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October 28, 2024

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

Scrip Code: 541540, 890202

The National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: SOLARA, SOLARAPP

Dear Sir / Madam,

Subject: Transcript of the earnings conference call for the quarter ended September 30, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended September 30, 2024, conducted after the meeting of Board of Directors held on October 21, 2024, for your information and records.

The above information is also available on the website of Company at: https://solara.co.in/investor-relations/investor-update

Thanking you,
Yours faithfully,

For Solara Active Pharma Sciences Limited

SUDDAPALLI MURALIKRISHNA
Digitally signed by SUDDAPALLI MURALIKRISHNA
Date: 2024.10.28 11:25:37 +05'30'

S. Murali Krishna
Company Secretary

Encl.: As above

"Solara Active Pharma Sciences Limited
Q2 & H1 FY '25 Earnings Conference Call"
October 21, 2024

MANAGEMENT: **MR. ARUN KUMAR – FOUNDER AND NON-EXECUTIVE DIRECTOR – SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. POORVANK PUROHIT – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER– SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ARUN KUMAR BASKARAN – CHIEF FINANCIAL OFFICER– SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ABHISHEK SINGHAL – INVESTOR RELATIONS – SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Solara Active Pharma Sciences Limited Q2 and H1 FY '25 Earnings Conference Call. As a reminder, all participant 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek. Thank you, and over to you, sir.

Abhishek Singhal: Thank you. 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 second quarter and half year ended financial year 2025. Today we have with us Arun, Solara's Founder and Non-Executive Director; Poorvank, MD and CEO; and Arun Kumar Baskaran, CFO to share the highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation which have been uploaded on our website as well as the stock exchange website.

The transcript for this call will be available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the 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 the Investor Relations team. I now hand over the call to Arun to make his opening remarks.

Arun Kumar: Thank you, Abhishek and good afternoon, everybody. Thank you for joining our Q2 earnings call. To start off, we are extremely pleased with the progress that we have made in the last two quarters post our reset. Solara has calibrated its growth, focusing on profitability and at 50.5% gross margins, we have now reached our historical highs with an improvement of 620 basis points Y-on-Y and approximately the same number Q-on-Q.

As I mentioned the last time, our focus is on profitable growth and at cost containment and all of this have played through well for our EBITDA's to be reporting at INR61 crores, a growth of almost 46% Q-on-Q and 61% Y-on-Y. Of course, it's not a comparable quarter given a disastrous performance that we had in a comparable quarter last year.

Having said that, the company is completely reset with this disciplined approach to business. We're excited that our revenues from the regulated markets now constitute 76% of our business. Growth is a function of setting the house in order which we have. And we are -- in spite of that, we are in line to meet our outlook across all parameters. So revenues in H1 are approximately almost 45%, 47% of the annual guidance, which is -- so also gross margin guidance.

EBITDA at INR61 crores and if you equalize that for the next two quarters, we should be comfortably within the EBITDA guided for the whole year. We are very confident that our Q4 will be within the guided numbers of INR80 crores to INR90 crores of EBITDA and trending at around 20% EBITDA.

In H2, we have already moved our EBITDA percentage points significantly from 11.6% in Q1 to 17.7% which is akin to the generic -- catalogue generic industries business but given that we are heavily focused on the regulated markets and with all the actions that we have introduced with cost containment, we are very confident of meeting those exit quarterly outlooks too.

Overall, a very pleasing outcome for -- and a strong comeback. So also the balance sheet -- focus on the balance sheet including the debt book adjusted for the uncalled rights between the next 2 years. We are in a comfortable debt-to-EBITDA of under 2x and this will only improve with -- if we hit our guidance, it will be less than 1.5x. One of the key actions that we took was cost containment and I'm very pleased to report that our costs have come down quite significantly without compromising compliance of quality.

We have also reported three significant quality wins including European approvals for two of our plants and an FDA approval for our R&D center which also does some work related to our filings. So, overall a good outcome. As all of you know almost 33%- 35% of our total capacities was mothballed with our Vizag plant being mothballed while we retrofitted the plant or while we are in the process of retrofitting rather.

We do not believe that there is a need for us to have a dedicated facility for ibuprofen, a second dedicated facility. So as we communicated the last time, we are converting that plant into a multipurpose plant, including HPAPI and we should be doing high potency APIs. So we should be in a strong position to get that plant back on stream in Q1 of FY '26. And we probably have three full quarters in FY '26, and that business will start adding to our overall growth.

So this year, our focus is calibrated growth, focus on margin expansion, customer satisfaction and compliance, which we are on the right track. And then in FY '26, we will have Vizag driving the growth to the next level. So I think we have probably exceeded our targets by a quarter internally, which is great. But having said that, we still have got lots of work to do. And we do appreciate the patience and the support our investors have provided in these difficult times that we just passed by.

But we are now looking at a very strong Solara coming back to its historical highs in the next 2 quarters, and I'm sure that it will be a very rewarding time for everybody. Thank you all, and we are more than happy, like Abhishek mentioned, my colleagues, Poorvank and Arun, who is our CFO in the call, assisted by Raghavan and if you have questions, please do not hesitate to ask us, and like Abhishek mentioned, if you don't, and you have them later, please e-mail them to us, and we will respond. Thank you.

Abhishek Singhal: Siddharth, we can take the Q&A.

Moderator: Thank you very much. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just on the gross margin, firstly, sequentially, the regulated market share has been stable at 76%. But still, we've seen a jump in gross margin from 44.5% to almost 50.5%. So if you could just explain that?

Arun Kumar: Well, it's mainly leading to our focus on cost containment. As you can see, our opex has dropped almost by INR40 crores, although in that quarter, we had Vizag. But if you look at a like-to-like quarter, Q4 '24 at INR130 crores to Q2 at INR113 crores, cost focus has been a very important factor in terms of capacity utilization planning and cycle time management. So that is what is lifting...

Tushar Manudhane: Sir, on the gross margin side, not the opex, on the gross margin before opex.

Arun Kumar: Okay. Sorry. Yes. So if you look at our portfolio, while 76% of our business comes from the regulated market, we do have a higher focus on the more profitable products. And we do have now some of our customers launching some of the products that we had developed a couple of years ago. So those are niche, small volume products at significantly higher margins, but also our margins were positively impacted by higher CRAMS business that we reported in the quarter.

Tushar Manudhane: Okay. And sir, now taking this run rate to almost INR400 crores from INR350 crores, INR347-odd crores. So any specific product we are going to highlight which will take this revenue trajectory up?

Arun Kumar: We cannot indicate products, but our polymers division is now fully sold for capacity. So we do several polymers, we're one of the few players . We have fully sold for capacity and Vizag in fact has been retrofitted to add more capacities around that line of items.It's a very complex chemistry, not many players out of India. We supply a lot of the players. In fact, we supply almost all the ANDA players in the US market for this product. We see increasing demand as innovator loses market share. And it's just focusing on the right product, right customer base.

Moderator: Thank you. The next question is from the line of Aman Saifee from i-Wealth Management. Please go ahead.

Aman Saifee: Yes, sir. So as you have mentioned in our press release that our regulated market contribution is at around 76%. So sir, this used to be the contribution in the past. So is this the ideal contribution or are we anticipating it to go further?

Management: Regulated market contribution can go higher.

Arun Kumar: No, I think we are comfortable at these levels. We obviously are not comfortable with the revenue size. We have enough opportunities to grow the number from INR347 crores to, we have already guided for the Q4 exit run rate at INR400 crores. So if the percentage of the reg market will remain at that, then obviously that will add further benefits to the gross margins and EBITDA.

Aman Saifee: Got it, sir. And sir, another question was that how many DMF filings are we targeting? We had a large portfolio of around 70 to 75 DMFs. How many launches are we targeting per annum?

Arun Kumar: So to be very candid, we are not focusing on too many new DMFs. Our focus has been to improve the cost price, cost of our existing DMFs through very active and rigorous cost improvement programs and onboarding customers for existing DMFs, but that notwithstanding, we continue to develop new products, and we have -- how many filings?

Management: We already have 95...

Arun Kumar: How many this year we are planning?

Management: So around 4 to 5 filings.

Arun Kumar: Yes. So we only will have about 4 to 5 filings because the focus is to try and commercialize as much as our existing portfolio rather than building new ones for vanity. We are focusing on building a nice portfolio of products or bringing back some of the DMFs which are not very active.

Aman Saifee: Understood, sir. So only 3 to 4 you said, right?

Arun Kumar: Yes.

Moderator: The next question is from the line of Amresh Kumar from Geosphere Capital.

Amresh Kumar: Sir, I have one question on the opex part, that has been brought down significantly, and now it was only INR114 crores last quarter. So how do we see this trajectory going forward? Do we consider this as a base now? And further improvement will be from operating leverage?

Arun Kumar: No. So you need to understand that we actually mothballed Vizag, which is almost INR40 crores, INR45 crores spend in the last financial year, which means that it's not necessarily like-for-like, but our base opex which is approximately INR135 crores, it has come down to INR115 crores. So that's a good news. And we should be able to bring that down a little more. But next year, Vizag will go back to -- not to peak operations, but at least for 3 quarters, we will have peak operations.

So to address your point, I think the current legacy business we should probably have another INR10 - 12-crores of savings in the next 2 quarters. But in Q4 in FY'26, we'll go back. And when we add Vizag, we will probably get back to about INR130 -135 crores, but it just delivers a very significant new revenue opportunity because Vizag is our biggest plant in terms of capacity.

Amresh Kumar: Got it, sir. Okay. So then on the revenue growth part, sir, now that you have mentioned that Vizag will be in full operation for 3 quarters in the next year. So if we remove that out, what should we be considering the revenue growth for next year, FY'26 because you have said that fourth quarter number would be about INR400 crores. And that is typically our best quarter for the year. Should we be considering that as a base?

Arun Kumar: Yes. So, Amresh, you need to learn to accept the company guidance. We guided for the Q4 outcome, right? Let's get there. In Q4, we can have this conversation what '26 would look like. At this time, We are not willing to give you a '26 outlook.

Moderator: The next question is from the line of Monish Shah from Antique Stock Broking Limited. Please go ahead.

Monish Shah: Just wanted to take your view on the pricing in the API portfolio for us as well as the industry?

Arun Kumar: Well, so Monish, it's not about pricing? The question is that if you shift your focus to direct markets, you obviously get a better pricing. I just think that we have reset our business from being all over the place to be very focused on what we want to achieve. And the numbers that you're seeing is a reflection of a course correction and not necessarily the market dynamics.

Considering that 76% of our business is regulated which effectively means that we are the primary supplier in most DMFs or more than half of that 76% goes to big pharma, there's stability in our pricing, right? So it's not that we are seeing a pricing pressure because we are not challenging anybody to take higher market share.

We have just course-corrected our business from what we used to do very well to what trying to get back to do well again. So I don't think these ratios of improved gross margins should be a reflection of price improvements. It's how the company was in a particular spot and how we are turning it around.

Monish Shah: Okay. and also, you mentioned that CRAMS was a reasonable contribution for this quarter. Can you highlight as to how much was the revenue contribution from CRAMS this quarter?

Arun Kumar: It's suboptimal. I mean, it's a better quarter than last, but we are still less than a INR100 crores on an annualized basis on our CRAMS business, but it is growing and it will grow rapidly, because we have seeded a lot of customers, we've started getting business. And this will be an important part of our business 2 to 3 years from now.

But as we speak, we are very happy with the logos that we have managed to convert, the type of products that we do. And it takes time for our partners to qualify us, to be on their files, it's a big process, but we are very delighted with the progress we are making here.

Monish Shah: Perfect. And lastly, what should be our tax rate assumption for next year and even for FY '25?

Arun Kumar: So we are currently at 0 tax because of our carry forward losses, and yes, for 1 more year, I guess.

Monish Shah: So, from FY26, should we assume it will be a 25% tax rate?

Arun Kumar: FY 26 is also 0, Monish.

Arun Kumar: From '27, it will change.

Moderator: The next question is from the line of Jagdish Sharma an individual investor.

Jagdish Sharma: Sir, I have three questions. The first question is our net debt is below INR500 crores, taking into account uncalled rights issue money of INR222 crores. How do you see our net debt going forward? And will our company, Solara, be net cash positive by next year?

Arun Kumar: Not by next year, but I think we need probably 1.5 years because we also have capex to grow Vizag. We plan to run our capex program through internal approvals as we have already communicated. And by FY '27, we should be in a very strong position or very close to being net cash.

Jagdish Sharma Okay. So my second question is, what is our top 5 and 10 products contribution to our revenue or is there any risk of some prices of Ibuprofen, can it go further down or at the current level, will it be sustainable?

Arun Kumar: Well, I mean, Ibuprofen clearly is our number one product. And this group of Ibuprofen is almost 25% of our global revenues for a long, long period of time, more than 20 years. And I think it will stay as that because we do supply to some of the bigger names that consume Ibuprofen, especially the branded companies.

We do have several other products, but we don't call out any of our products. Of course, the Ibuprofen and its range is our biggest product. Outside of that, we are not very dependent on any one single portfolio.

Ibuprofen also we have derisked it by getting into several analogs of Ibuprofen and therefore, we have kind of moved into derivatives and a lot of other products within that group and value-adding it by having direct compressible trade, Ibuprofen, but overall our historical dependency on Ibuprofen has reduced dramatically with a shift in our tactics and our strategy over the last 6 months.

Jagdish Sharma: So my last question is other CDMO players are talking about benefit from Biosecure. Will Solara benefit from it? If yes, how?

Arun Kumar: Well, I think the Biosecurity Act is very specific to biologics to a very large extent. There's a China Plus One factor that companies are considering. But I don't think the Biosecurity Act has got anything to do with APIs or formulations. But having said that, companies are reviewing strategically at their Board levels on sourcing strategies and supply chain security. Clearly, we are seeing benefits out of that. But is it a flood? The answer is no.

Jagdish Sharma: Sir, just a clarification. Ibuprofen is 25% of our company, and -- but you didn't mention anything about the top five products, right? What is their contribution, you didn't mention, right?

Arun Kumar: I think by design, yes.

Moderator: The next question is from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: Sir, my question is regarding the Vizag facility. So just want to understand, post the Vizag refurbishment what we are doing, what will be the gross block at Vizag?

Arun Kumar: Gross block is about INR500 crores, INR500-odd crores. Net block is about INR250 crores. And I think we have a capex plan for about INR100 crores.

Dhaval Shah: So existing gross block is INR500 crores and plus INR100 crores you will be adding?

Arun Kumar: That's right.

Dhaval Shah: And you mentioned at the last call that the Vizag facility since you are mothballing it and creating a new and a much better, improved facility, and also focusing on CRAMS, so the asset turns should be a bit better than the existing asset base?

Arun Kumar: Well, currently, if you minus Vizag, we have one of the industry's leading asset turns. But Vizag will probably take at least two years before it turns at least 1x to 1.2x. It will take us at least two years to get there.

Dhaval Shah: And -- so in the last call, our contribution for CRAMS was mentioned around 5% to 8% of sales, and the target was to achieve 10% for '26. What is the number for second quarter? And are we on track there for '26 to achieve 10%?

Arun Kumar: Dhaval, we don't give specific numbers by quarter. I did mention to a previous question that we expect revenues to be at around INR100 crores this year. And when I guided number of INR1,500 crores, that is about 7% to 8% as you'll appreciate. And then it will grow from there. So we are on track to meet those two guidance – sub-guidance's, if you may.

Dhaval Shah: And how many DMFs we plan to file over the next two-year period, if you were to give a rough idea?

Arun Kumar: Currently, we have a plan of only about four to five products because we have a tremendous book, asset book of DMFs, which we are focused on bringing back to market first before we file new ones and find new customers.

Moderator: Thank you. The next question is from the line of Prachi Chhujani, who is an Individual Investor. Please go ahead.

Prachi Chhujani: Good afternoon sir. I just have a couple of questions. So my questions actually revolve around the Vizag facility. In our presentation, I think we've highlighted our strategy around Vizag. So if you could provide more details as to what molecules are we targeting from this facility? And I think we've also guided to start this facility by Q1. So what kind of under-recoveries will we have in FY '26 from this facility?

Arun Kumar: Yes, I can answer the second question. We will have zero under-recoveries in FY '26. And as regards to products, we did mention that we'll continue to make ibuprofen and derivatives as a second source, but in a much smaller quantity. And we are moving our polymers -- we are increasing our polymers business. We don't give specific product names in polymers, but we are the largest producers of specific polymers in India, which is used for pharmaceutical use. And we will be expanding our capacities in Vizag to include our increased demand for that portfolio.

Moderator: Thank you. Next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Sir, I have one question. So, we have seen a remarkable turnaround over the last 6 to 12 months. Would be really helpful if you give some commentary around what have been the changes that have taken place, right, under the course correction measures that you're talking about and what has tangibly changed. So, for example, has there been a substantial change in your products portfolio? Similarly, the opex that you have reduced, what kind of measures you have taken to achieve that?

Arun Kumar: Yes. So, I think primarily it is governance, governance, governance. So, you have heightened governance in terms of course correction. Second, we don't chase revenues unless they are profitable. So, we have governance around it. We have a very focused approach on cost optimization and cost improvement programs, very standard, which most companies in a situation that we were would do. I just think that our oversight on and with the team that we have, and Poorvank and the rest of his team do a good job, and I take all the credit.

Moderator: The next question is from the line of Shaurya Punyani from Arjav Partners.

Shaurya Punyani: Sir, in the last call, you mentioned about entering into peptides. So, is there any update on that?

Arun Kumar: The update is, yes, we have entered.

Shaurya Punyani: Okay. Do we see any sort of potential -- revenue potential, you can give something like that?

Arun Kumar: Well, I think so it's -- see, everybody talks about peptides. It's more fashionable than anything else. Everybody is in it. We are in the value chain of the peptide manufacturing for some of the larger players. We don't do any work with big pharma, if that was one of your questions. And it's early days, but we are in the peptide space, yes.

Moderator: Thank you. The next question is from the line of Ankit Minocha from Adezi Ventures Family Office. Please go ahead.

Ankit Minocha: The response to the previous participant that the GM expansion have been driven less by pricing and more by regulated markets was well understood. But I just wanted to understand from your expertise of the industry and view of current input costs, what do you think API pricing looks like in the coming 6 months?

Arun Kumar: We work in an industry where we can't predict what happens next week. So, you're asking me to answer an impossible question. I personally think, in a general view, the API pricing stability is a function of supply chain disruption. So, if you chase volumes and you chase the same DMF that many Indian companies have, obviously, you find pressures on pricing. We have that. We have seen with new entrants in ibuprofen, ourselves facing significant price challenges on key products.

I think there's been method in the madness and pricing has more or less stabilized across. So, I would say we have probably -- to answer your question differently, probably we have hit the bottom. I think at these rates, companies like ours and many others will aggressively focus on cost reduction, cost of goods, manufacturing improvements, using newer technologies like enzymatic routes and technologies of scale to get here.

And I think that's what the whole industry is doing. So as price pressures go down, there's a lag between cost catch-up and margin expansion. And I think that's what most of us do to survive in this business. But I think generally, there is an understanding that is prevalent in the formulation business that supply chain disruptions do cause very significant challenges to the industry. And I think there is reasonable logic being applied and prices are more or less reasonably stable.

Ankit Minocha: And secondly, in the last con call, we had mentioned an EBITDA run rate of INR260 crores to INR290 crores, which I believe we are now mentioning as INR230 crores to INR260 crores. So has there been something happened during this quarter which kind of...

Arun Kumar: Nothing has changed in our outlooks. We keep our outlooks exactly the same.

Ankit Minocha: Sorry, so are we saying that this...

Arun Kumar: I'm saying that your data point is wrong. And if you could give us where you got that information from that would be useful.

Ankit Minocha: Thank you so much.

Moderator: Thank you. The next question is from the line of Parveen Kumar, who is an Individual Investor. Please go ahead.

Parveen Kumar: Okay. So first of all, congratulations for a great set of results and the kind of turnaround we have done in last couple of quarters. And my question is with regard to the last con call, Q1 FY '25, where we have mentioned about the peptide manufacturing. So my question is, you are making that for your set of companies or for other players too?

Arun Kumar: No. Solara does not make peptides for any group companies.

Parveen Kumar: So it is for our group only, sir, as of now?

Arun Kumar: No, we don't.

Moderator: Thank you. The next question is from the line of Shaikh Mohamad, who is an Individual Investor. Please go ahead.

Shaikh Mohammad: Thank you for the opportunity and congratulations to the great success quarter-on-quarter. My question is regarding the impact of SI group closing the ibuprofen plant in the America? What are the - is of ibuprofen ranging worldwide? Is there any impact of that?

Arun Kumar: The plant that was closed in the US was a small plant. From our knowledge, it's a tiny facility. It doesn't -- it's not a needle mover at all in terms of global capacities. And it doesn't make any impact to any of our scores in the business.

Shaikh Mohammad: Sir, I think it is 5,000 MTA annual capacity. What are the...

Arun Kumar: Yes, 5,000 MTA is nothing, because the current demand is -- I mean, the new capacities that have been added is more than 20,000 tons globally in the last 2 years. So 5,000 tons going off is not going to change anything.

Shaikh Mohammad But USA is a regulated market, right? So...

Arun Kumar: So all the players who currently have ibuprofen, Sheikh, are FDA approved.

Shaikh Mohammad Okay. So there is not much impact of that plant closure?

Arun Kumar: Yes.

Shaikh Mohammad Okay, thank you.

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

Arun Kumar: Thank you, all. Thank you for your time and appreciate your time today. And if you have any questions, like I said, please try to pull one call to the Investor Relations team, and we'll be happy to respond. Thank you, all. Have a good day.

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.