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July 26, 2024

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 June 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 30, 2024, conducted after the meeting of Board of Directors held on July 22, 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

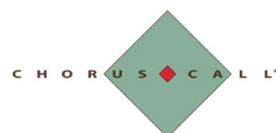
S. Murali Krishna
Company Secretary

Encl.: As above



“Solara Active Pharma Sciences Limited
Q1 FY '25 Earnings Conference Call”

July 22, 2024



MANAGEMENT: MR. ARUN KUMAR PILLAI – FOUNDER, 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 Q1 FY '25 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 star, then zero, on your touch-tone 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: Thanks, Steve. A very good afternoon to all of you and thank you for joining us today for Solara's earnings conference call for first quarter ended financial year 2025. Today, we have with us Arun, Solara's Founder and Non-Executive Director; Poorvank Purohit, 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 quarterly investor presentation that have been uploaded on our website as well as 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 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 Relations team.

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

Arun Kumar Pillai: Thank you, Abhishek. Thank you all for joining in today. I appreciate your presence in our earnings call. So just to give a quick recap. You will all appreciate that we after a very difficult last financial year, we made significant changes in how we would operate Solara. And we announced in our Q4 and FY '24 outcomes a reset policy focusing on growth, margin expansion, network optimization and debt reduction.

As we report our first quarter today, I'm actually very pleased that we are on the right direction. We have done significantly better than what we had hoped for internally, and it's a good outcome today that we have announced. The adjusted EBITDA reported is INR50 crores against a reported EBITDA of INR42 crores. And the reason for this is mainly because part of our network optimization, you would have probably seen in our deck that was released today, we have mothballed our vizag facility. And we are retrofitting that into a completely new opportunity that we are pursuing in expanding our CRAMS business.

Consequently, there have been costs that we are incurring in both Q1 and Q2, which will not be recurring in nature from H2. And adjusted for that one-line item, the difference between adjusted EBITDA and reported EBITDA is almost the same, just one line item related to certain operating costs that we are incurring both in R&D and in our Vizag operations.

We also thank our shareholders for an overwhelming support and subscription to our rights issue, which is oversubscribed. Consequent to that and a key focus for the company has been to rightsize our balance sheet, improve our working capital cycle times and cash flows. And a lot of that has been achieved already. We have used up significant opening inventories to improve

our free cash generation, which will result in an improved cash flow greater than our guided EBITDA.

We continue to reaffirm our guidance for our outlook for our full year. We expect revenues to be in the range of INR1,400 crores to INR1,500 crores, with our EBITDA in the range of INR230 crores to INR260 crores and with an exit Q4 EBITDA expected to be in the INR80 crores to INR90 crores level, approximately 20% to 22%.

Importantly, we reset our business to focus on our traditionally strong foothold of our regulated market. And I'm pleased to report that we are back to our 75% and above revenues coming from our regulated markets and the long-term contracts that we have with major customers worldwide.

We have also aggressively invested in talent, and we are building out a new focused CRAMS business. We don't have much to talk about it today, but I'm sure over the quarters, our CRAMS business will be magnified even better as we build those businesses. And by that, it's in the process of actually being retrofitted not only to continue to make ibuprofen, but it will also be a flagship plan for our CRAMS operations as we are onboarding customers.

We are seeing now with a renewed focus on our CRAMS operations, a significant number of RFPs that we have issued. And we hope that during the year, we would have achieved success with some of these major programs. Important that in spite of low utilization and network capacity utilization in Vizag, we had a second zero 483 outcome, kind of reinforcing the strong quality capabilities the group demonstrates and we're very delighted with this outcome.

So, the other important factor for the quarter has been reduction of debt. Apart from the rights money, significant free cash has been generated from various actions and we have reduced debt by about INR160 crores, almost INR40 crores of that coming from free cash generation through the quarter.

With a targeted further cash debt reduction from cash flows, we expect end of the year debt adjusted for the uncalled money of the rights to be under INR500 crores and significantly better than our Debt to EBITDA guidance of under 3 times, we should be now comfortably guiding the Street for under 2 times. That's the level that we would be comfortable with and then we will start investing in Vizag that will demonstrate growth.

So, things are going on track and as planned and as committed and appreciate the hard work the team at Solara has done, the leadership and the larger team across the group. And we appreciate your patience as we bring this company back to its past glory.

Appreciate the time. And I now pass this on to Poorvank to make his opening comments and then to Arun to speak a little bit about the balance sheet and then we can open up the room for questions.

Poorvank Purohit:

Thank you, Arun, for handing over. I would like to thank everyone for joining the call today. So, Arun, you have broadly covered all the points. But to add to this, I would just like to say that we are very pleased to do the course correction measures that have been initiated by the company, leading to favourable outcomes for Q1 with much improved EBITDA margins.

We see a growth both on quarter-on-quarter and Y-o-Y basis. And talking about specifics on the financial performance of the company, we saw a quarter-on-quarter revenue growth of 21% and reported EBITDA growth of 276%. Adjusted for the onetime costs, which will not continue in H2, as mentioned by you, our adjusted EBITDA stands at INR50 crores with EBITDA margin of 14% roughly.

Regulated market thing is already covered. And if we look at the deck, that the gross margin may be slightly depressed, but that is more on account of inventory reduction which will result in free cash flow generation. And so apart from that, I think most of the points have already been covered. So, we can take all the questions one by one. And I would like to hand over to Arun Kumar Baskaran, our CFO, to give his opening comments.

Arun Kumar Baskaran: Thanks, Poorvank. This quarter has been a good quarter for Solara in terms of reducing the inventory to a large extent into a cash flow for this year. Also, the completion of rights issue has been able to reduce the debt to a larger extent. The other points, we already covered. We'll go on to questions and answers.

Abhishek Singhal: Steve, can we take the Q&A, please?

Moderator: The first question is from the line of Vishal Manchanda from Systematix. Please go ahead.

Vishal Manchanda: Sir, I have a question on the Vizag facility. So, 2 things I wanted to understand, whether it's currently a dedicated facility or a multipurpose facility as of now?

Arun Kumar Pillai: Currently, it's a multipurpose facility. It will continue to remain a multipurpose facility but will get slightly retrofitted for large-volume CRAMS production. And the smaller block will be converted into a high-potent API manufacturing capability.

Vishal Manchanda: What is the capex we need to incur for this?

Arun Kumar Pillai: We don't have the exact numbers as the work is being conducted by consultants. So, we will probably be able to update that in the next quarter. But we would not need to borrow any additional monies to achieve this.

Vishal Manchanda: And we would still be at our debt target of INR500 crores end of this year?

Arun Kumar Pillai: Yes.

Vishal Manchanda: Okay. So, could you give a ballpark number as to INR50 crores, INR100 crores?

Arun Kumar Pillai: Too early, Vishal.

Vishal Manchanda: Sorry?

Arun Kumar Pillai: It is too early. We can give you more granularity in the next call.

Vishal Manchanda: Okay. And what's the total investment as of now on the Vizag facility?

- Arun Kumar Pillai:** It is about INR600 crores.
- Vishal Manchanda:** Okay. And once you can do the retrofitting, what is the peak sales you would expect from the - or the revenue potential basically from the facility once the retrofitting is done? Any timelines, when this can be done?
- Arun Kumar Pillai:** We don't provide data on any sub parts of our business, Vishal. We just commented that we are building this facility more towards the plans, opportunities that we are currently bidding for, while we'll continue to make ibuprofen as the second site. That's the only information I can provide at this time.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.
- Tushar Manudhane:** Again, on Vizag. So currently, how much sales are there? And will that get impacted when we're doing this retrofitting?
- Arun Kumar Pillai:** There are 0 sales.
- Tushar Manudhane:** Okay. And sir, will this require reinspection from U.S. FDA since we are doing modification?
- Arun Kumar Pillai:** No. So, it's recently inspected with a Zero 483.
- Tushar Manudhane:** Got it. Sir, secondly, on the gross margin front, if you could further elaborate in terms of what actually has happened to reduction? And what should be the sustainable rate going forward?
- Arun Kumar Pillai:** So, FY '24, the company had a 37%, 38% gross margin. We have brought that up to adjusted 48%. If you look at Q4, we brought it up to 48%. We also mentioned in the call that as Poorvank mentioned, that we had very significant inventory reduction strategy. Obviously, that inventory reduction strategy caused a dip in our gross margin, which is a one-off. And those are the inventories that we had is more or less now sold. But we wanted to be sure that rather than having inventory, we had improved cash flows. Yes, Tushar, there's a lot of disturbance from your side.
- Tushar Manudhane:** Is it better now?
- Arun Kumar Pillai:** Yes. So, we said you should estimate that our gross margins will get back to 48% in H2.
- Tushar Manudhane:** Understood. And sir, at least on the overall API industry, there has been a lot of inventory buildup in the system, and which has been impacting the prices even now for almost last 12 to 15 months. So how is the scenario for the products and at least the major products of Solara?
- Arun Kumar Pillai:** So, Vishal, I think we strongly believe this is behind us and the actions that we took in the last quarter where we wrote off inventory that we knew we will not sell or provide it for. And this year, we exited inventory, which we knew are not strategic enough at lower margins, which has impacted the overall gross margin. But to a very large extent, this is no more a problem for Solara going forward.
- Moderator:** The next question is from the line of Jagdish Sharma, an individual investor.

- Jegadees Sharma:** I like to continue from the last part of the question. We mentioned the gross margin will touch 48% in H2, right? When will the gross margin will get to the historical 50%, 51% as guided earlier?
- Arun Kumar Pillai:** Yes. So, I think the 48%, 50% or 51% is not a big difference in range. The company is currently focused on profitable growth. I don't see any challenges in us getting to that 48% to 50% in the second half for us to get to the 20% to 22% EBITDA that we have guided.
- Jegadees Sharma:** And second question is what is our revenue contribution from CRAMS currently? And we used to be at 5% to 9% of -- we used to do 5% to 10% of the revenue on that. What is our targeted revenue from this position for the next 2 years, 3 years?
- Arun Kumar Pillai:** Well, at this time, we are still in the 5% to 8% range. But based on our confidence and RFP that we expect this to be to grow to about 10% in the next year. So, it will grow faster than the other parts of the business.
- Jegadees Sharma:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Megha Bedi from Macquarie. Please go ahead.
- Megha Bedi:** I have two questions regarding guidance. So, first is like we have already guided for around 20% to 22% EBITDA margin guidance for this year. How do we see beyond 2025 for next 3 years our profitability profile? And my second question is, if you can share our top line growth outlook beyond FY'25, that would be great?
- Arun Kumar Pillai:** Megha, our guidance is basically for FY25, and we are coming back from a very difficult phase of our evolution, year post-COVID. And when we guide our business to get to 20% to 22%, that is almost a historical high EBITDA, Solara's ever achieved even in the COVID years. So very close to that. So, I think at this stage, we do not want to guide an outlook beyond what we have currently said. Our focus is to achieve that. And then we can talk about the next year when we announce our results in the year.
- Megha Bedi:** Sure. Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.
- Aniket Kulkarni:** So, I had a couple of questions. Firstly, on the U.S. Biosecure Act. So, the U.S. Biosecure Act aims to prohibit U.S. federal executive agencies from sourcing equipment and services from Chinese manufacturing companies. So, what is your view on this? And do you think this will be a significant opportunity for the Indian CDMO, CRAMS players?
- And so basically, what do they mean by federal executive agencies? So, is it only government agencies? Or will it be any player in the U.S. who buys products from Chinese manufacturers? So, what are your views on this?
- Arun Kumar Pillai:** As the law correctly calls itself The Biosecurity Act, this is only relevant to biologics, and it is not so relevant to Solara.

- Aniket Kulkarni:** And secondly, do you think sustained low crude prices can lead to improve margins going forward for us?
- Arun Kumar Pillai:** That's the goal at Solara. So yes, to that question, the answer is yes.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Securities Pvt Ltd. Please go ahead.
- Sanjay Shah:** Appreciate the performance and improved balance sheet. Sir, my question was regarding our launch of API DMF commercial rights. Can you highlight upon what is the market feedback about that?
- Arun Kumar Pillai:** Poorvank, do you want to take the question, please?
- Poorvank Purohit:** API DMF, can you repeat the question, API DMF about?
- Sanjay Shah:** Yes, we have done a commercial launch, right, in last Q4?
- Poorvank Purohit:** Yes.
- Sanjay Shah:** So, what is the feedback from the market and how optimistic are we about that product?
- Poorvank Purohit:** No. So basically, when we talk about our commercial launches, so all the launches that we are doing, especially the Q4 and also the Q1 launches, so those are sustainable products. Because if we are launching a particular product in the market, that is based on certain advantages that we have for a particular product, including the right pricing and including the right publishing that we have with a particular set of customers. So that's the thing on the launch of the recent DMF.
- Sanjay Shah:** Sir, the question was more specific to understand the rationale of our optimism to grow from this level on top line as well as on margin side. So, I need to understand from you in detail about our opportunities and a pipeline of products.
- Arun Kumar Pillai:** So, Sanjay, this is not the forum to give you a detail about our pipeline at granularity and the opportunities. We have given a guidance. Will we hit our guidance? Our focus is to do that, right? That requires a combination of cost optimization, growth, DMF relaunches, cost improvement programs. We can't give you the granularity that you're asking for. Unfortunately, I don't think any company does. So, neither can we.
- Sanjay Shah:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rohit from Samatva Investments. Please go ahead.
- Rohit:** Sir, just I have one question on Ibuprofen. So how have been the prices during the quarter? And over the last 12 months to 15 months, there's been a lot of inventory globally. So, what's your take on the inventory situation? And how do you see it for the entire year going forward?

Arun Kumar Pillai: So, Rohit, by shutting down or mothballing Vizag for a short period of time, we have actually normalized or kind of equalized the demand and supply. So, our Pondicherry facility, which can make approximately 5,000 tons, is now running fully occupied, and we do not carry any excess inventory on Ibuprofen because we have a roster of customers, which are predominantly been with us for 20 years to 30 years, especially the brand owners. But most of them, we are the primary suppliers.

To answer your specific point on pricing, the pricing has come down, but we do not operate in that market where there is intense competition. And the urge for us to do that earlier and which also caused a lot of trouble for us has been removed by the fact that we have shut the tap from the Vizag facility.

Having said that, it is always great to have 2 sites from a security standpoint for such a big product like Ibuprofen. And therefore, we can open the tap at Vizag at any time so that customers get comfort that we have 2 regulated sites, which is a unique position to have in a large commodity product like Ibuprofen.

But having said that, we have now normalized our inventory. We are not carrying any inventory that we can't sell, neither are we producing anything that we can't sell. We have also moved a lot in securing new customers, new types of ibuprofen salts. And consequently, we have a better realization per kilo, considering that some of the newer players have got more cutting-edge technologies and lower cost points than us.

We are happy with the position that we are in. And our aim is to now have clusters of products which are greater than Ibuprofen in the next 2 years to 3 years. So yes, the prices have come down, but our long-standing relationship with customers of a specific nature gives us the confidence that we can keep the lights on with Ibuprofen for a long time to go.

Rohit: So just one additional question was that what will be the capacity at Vizag right now for Ibuprofen?

Arun Kumar Pillai: We have 3,000 tons, which can go up to 9,000 tons, if we want to.

Rohit: Sir, so once you retrofit, maybe this might come down, our total capacity?

Arun Kumar Pillai: No. We will still keep the 3,000-ton block for Ibuprofen, which should suffice.

Rohit: Thank you so much and all the very best. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: On the CRAMS business, from a strategy perspective, are we looking for life cycle management products in this business? What kind of opportunities do we see here?

Arun Kumar Pillai: So, we have a little of all, Nitin. So, we have got some specific skill sets and chemistry where we are onboarding large companies and big pharma, especially in the polymer space, as you

know, that we are a leading player. But we are a leading player amongst Indian companies, but that's a space which is predominantly dominated by European or Taiwanese companies.

We expect to take larger share in that space. We also are doing some early-stage business. If I tell you that we have signed up some very beginnings of dipeptides, I don't want you to get excited, but we have commenced some high potent API works. And I think in the next few quarters, we see that unfolding to more and more significant wins. And that is the reason why we are retrofitting Vizag in anticipation of that opportunity.

Nitin Agarwal:

Okay. And secondly, I know we're not getting into specifics. But qualitatively, when you take a look at this business 2 years, 3 years out, I guess, in a couple of years, we should be done with sort of putting the business into a growth phase and taking care of the past issues. Where do you see this business really ends up in the next, say, 3 years to 5 years on a qualitative manner?

Arun Kumar Pillai:

So that the past issues are taken care of, the rights issue, of course, played a big role in it. I mean, the business is now based on our guidance going to be operating at under 1.5x. So, the debt is reducing and the balance sheet is very strong. Our free cash generation, like I said, it will be greater than our guidance by at least about INR100 crores.

So that will further augment free cash. The key here is that how much of the new contracts that we have or the new RFPs that we have issued in terms of CRAMS will convert, which will give us more confidence to guide differently. This year is a year of stabilization. We want to achieve INR1,400 crores to INR1,500 crores.

We want INR80 crores to INR90 crores of EBITDA exit run rate. We have guided for a 3x debt to EBITDA. We now want to bring that down to 1.5. I think these are tall statements to make. And let's focus on this. If we get business to the 22% exit run rate, I am very confident that we will have a lot of good things to speak to you in the next couple of quarters.

Moderator:

Thank you. Ladies and gentlemen, this was the last question for today's conference call. I would now like to hand the conference over to the management for closing comments.

Arun Kumar Pillai:

Thank you, everybody. Thank you for your time and really appreciate. And if you have any questions, please do write to us or could be in touch with Abhishek, who will be happy to set up meetings for you. Thank you and 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. Thank you.