Communication Address:
Solara Active Pharma Sciences Limited
2nd Floor, Admin Block
27, Vandaloor Kelambakkam Road,
Keelakottaiyur Village, Melakottaiyur (Post)
Chennai – 600 127, India
Tel : +91 44 43446700
Fax : +91 44 47406190
E-mail : investors@solara.co.in
www.solara.co.in

January 31, 2025

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 December 31, 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 December 31, 2024, conducted after the meeting of Board of Directors held on January 24, 2025, 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: 2025.01.31 13:10:58 +05'30'

S. Murali Krishna
Company Secretary

Encl.: As above

"Solara Active Pharma Sciences Limited Q3 FY '25 Earnings Conference Call"

January 24, 2025

MANAGEMENT:	**MR. ARUN KUMAR – FOUNDER & NON-EXECUTIVE DIRECTOR, SOLARA ACTIVE PHARMA SCIENCES LIMITED** **MR. POORVANK ROHIT – MANAGING DIRECTOR & 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 the Solara Active Pharma Sciences Limited Q3 FY '25 Earnings Conference Call.

As a reminder, all participant lines will be in 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 touch tone 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, sir.

Abhishek Singhal: Thank you. A very good afternoon to all of you and thank you for joining us today for Solora Active Pharma Science's earnings conference call for the third quarter and nine months ended financial year 2025.

Today we have with us, Arun – Solara's Founder; Poorvank Purohit – CEO; and Arun Kumar Baskaran – CFO, to share the highlights of the "Business and Financial 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 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 will be forward-looking in nature and must be viewed in relations with risks 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 Relation team.

I now hand over the call to Arun to make his opening. remarks.

Arun Kumar: Thank you, Abhishek, appreciate it. Thank you all for joining us today.

So, let me start by saying that it has been a very disappointing quarter in terms of our revenue performance, and this is mainly a design situation that we have been confronted with increased pricing competition on our portfolio of profitable range of products.

We have been taking conscious decisions, as you would notice, over several quarters, to be focused on operating leverage, higher and improved margins and discipline of the balance sheet. I think we have come a long way in several of those key metrics. But we decided not to accept price challenges on our products that would be detrimental for our business on a long-term basis.

Consequently, it's very rare that we revise our guidance downwards. We have, this time in the case of Solara, revised the guidance downwards in the revenue standpoint. But I am also at the same time pleased to confirm that our margins are actually trending ahead, our Q3 margins are trending significantly ahead of our H1 numbers in terms of an average percentage point. And we will see growth coming back to business in a more disciplined and organized manner.

I am also pleased with the gross margin expansion of 500 basis points and that is a good start point for us to build a business from there. All of this obviously results in improved free cash generation, resulting in reduced debt. And while the revenue guidance downwards is disappointing, we are not changing the EBITDA guidance previously provided at Rs. 230 crores to Rs. 260 crores.

And we expect Q4 is typically a high quarter for the pharma API industry, we expect that to be the case for Solara too. While we have obviously reduced our revenue guidance, we had to adjust our EBITDA guidance by about Rs. 10 crores for the quarter of Q4. But the EBITDA for the entire year, which was guided earlier, will be maintained. Representing quite nicely on the debt to EBITDA times that we have guided, and we will continue to improve on this.

A major decision we have taken is obviously to give focus to our CRAMS business, it's been suboptimal, if I may say, over the last two to three years. And it requires a very different approach to build value and also capabilities. And as most of you know, we have been mothballing our Vizag facility for a long period of time, although it's been FDA approved. We have invested significant amounts of capital there. And the carve-out of the CRAMS business will be beneficial to shareholders.

Albeit the size of the business is small, today at Rs. 120 crores, but gross margins and EBITDA will trend around significantly higher than the Company average and should be more than 25% to 30% range. But we do acknowledge that this business is very suboptimal at this stage. But given the infrastructure that we have in Vizag, which is one of the largest sites in the API sector. And having two consecutive Zero 483 inspections, we think that we are well poised to have significant capabilities built out of Vizag, away from the catalog generic business.

And at the same time, pushing down about Rs. 200 crores of debt into the new CRAMS business and also funding it separately as and when it's required. It just gives the ability for the Solara's retain business to be significantly asset balance sheet, I mean, a lighter balance sheet. And will deliver significant outcomes in terms of financial key ratios.

Consequent to all of this successfully getting completed and obviously subject to shareholder approvals and other regulatory approvals, which would take upwards of between 12 and 15 months. We believe that the debt to EBITDA in Solara will be closer to the one time range, which is in a very healthy position for us to then grow the business.

The carving out of the Vizag facility will not impact on our capacity for the next at least foreseeable two to three years, in our core catalog business, as we currently operate the business at around 65% capacity utilization. Even though we have made significant cost improvement strategies, our OPEX and under recovery continues to be a challenge in this business. And therefore, rather than adding significant new under recoveries by kick starting Vizag within the same P&L, we thought it was prudent and in the interest of all stakeholders to strategize this operation separately.

So, that's a slightly longish opening note. But both Poorvank, Arun and I am happy to address questions that you may have. We continue to believe strongly in the quality of the business that is emerging in Solara's research strategy. And I am sure that we will deliver improved results in the coming quarters.

Thank you.

Abhishek Singhal: We can take the Q&A now.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Amrish Kumar from GeoSphere Capital. Please go ahead.

Amrish Kumar: Thank you for the opportunity, sir. And this is regarding the carve out of CRAMS business. So, if you can give just a history of this business, how have you grown it so far? And the idea behind you have explained it a bit, but a little bit more detail, and how it will compete in the current environment. And how does a separate identity for this business helps us as Solara? And what are the technological capabilities we have developed in this business so far? Some details, and on how big the business is, and the context would be helpful. Thank you, sir.

Arun Kumar: Thank you, Amrish. I mean, like you rightly said, most of your questions have been addressed in my opening statement, but just to emphasize. Staying in the catalog generic business, we believe Solara does not have the required bandwidth of leadership and the financial resources to build this business, while it is resetting its own proprietary catalog business. So, the need to do this was obvious. Vizag is a very significant plant with almost 700 KL capacity, and has the ability to double that capacity easily, which is what typically potential partners would look at large capacities if they were going to come our way.

Our CRAMS business has been very suboptimal, it's been very stagnant and has not been growing so much. But we believe that with a renewed focus we can add significant velocity to the growth of the business. This business is currently in FY '25 is approximately Rs. 120 crores. It delivers that 25% to 27% range adjusted EBITDA. And of course, when we take this revenue into the new Company, the first several years there would be not necessarily great numbers as we will have under recoveries and additional expenses in terms of building new capabilities.

But overall, I think the pharmaceutical polymers business that we have got lot of legs to grow. And we will build that business quite significantly. But it will take us two to three years before you see the emergence of a challenge or a new player in the CRAMS business. We have several types of chemistry and capabilities that we can offer from this plant. At this time, our primary focus is going to be the polymer-based API chemistry which not many players have out of this country. Yes, thank you.

Moderator: Thank you. The next question is from the line of Jagdish Sharma, an individual investor. Please go ahead.

Jagdish Sharma: Sir, I have a couple of questions for the carve out of CRAMS and polymer business. You just mentioned that you have Rs. 120 crores of top line for this business. What are the EBITDA margins you have made in this quarter?

Arun Kumar: We cannot give you that. I do not think we can give you specifics for this quarter, but generally the business delivers about 25% EBITDA.

Jagdish Sharma: So, my second question is like, you mentioned this business is subscale, right, this currently is at subscale level. What is our aspiration over the next three years in terms of revenue and margin?

Arun Kumar: I think we believe that we can take a revenue expansion obviously to be in the 35% to 40% EBITDA range, has to happen to be a serious comparable CRAMS player. I think we can triple or even quadruple our turnover from the current Rs. 120 crores. We do have a nice pipeline. And with a new arrangement that is being proposed, we think in about three to four years we can get to that Rs. 500-odd crores number.

Moderator: Thank you. The next question is from the line of Naman Bhansali from 9 Rivers Capital. Please go ahead.

Naman Bhansali: First question is, you mentioned in the presentation that we received six key product approvals and 11 market extensions in the Q3 quarter. So, could you elaborate a bit on this? And if there are any material product approvals that can come out of these?

Arun Kumar: I am going to request Poorvank answer your question, he will give you more specific.

Poorvank Purohit: So, specifically, we have already mentioned about this that we are strongly focusing on the polymer space. And we did get some of the approvals in the polymer space for some of the key markets. And then there were some approvals that we got in the ibuprofen space wherein we actually talked about some of the markets which we have not catered for some of the existing customers. So, it is adding to a mix of new geographies, that is actually opening new markets for us.

Naman Bhansali: Got it. That is helpful. And second question is on the financial side of the CRAMS and polymer business. So, if you could share what is the total capital employed till date for this business? And what incremental CapEx would we need to do for this particular facility?

Arun Kumar: So, basically the Capex that has been invested in Vizag is close to about Rs. 500 crores, but not all of that capital will be useful for a CRAMS business because it was predominantly an ibuprofen facility. So, I would like to say that the good assets that the CRAMS business can enjoy would be about in the range of Rs. 250 crores to Rs. 300 crores, because the rest of the plant has to be retrofitted. We probably need to invest at least another Rs. 100 crores to Rs. 150 crores in the next three years to achieve the goals of what we want to be. And then, that should take us to the next big level you want to build this platform to.

Moderator: Thank you. The next question is from the line of Sajal Kapoor from Antifragile Thinking. Please go ahead.

Sajal Kapoor: Solara made an excellent move I think by separating CRAMS, polymer and HPAPI. A couple of questions from my side, if I may Arun, and Poorvank you as well. Can you share some perspective on the R&D infrastructure? As on today do we have separate teams for CRAMS and generics? And what is the combined team size on the R&D site today? And where do you see this number growing over the period?

Arun Kumar: So, basically today our R&D is combined for both generics and for the CRAMS business, and that is one of the key reasons that we need to separate and segregate the two, considering that we need a very different level of capabilities and infrastructure to attract customers. So, this move of us would facilitate that. We think that we will end up adding at least 100 new scientists for our CRAMS division in the next 12 months.

Sajal Kapoor: On the gross margin side, clearly CRAMS is a higher gross margin business, we all know that. But its subscale today, its low volumes as disclosed. Now, given that it's a higher margin business and it's contributing almost negligible amount, let's say 10%, to the overall. Our consol gross margins are still 56%, which is very healthy. And that kind of suggests that the other business, the non-CRAMS business is also not having very low gross margins as on today. Is that a fair assumption?

Arun Kumar: It is, because of our focused attention to margin and that is what has caused the revenue drop. So, our attention has been that when we have price challenge, we are happy to let go of business. And we give credit to the new challengers for having built plants which are very modern, of very large scale. But considering that we have been an ibuprofen player for 40 years, obviously we find ourselves pitted against very young challengers. And we are happy to let go of business in the interest of margins.

And you have rightly pointed out that, and if you look at Poorvank's commentary, 76% of our business continues to be in the regulated market. So, they are very sticky businesses. There are long term partnerships where we would rather service those customers and increase the wallet share than trying to expand markets at price. So, you are right, at 55% I think we have achieved our first threshold of an ideal margin situation. I do not think the carve out of the CRAMS business is going to drop this dramatically, may drop it by 100 bps, 200 bps. But even 53%, 55% range is what we want to first establish.

Growth, given the structured approach of not chasing revenues will come because seeding customers and geographical expansions, and that is why we highlighted that we got new same products expanded to new territories or acquiring new customers are good. These are healthy signs where we can show growth. So, I think growth will be tepid on the top line, but I think you could see margin expansion, OPEX leverage, inefficiencies in our manufacturing infrastructure, and our corporate overheads coming down dramatically. And if you see our presentation, you will see in the last five quarters we have had a very successful run on cost management.

Sajal Kapoor: Brilliant thinking, Arun. Definitely a masterstroke, no doubt. I am done with my questions. Thank you.

Moderator: Thank you. The next question is from the line of Divya Shah, an individual investor. Please go ahead.

Divya Shah: Sir, my question was, one on the top line guidance, which has been revised down. So, if you look at the FY '25 as a whole, at the mid range of your Q4 guidance we will be doing mid single digit revenue growth in FY '25. And if I take a three-year view, what is the potential growth that we can achieve for Solara? That's my first question.

Arun Kumar: Low double digits would be a fair assumption.

Divya Shah: And my second question was on the EBIDTA margin side. So, I mean, we have already reached our 20% EBITDA margin in this quarter. So, going forward, if we take a long term view of three to four years, again, what kind of margins can Solara catalog API business do?

Arun Kumar: I do not think we can go much further from here. I think 20% to start off, and if we can have three or four consistent quarters at these percentage numbers, then we can start accelerating. Because incremental growth will flow through, margins will improve if we keep the gross margin. So, at this time I am following a group strategy of consolidation every three, four quarters, and then growth coming after. And this worked well and I think it will flow through here, too.

I think the margin expansion from 20% to 22%, 23% in this three-year horizon that you are talking about is feasible, but let's take one year at a time. And I think, importantly, if we can have another five quarters of 20% EBITDA, and even if the growth is only 10%, it delivers close to Rs. 350 crores to Rs. 400 crores of free cash in that period. And the first target is to make the balance sheet even lighter and make the Company debt free. And that's my goal and I think we will get there.

Moderator: Thank you. The next question is from the line of Jagdish Sharma, an individual investor. Please go ahead.

Jagdish Sharma: Once again, our gross margin improved to 55% during this quarter, that's a 500 bps sequential jump. What were the main drivers for this margin expansion? And is this number sustainable going forward?

Poorvank Purohit: Yes. So, basically what we have done is, basically while as Arun mentioned about the fact that we have significantly focused on profitable products. And one of the questions was also that why we are talking about CRAMS business, there are other businesses wherein we have actually been able to sustain our margins. Having said that, with respect to this, we did debottlenecking of capacities on some of the high margin products, also while continuous focus on the cost improvement program that we had in place which actually allowed us to expand the margins. And that's how we have been able to do that. And we see a demand for these two products, which would sustain in the coming quarters.

Jagdish Sharma: My second question is, like our other expenses have reduced to Rs. 56 crores in this quarter, is this sustainable going forward? What were the key initiatives taken by us to bring this efficiency?

Arun Kumar Baskaran: See, over the last four quarters our OPEX has been coming down, it's mainly because of mothballing of sites we have worked on Vizag and Mysore sites. Plus, we have also taken some cost reduction measures in other sites which have brought down this cost.

Moderator: Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: I got my answer just now. Sir, can you please come back on the revenue guidance for the next three years? I guess you answered, but I missed that point.

Arun Kumar: Low double digits.

Aditya Sen: And sir, for the Vizag plant would be 1.2x to 1.3x, right?

Arun Kumar: Asset turn, yes.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Sir, my question is a little bit broad to understand. Arun Kumar, your success of acquiring assets, merging and then demerging, and then creating value is very highly successful. Very few entrepreneurs up to now have done this type of successful researching and creating value. My question is, internally you have a capable team, and you have proven yourself. Are you seeing larger external opportunities maybe because of regulatory markets, supply chain disruptions or maybe China plus one, if you can talk a little bit more on those opportunities, it will be really helpful.

Arun Kumar: Let's restrict our conversations to Solara at this time. I think Solara is a classic case of a legacy business which missed out on the CRAMS front. And I think our primary focus today is to segregate the business, give it the attention it requires, resource the capital, get the teams, the technical capabilities, and that is a lot to do. And I think that itself will create value to Solara stakeholders. So, that's what we do well as a group, like you rightly said. And we will stay focused on that approach here, too.

Sunil Kothari: And sir, your thoughts on external opportunity, is there any major shift happening compared to the last 10, 15 years? Or this is the opportunity which was there, and it is continuing or maybe increasing, how do you see this?

Arun Kumar: We see CRAMS as an opportunity increasing. I think there is some benefit of the China plus one strategy. I do not see it's a tsunami coming our way. I just think that the pharmaceutical industry and the life sciences industry is looking at India as a very serious player, just that we now have the capabilities, infra, people, skill sets, and we are benefiting from that. But we still are a very small part of the global supply chain in terms of CRDMO activities. But I think we still have a chance, some of the chemistries that Solara has is historically in a good spot. And we are benefiting from that opportunity by doing what we did. On your themes, I think internationally there are several opportunities, but I think valuations are high and building international assets at this stage on the API platform is not necessarily what we are looking at.

Moderator: Thank you. The next question is from the line of Rakesh Banerjee, an individual investor. Please go ahead.

Rakesh Banerjee: First of all, congratulations for hitting 55% gross margins, that's really awesome at this stage of the business. What I was trying to understand, you have already mentioned that you got six approvals in the last quarter. So, if you can elaborate a bit on the expected approvals in the coming quarters as well, maybe in the next or next two quarters, that would be really helpful. And also, if you can comment on, out of the six approvals that we have already obtained, if there is any major molecules which got approved, I mean, that would be also very insightful.

Arun Kumar: Rakesh, we do not give any specifics on products. Obviously, that's not what most companies do. Like Poorvank mentioned, we do have some nice products and some difficult to make products approvals, mainly portfolio maximization strategies, that is new markets, not necessarily in products. They will funnel growth to the guidance that we are giving long term, that low double-digit growth with a focus on keeping the margins. So, we do not have any specific answers to your question.

Poorvank Purohit: And to add to what Arun just mentioned, we have also mentioned earlier that we have close to 95 DMFs already filed in the US. And we are actually roughly selling, just to give a ballpark, we are selling close to 30 products only. So, there is still lot of intrinsic value in the system that needs to be capitalized. And that's where we are getting into cost improvement programs and seeding the market, seeding the new customers and seeing the growth coming from there.

Moderator: Thank you. The next question is from the line of Manas from Zailam Investment. Please go ahead.

Manas: So, my question is regarding, what is the timeline for the demerger of this CRAMS business?

Arun Kumar: So, typically any demerger through an NCLT process takes between 9 and 12 months, so that's what we expect this will also take.

Manas: And you are guiding for low single digit guidance, right, can I have the clarity?

Arun Kumar: Low double digit.

Moderator: Thank you. The next question is from the line of Parth Zariwala, an individual investor. Please go ahead.

Parth Zariwala: I have three questions, here is the first one. In the previous quarter, it was mentioned that the revenue was expected to be in the range between Rs. 1,400 crores to Rs. 1,500 crores by the end of FY '25. Do you believe this target is achievable? And what are your expectation regarding EBITDA and operating profit margin for the same period?

And the second question is regarding the debt, your guidance was provided to reduce debt up to Rs. 500 crores by the end of FY '25. Do you believe this target is achievable? And what strategies are in place to ensure a smooth reduction in the debt level?

And third question regarding, the ibuprofen contributes 34.1% of total turnover, effectively a key driver of revenue. Could you look to lower insight into the contribution from other segment or a product that's mixed?

Arun Kumar: So, Parth, all of these questions are already addressed, but we will respect your time today. I think you probably came in late. I did mention we actually guided for a reduced revenue in Q4, it's already part of our guidance and our EBITDA. So, consequently, we will not get to the Rs. 1,400 crores, Rs. 1,500 crores range, we will be more in the Rs. 1,300 crores, Rs. 1,400 crores range, which means that there is a drop in approximately Rs. 100 crores of revenue. And we have dropped Rs. 10 crores of EBITDA guidance for Q4, that means that our exit run rate will not be the Rs. 500 crores number that you are referring, it will be more in the Rs. 300 crores number. I do not know where you got the Rs. 500 crores number in the first place, it was never there before. And we will continue to build from here, focusing on margins. Our debt has already been reduced quite significantly. If you look at our debt book, we are now sub 2 times debt to EBITDA, I mean, 2.5 times debt to EBITDA, compared to almost 6 times when we started this reset journey about six quarters ago. And we expect the debt to be under 1 time, 1.5 times in the next 12, 14 months, after the carve out is complete. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Jain from Indira Securities. Please go ahead.

Anupam Jain: I just wanted to know the current CRAMS facility to retrofit, how much the cost will be for that, additional cost, because you have already incurred Rs. 500 crores cost?

Arun Kumar: The question was, how much money has Vizag invested? It's about Rs. 500 crores. Of which I also mentioned that I believe that the assets that are useful for the CRAMS business is not more than Rs. 300 crores. So, that is the useful value of the asset. We probably have to invest in Rs. 100 crores to get to where we want to be.

Anupam Jain: So, basically the facility was retrofitted and divide into ibuprofen, high potent API and polymer division?

Arun Kumar: Correct. That ibuprofen block has to be retrofitted because we plan to convert that into a different segment, which we will shortly make certain update announcements in the next quarter.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing comments.

Arun Kumar: Thank you, all. And do be in touch with us or with our Investor Relations team, if you have any questions. I appreciate your time and have a good weekend. Thank you.

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