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February 1, 2023

The BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001	**The National Stock Exchange of India Limited** Exchange Plaza, Bandra-Kurla Complex Bandra (E), Mumbai – 400 051
Scrip Code: 541540	Scrip Code: SOLARA

Dear Sir / Madam,

Subject: Transcript of the earnings conference call for the quarter ended December 31, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclose the transcript of the earnings conference call for the quarter ended December 31, 2022, conducted after the meeting of Board of Directors held on January 25, 2023, for your information and records.

The above information is also available on the website of Company at: https://solara.co.in/investor-relations/stock-exchange-communication/#investor_update

Thanking you,
Yours faithfully,

For Solara Active Pharma Sciences Limited

SUDDAPALLI MURALIKRISHNA
Digitally signed by SUDDAPALLI MURALIKRISHNA
Date: 2023.02.01 12:29:02 +05'30'

S. Murali Krishna
Company Secretary

Encl. as above

“Solara Active Pharma Sciences Limited's Q3FY23 Earnings Conference Call”

January 25, 2023

MANAGEMENT: **MR. JITESH DEVENDRA – MANAGING DIRECTOR, SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. S. HARIHARAN – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ABHISHEK SINGHAL- SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Solara Active Pharma Sciences Limited's Q3 FY'23 Earnings Conference Call. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you, and over to you Mr. Abhishek Singhal.

Abhishek Singhal: A very good afternoon to all of you and thank you for joining us today for Solara Active Pharma Sciences Earnings Conference Call for the third Quarter and nine months-ended Financial Year 2023.

Today, we have with us Jitesh – Solara's M.D. and Hari – Solara's ED & CFO to share the Highlights of the Business and Financials for the Quarter.

I hope you have gone through our "Results Release" and the "Quarterly Investor Presentation" which have been uploaded on our website as well as stock exchanges website. The transcript of this call will be available in a week's time on the company's website.

Please note that today's discussion will be forward-looking in nature and must be viewed in relation to risk pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to investor relations team.

I now hand over the call to management to make the opening comments. Jitesh?

Jitesh Devendra: Thank you, Abhishek. Good afternoon, everyone. Thank you for joining the call today.

Before I get into the financial results, we take this opportunity on behalf of the promoters, the board, the management, we like to thank all our investors, our bankers, our partners, customers, suppliers, for reposing faith in Solara as we have returned to positive growth territory. So, thank you all once again.

Coming to the Q3 performance, the Q3 FY'23 had been a turnaround quarter for Solara, as we have achieved most of the targeted goals when we embarked on the course correction journey last year.

We have crossed our historical quarterly revenue run rate of Rs.400 crores and our revenue stood at Rs.401.9 crores grew by 17% sequentially. Gross margins improved by 308 basis points, and it stood at 47.3%. EBITDA grew 70% sequentially standing at Rs.51 crores.

We like to reiterate that our course correction strategy has started to yield positive results, which is visible from our Q3 performance. We continue to focus and build on the actions that we have initiated in this financial year to get back to growth both in terms of revenue and margins, improving our cash flows and strengthening our balance sheet.

Firstly, our base business has shown strong growth momentum in Q3 FY'23 when compared with the previous two quarters.

Regulated market revenues stood at 72% during the Q3 FY'23. Regulated markets contribution has seen some improvement due to sales from our focus market, which is Brazil. Our base business has achieved EBITDA margins of 17.7%.

Coming to our R&D, we have filed two new US DMF and are on track to file another four new DMF in Q4 FY'23, which brings us to a total of six new DMF for this financial year.

Apart from the new products, we continue to expand our geographical presence in existing products. Five market extensions were done for five existing products during the Q3 FY'23, bringing to a total of nine market extensions for fifteen existing products for nine months FY'23.

The investments we have made in new products since the inception of Solara are yielding us results. We continue to invest in R&D for strengthening our generic API portfolio and CRAMS to meet the growing demands for our existing products filed as part of increasing market share through market extensions and addressing regulatory requirements for new products.

Coming to Vizag, we had started manufacturing of intermediates and final APIs during Q3 and sales were made to semi-regulated markets, which had led to a reduction in the under-recovery.

We reiterate that we are confident about our Vizag strategy, and it is playing to the plan. We are making satisfactory progress for regulatory accreditation for our Vizag facility, first one being the CEP approval for Ibuprofen, while we wait for US FDA inspection, which has been triggered by one of our major customers. Out of the two new DMFs which we have filed in Q3, one of them has been filed from Vizag.

So, to give an update on our Cuddalore site, while we wait for reaudit and reclassification of our Cuddalore site, we have taken action to qualify two critical products, which has been manufactured at Cuddalore, and that qualification has taken place, one in Pondy and second in Vizag. We will be including Vizag and Pondy as additional sites in the two product DMF.

Our focus markets, Latin America, and China, has seen traction. Our total number of filings in Brazil now stands at four.

Our order book continues to improve each quarter and cost improvement plans have started to deliver outcomes, resulting in better profitability in the coming quarters.

On the CRAMS front, we have had good inroads in the US market while onboarding of our CRAMS head for North America. We will see traction of these efforts in the next financial year.

Meanwhile, the RFPs we have submitted in the first half of this year, we are confident that we will win some of those RFPs.

I now hand over to Hari to take us through the Financials for Q3 FY'23. Thank you.

S. Hariharan: Thank you, Jitesh. We are pleased to announce Q3 results. The key highlights for the quarter are as follows: Revenue for Q3 is at Rs.401.9 crores. Our gross margin stands at 47.3%, improved by 300 basis points over Q2 FY'23. Operating EBITDA at Rs.70 crores with 17.4% margin and reported EBITDA at Rs.51 crores at 12.7% margin. As Jitesh rightly pointed out, our course correction strategy has started to yield positive results, which were visible from our Q3 performance.

Our immediate priority is to offset the under-recoveries at Vizag and achieve breakeven and profitable growth in the near-term. During this quarter, we initiated sales from Vizag facility to semi-regulated markets, which has led to the reduction in the under-recovery at Vizag during Q3.

Our net current assets have reduced by Rs.42 crores in nine months primarily due to the reduction in the inventory and GST follow up of refunds. We are working to achieve comfortable net debt-to-EBITDA ratio. Our primary focus is improving our cash flows by prudent application of capital. We continue to remain focus on the actions to improve profitability. Very confident about growth prospects of Solara. Thank you

Moderator: We will now begin the question-and-answer session. First question is from the line of Rohit Mundra, individual investor. Please go ahead.

Rohit Mundra: Hi, sir. I have three set of questions. So, first is that we are back to Rs.400 crores of quarterly revenue run rate. Could you please highlight what led to this growth during the quarter, and is this a sustainable base going forward, and given historically, our Q4 has been the strongest quarter, are we expecting a stronger Q4 this year? My second question is regarding Ibuprofen. How is the demand scenario currently for the product and are you seeing any incremental competition for the product in your target market? And my last question is what has led to the gross margin improvement during the quarter, and are we confident of achieving 50% gross margin by Q4 as guided earlier?

Jitesh Devendra: So, from a revenue point of view, we are confident that we will be able to maintain our Rs.400 crores run rate. Our overall business as I mentioned in our previous quarters, we have reset the business at Solara, and we are very confident to get back to our historical revenues as well as on gross margins. So, revenue, yes. On the gross margins, yes, that is our aim in terms of getting closer to the 50%, getting to our historical run rate, there are a lot of actions which have been put in place for which we will see the results just not in the Q4 but in the next financial year as well. We have looked at various markets in terms for our existing products by increasing our market share, which I mentioned about the market extensions. We are probably the only company outside of China who has got the Ibuprofen approval for China market. And coming to the demand for Ibuprofen, yes, the demand has come back. And as I said, probably we are the largest manufacturers of Ibuprofen for the regulated market. And it is just not Ibuprofen, we have various forms of the value-added Ibuprofen, which we are focusing on, which will lead to expansions in the gross margin.

Moderator: Our next question is from the line of Mahek Talati with YellowJersey Investment Advisors. Please go ahead.

Mahek Talati: Sir, I had few questions. First is our other expenses have gone up on quarter-on-quarter and year-on-year basis. So, what has led to this jump, and are there any one-off during the quarter?

S. Hariharan: There has been a steep increase in the power charges across the various places of manufacturing locations, and due to the normal increase in inflation has resulted in an increase in the other expenses. There's no one-time activity charge-off during the current year.

Mahek Talati: So, other expenses are going to continue in the next few quarters as well?

S. Hariharan: Yes, because of the power outrage and the power charges, even the fuel briquettes, which is the major source for us, there has been steep increase in the power charges and the solvent, other consumables due to current international situation, there has been an increase in the price. I think within one or two quarters, it will get regularized.

Mahek Talati: Next question was regarding the CAPEX done during the nine months FY'23 and any major CAPEX plans going forward for next two years?

S. Hariharan: We only did the normal maintenance CAPEX during the current year, and we debottlenecked the capacities at our new site in Vizag, although the unfinished agenda of backward integration projects is yet to be completed. And we have not yet firmed up the long-term capital expenditure plan. Based on the board approval, we will be planning it. During the next call, we will be able to explain our growth strategy along with the CAPEX for the new projects.

Mahek Talati: There was one question regarding the Vizag plant. So, we have started commercial supplies to less regulated markets. So, was there any specific reason that we have not done this before in the previous two quarters back and in this quarter, we have started?

Jitesh Devendra: I can answer for this financial year. So, when we were back in Solara, we have taken all the actions in terms of ensuring certain products, which we are manufacturing at other sites to be qualified in Vizag, and all those actions have been taken in place. And once we were confident in taking the validation batches, we had gone out to seek orders from the less regulated markets. So, all these actions for the sales which happened in Q3, the actions have been initiated in Q1 itself.

Moderator: Our next question is from the line of Tushar Manudhane with Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just would like to understand the contribution of Ibuprofen for the quarter broadly?

Jitesh Devendra: We do not give contributions of our products on a revenue breakup basis.

Tushar Manudhane: At least if you could share whatever the growth that has come both year-on-year or even a quarter-on-quarter basis of any certain products growth or is it more broad-based growth?

Jitesh Devendra: We have seen growth in most of our key products on a quarter-on-quarter basis and that is reflected in the revenue expansion as well.

Tushar Manudhane: In Vizag, is this the full quarter impact so to say for 3Q in terms of revenue?

Jitesh Devendra: I am sorry, I did not understand your question. If you can repeat that again, please.

Tushar Manudhane: At Vizag, we had Rs.7 crores sales. Is it we have the entire quarter for the sales or it is just part of the quarter?

Jitesh Devendra: So, again, for Vizag, that is only starting off the sales, right, and we are looking at increasing the sales even in Q4.

Tushar Manudhane: So, what kind of run rate should we kind of think about Vizag at least for next 12 to 18 months?

Jitesh Devendra: We'll have a better answer in the next investor call as we are firming up the plans, not just for the Q4, but even for the next financial year.

S. Hariharan: And as you know that we have got CEP approval for Ibuprofen on that site. So, we are having EU inspection in this quarter so that will further enhance, and we can supply Ibuprofen from Vizag site. So, that is the upside we are anticipating.

Tushar Manudhane: Just lastly, if you could help us understand at least on a quarter-on-quarter basis, how has been the pricing for most of the products on a blended basis and how has been the volume growth?

Jitesh Devendra: We find it to be stable from a pricing point of view. And yes, the volume growth, we are expecting it to happen for our critical products where we have done market extensions.

Moderator: Our next question is from the line of Nitin Agarwal with DAM Capital Advisors. Please go ahead.

Nitin Agarwal: On our gross margins, so in the past, when we were doing about Rs.400 crores gross margin in FY'21 of quarterly revenues, you are doing gross margins of about 56%, 57%. Now in the sort of new dynamics of our businesses today, where do you see our optimal gross margins could be for the business over the next few quarters?

Jitesh Devendra: We are working in terms of the gross margin expansion. When you compare it to FY'21 results, we were at gross margins of 56%. Our aim is to get to that. As I said, we will get back to you on the exact guidance in the next investor call.

Nitin Agarwal: Which is fair, but in terms of aspirationally what is the gross margin % you are looking at? –

Jitesh Devendra: Our aspirations, of course, is to get to 50%. It is only about the timing as we firm up the business plans, and when do our CIP also come into play. So, we will have a better answer. But yes, the aspiration is to be at minimum 50%.

Nitin Agarwal: Secondly, on the debt part of it, lot of it is essentially on working capital. Now, how are you looking at the reduction of this debt number going forward?

S. Hariharan: Term loan, you would have seen that Rs.414 crores at the beginning of the year and now it is Rs.352 crores. So, Rs.120 crores will be the reduction in the term loan every year, and in the working capital, there has been slight increase to support the increase in the sales in Q3 and Q4. And, once that business operation improves, slowly we will be reducing our debt level and get to our comfortable plan.

Nitin Agarwal: What is the debt level you are comfortable with, our immediate target on that account?

S. Hariharan: We want to reach nearly three times of EBITDA, that is our plan in the next financial year.

Moderator: Our next question is from the line of Mahesh Vyas with UTI Mutual Fund. Please go ahead, sir.

Mahesh Vyas: What is the annual capacity we have specifically for Ibuprofen, and what is the utilization we are having from there?

Jitesh Devendra: We do not say about the annual capacity budget. Our utilization of Ibuprofen is getting closer to 90% for the Pondy facility.

Mahesh Vyas: Do you share the capacity? I just missed out your first sentence.

Jitesh Devendra: We do not share capacities of our key products.

Moderator: Our next question is from the line of Gagan Thareja with SK Investment Managers. Please go ahead.

Gagan Thareja: So, the first question is regarding the Ibuprofen inventories. I think the whole of last 12-months or more has been a phase where there was excess stock of Ibuprofen in the channels across regulated and non-regulated markets, which had an impact on both what you could sell to your partners and at the same time, what price could be realized. How do these two things stack up now versus maybe a year ago?

Jitesh Devendra: So, our business, it is just not Ibuprofen, but across our products is much stronger compared to the last financial year. Most of our businesses are direct businesses. There are no one-time sales to any channel partners. And especially coming to your question on the inventory of Ibuprofen, whatever was returned was a good quality, and same have been sold as the demand that came back. So, we are not sitting on any idle inventories of Ibuprofen.

Gagan Thareja: Have the prices of key starting materials or intermediates come down at least qualitatively, that's the feedback we get from quite a few of the chemical's companies, and if that is the case, on output prices, is there any reason to then believe that spreads or margins on Ibuprofen could actually keep on improving given the current market -?

Jitesh Devendra: As per a regular trend, there has been no substantial increase or decrease in any of the raw material prices.

S. Hariharan: Actually, on the derivatives products, prices have not come down and the metal prices have not come down in the international markets in the current international situation, we expect that within two quarters, we expect a normalization of this product prices.

Gagan Thareja: You indicated about Ibu capacity utilization. Can you give overall aggregate capacity utilization for the company as a whole and maybe split it up on Vizag and the base business?

S. Hariharan: It would be 77% (Excluding Vizag).

Gagan Thareja: I am sorry, you were not very clear. Could you repeat that number, please?

S. Hariharan: Our overall capacity is 77% (Excluding Vizag).

Jitesh Devendra: Across all the sites and the products.

Gagan Thareja: On Vizag, given there is some sales resuming, and you also have a pending inspection due in Q4, for the coming year, would it be reasonable to assume that Vizag would be hitting breakeven in the next maybe two, three quarters for you?

Jitesh Devendra: Yes, we did get CEP approval for our Ibuprofen. We are awaiting the US FDA inspection. And the goal is, as we are filing new products, which I have already mentioned that out of our two new products, we have filed one in Vizag. So, the focus is to make Vizag breakeven, and we have clearly laid out the plans for Vizag which overall has a big role to play in the growth of Solara.

Gagan Thareja: The perspective I am coming from is that this quarter you hit base business, EBITDA run rate of around 17%, and you manage to reduce your under-recoveries on Vizag. If you can maintain base business, EBITDA run rate and maybe improve somewhat as you enter the next year, and as Vizag under-recoveries keep on reducing, would it be fair to assume that you would be in a position to hit high teens to double digit by the exit of next year or maybe earlier?

Jitesh Devendra: Overall, for the company taking into account even for the Vizag and after the R&D costs from mid-to-high teens is what we are targeting.

Gagan Thareja: Your commentary on the CRAMS piece and the new products piece? And one final question on how should we think of tax rates going ahead?

S. Hariharan: We are in the higher bracket of tax rate, but the net effective tax rate will be around 20%-22%.

Gagan Thareja: For FY'24, should we pencil in 20%-22%, is what you are saying?

S. Hariharan: Yes.

Gagan Thareja: On your outlook on the CRAMS business and the new products introduction?

Jitesh Devendra: So, our outlook on the new products, as I said, this year we are going to file four during this quarter, we already have a pipeline of eight products for the next financial year. This is a very important piece for our growth business as well as it helps in the under-recovery of the R&D, R&D is really an investment for us for new products and CRAMS. Coming to the CRAMS business, we are seeing a good traction in the CRAMS business. Even though today it is at single digit of the overall company's revenue, but this business is the focus in terms of the growth, we are hiring people in terms of expanding our market reach, we have already done that in the US, and we are going to add some new capabilities that will be differentiated, we are just firming up our CAPEX plan for the next financial year, which would have a big driver for the CRAMS business.

Gagan Thareja: You are almost hitting 77% utilization. I would presume it would be at 80%, 85%, and then you need to add capacities which means by the time you are in the middle of next year or so, you will be looking to invest in additional capacities. Any thoughts on the investments that would be required that you can share?

Jitesh Devendra: I just want to reiterate, without Vizag, capacity utilization is 77%. So, we have base business also growing and with Vizag we have capacities in terms of catering to our demand. When I meant CAPEX for CRAMS in terms of the differentiated technology, that will be initially more from an R&D perspective, that is not going to be a huge CAPEX, but definitely, if we are going to win some RFPs on the R&D side, then there would be a possibility to expand that on the commercial side. But we are going to be very cognizant in terms of how we are going to invest in the CAPEX for the future growth of Solara.

Gagan Thareja: What could possibly be the peak sales potential from the Vizag side at full utilization?

Jitesh Devendra: So, with the investments what we have made right now, as peak sales, if it plays out to our plan, Vizag will generate revenue of at least about Rs.300-400 crores.

Moderator: Our next question is from the line of Pooja Rathi with YellowJersey Investment Advisors. Please go ahead.

Pooja Rathi: Could you give an outlook on revenue and EBITDA margin for the coming two to three years?

Jitesh Devendra: As I said, we are just firming up our plans. We will have a better guidance in the next investor call.

Moderator: Next question is from the line of Janish Shah, investor. Please go ahead.

Janish Shah: Just wanted to get some understanding about the business structure, I mean, you have close to 60-plus kind of products which are already there in the portfolio and in terms of markets 72% of the revenue coming from the regulated one and you aspire to add more. So, I am just trying to understand from a concentration perspective in terms of the product and the market concentration, how does this stack up? We hear from you that your focus markets will be more Latin America or China. Then, we just need to understand how does the business has been aligned for future, if you can just give some understanding with that? The second question is also if you can give broader outlook or maybe an update on how the global markets have been in the shape. As we hear more from challenges like European countries already facing in terms of manufacturing and even given the growth slowdown which has been expected across various economies, in such an environment, what is your assessment in that?

Jitesh Devendra: See, from a business point of view, the way we are looking at from the current products, we do have certain products which right now we filed only in one market and there are potentials for other markets as well. It is the reason why we are doing market extensions of some of these products to increase our market share. The way we look at is we want to derisk our product portfolio, the dependence on products as well as dependence on markets. When you look at the overall Solara's revenue, I think we are well placed from a global perspective where we have good presence in North America, Europe and Asia Pacific regions which is more driven by Japan and South Korea. Of the territories we have, marginal presence, but the opportunity is large and that is where we are looking at focusing on Brazil and China. Of course, there are other markets also which we would like to increase our market share, not just for the existing products but for the new products as well. So, summarizing your question, yes, the goal is to derisk both the products portfolio as well as derisk dependence on customers as well as on the markets. On the second question you asked about the global slowdown, for the products what we have in place, we have not in fact seen any slowdown at all, in fact it has come back in terms of the demand. So, I do not have any specific or more answer to that question, but I can say that yes, we are very upbeat in terms of how the business is progressing for Solara.

Janish Shah: In terms of the debt, you said you will be repaying Rs.150 crores of term loans every year, right, that is what is the correct which I have taken?

S. Hariharan: Rs.120 crores.

Moderator: Our last question is from the line of Mahek Talati from YellowJersey Investment Advisors. Please go ahead.

Mahek Talati: When are we expecting the US FDA approval for our Vizag facility?

Jitesh Devendra: We are also keenly waiting for the outcome.

Moderator: As there are no further questions, I would like to hand the conference over to the management for closing comments.

Jitesh Devendra: Thank you, everyone, for taking your time to join us for this investor call. We look forward to Q4 call and the year as a whole in the coming months. Thank you once again.

Moderator: On behalf of Solara Active Pharma Sciences Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.