of America (USA), Caplin focused on the semi-regulated markets of Latin America. It started its journey by selling ointments and creams in physically risky markets such as Angola, with the top 5 markets accounting for 70-75% of its FY17 revenues. Caplin has been operating in Latin America over the last 13 years and has strengthened its marketing infrastructure and brand goodwill over the years. After over a decade of selling generics, the company is poised for the next leg of growth through its foray into the US injectibles in partnership with Fresenius Kabi.

## Investment Thesis

- a) **Foray into unregulated and untapped markets of Latin America** (Caplin Point has carved a niche for itself with a focus on semi regulated markets of Latin America and Africa. It started out as a marketing and manufacturing outfit aimed at largely ignored or physically risky markets such as Guinea, Mali, Somalia and Angola. Indeed, company was virtually alone in going to such places, which were very far from India or China, perceived to be risky or individual country markets were too small for the larger peers. While African markets are low-ticket, high-volume markets, “bottom-of-the-pyramid” purchasing power in Latin America is much higher compared to “bottom of-the-pyramid” purchasing power in India).
- b) **Asset light business model** (60% of the revenues generated from traded goods. The company outsources non-core manufacturing and sells the same in its targeted export market. The company has entered business strengthening outsourcing relationships with two of the largest formulation manufacturers in China coupled with quality control laboratories in China. These initiatives enable company to minimize its overhead costs and expand EBITDA margins. Additionally, the company operates with minimal inventory requirements and low receivables thus there is low working capital requirements as well).
- c) **Last mile connectivity** (Unlike several domestic pharma companies that rely on a distributor in many semi-regulated and non-US geographies, Caplin has strived to build last mile logistical solutions for exclusive agents, which assists in reaching right up to retailer/pharmacy level. It enables distributors to build warehouses and address the pharmacies directly, which leads to faster inventory turns at 8x that are nearly twice the industry average. Company appoints its own employees to oversee marketing and locals to do the actual ‘feet on street’ selling).

## Outlook

At a time when most pharmaceutical companies have unilaterally focused on US for spurring growth, Caplin Point has defied all odds to successfully navigate and sell generics in relatively unknown markets that carried an element of physical risk. The company’s well-established strategies have paid off during the last few years resulting into strong top and bottomline growth with expanded EBITDA margins. After establishing itself in Latin America’s niche market, the company is now foraying into developed pharmaceutical markets of the US and EU. Debt free status and huge cash on balance sheet will aid investing in future growth.



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Performance : 62%  
Recommendation : OPEN

