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August 10, 2022

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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, 2022**

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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 June 30, 2022, conducted after the meeting of Board of Directors held on August 4, 2022, for your information and records.

The above information is also available on the website of Company at [www.solara.co.in](http://www.solara.co.in)

Thanking you,  
Yours faithfully,

**For Solara Active Pharma Sciences Limited**

A handwritten signature in blue ink, appearing to read 'S. Murali Krishna', is written over a faint blue grid background.

**S. Murali Krishna**  
**Company Secretary**

Encl. as above



“Solara Active Pharma Sciences Limited  
Q1 FY2023 Earnings Conference Call”

August 04, 2022



**MANAGEMENT: MR. JITESH DEVENDRA – MANAGING DIRECTOR - SOLARA  
ACTIVE PHARMA SCIENCES LIMITED  
MR. HARIHARAN SUBRAMANIAM – EXECUTIVE DIRECTOR &  
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 Q1 FY2023 Earnings Conference Call of Solara Active Pharma Sciences Limited. 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singal. Thank you and over to you Sir!

**Abhishek Singal:** 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 first quarter ended Financial Year 2023. Today we have with us Jitesh, Solara’s MD and Hari – ED & CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our results released and the quarterly investor presentation which have been uploaded on our 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 if you have any further questions, please feel free to reach out to the investor relation team. I now hand over the call to the management to make the opening remarks. Jitesh over to you!

**Jitesh Devendra:** Thank you. Good afternoon, everyone. Thank you for joining the call today. While the fiscal year 2022 was challenging we have a steady start to the year with Q1 revenues at Rs.337 Crores which is approximately 80% of our historical peak run rate. We continue to see offtake for our main products improving each month which is evident from our increased sales in the regulated markets, which have increased to 66% in Q1 compared to 58% for FY2022. In terms of the new business, we continue to follow the pivots of our course correction strategy we embarked on. We have been selective in the business this quarter and are focused mainly on the products that are more relevant for the longer play out of our plan. Our first 100 days of the year are primarily being focused on the three key levers, first reviving the base business growth and profits by bringing back the momentum we had on customer centricity by better networking and continuing focus on operating cost reduction and much efficient inventory management. Second rekindling the R&D focus by adding 15 plus new programmes for the year. We are on track to file six new DMFs in FY2023 and added more high-volume products under the cost improvement basket. The third one is on the enhanced capacity usage at Vizag by initiating validation supplies to customers from our Vizag site to trigger regulatory inspection. Although our greater focus will be on regulated markets, we are tapping opportunities in markets with no regulatory binding, and we are planning certain product supplies from Vizag to less regulated markets from Q3 of this fiscal year. This will help us to reduce the under recoveries at Vizag. Our Vizag strategy is playing to plan, and our focus is to get the site approved by the authorities at the earliest. While the prices have stabilized, we continue to see short term challenges on two of key products due to softening demand and increase in raw materials cost due to the current international situation. We expect the same to normalize in the second half of this fiscal year. While our cost improvement programmes have started demonstrating better gross margins compared to Q4 of FY2022 the focus

remains on further improvement of gross margins by continually focusing on cost improvement programmes and adding new customers in newer markets.

Coming to the Cuddalore facility status where we have an OAI status we are hopeful of a reclassification post USFDA inspection which we expect to happen in the near term. We eagerly await this reclassification but in parallel we have taken steps to qualify the alternate site within our manufacturing network for some of the key products manufactured in Cuddalore where we have seen significant traction from new customers. As of now there are 10 new approvals pending reclassification of our Cuddalore OAI status.

Coming to our CRAMS business this accounts for 5% of our total revenues. This business has the potential to be our fastest growing segment with higher gross margins. In the medium term our target from this business is to be at least 10% based on our current business and a high probability of winning pending RFPs. Our new target markets for our API business growth are Latin America, the Middle East, and CIS. We have a dedicated salesforce operating for these regions and initiatives are underway to extend current products that will yield high sales momentum as we advance. Our intense focus for the next 100 days will be to continue building on the actions we have initiated in Q1 to get back to growth, improve our cash flows and strengthen our balance sheet. With the focus on all the actions above we are confident about the future prospects of the company. I now handover to Hari to take us through the financials for Q1 FY2023. Thank you.

**Hariharan S:**

Thank you Jitesh. We are pleased to announce that our Q1 FY2023 financial results and key highlights. Revenue Rs.337 Crores which is approximately 80% of our historical peak quarterly run rate, gross margin at 41.6% and reported EBITDA at 18.1 Crores with 5.4%. We recognize the fact that we have some work to do to improve our gross margins and EBITDA due to the RM price increase and continued under recovery from Vizag facility. As Jitesh pointed out we have identified key focus areas which will result in improved performance from second half of this fiscal year. Our immediate priority is to get Vizag streamlined to achieve breakeven and raise profitability growth in the near term including getting the facility triggered for inspection which was delayed due to COVID in the last year. While our debt increased over 50% in FY2022 in Q1 we have reduced our debt by Rs.11.7 Crores with no fresh loans being availed during Q1 which is a positive side of business recovery. Based on the actions for this fiscal year we have planned to improve our net debt to EBITDA ratio to under 3.5 times based on annualized Q4 EBITDA. Our net current assets reduced by Rs.50 Crores in Q1 primarily due to reduction of inventory which is positive thing we have seen doing this quarter. Our primary focus is improving our cash flows by prudent application of capital. With a clear focus on the actions to improve profitability we remain confident about growth prospect of Solara. We now hand over the call back to the moderator to open the floor for question and answer.

**Moderator:**

Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

- Tushar Manudhane:** Thanks for the opportunity, Sir. Sir while there has been improvement in the gross margin on quarter-on-quarter basis and further alluding to the comments you gave in the opening remarks related to certain softening of demand for some products and raw material cost increase so do we see the gross margin improving further now or it will be kind of taking a brief pause here and then subsequently second half probably FY2024 we will see improvement in the gross margin?
- Jitesh Devendra:** We do not see the gross margins declining we only see the gross margins improving and in the second half of this fiscal year it will be better than currently reported results.
- Tushar Manudhane:** Any number you would like to highlight like the gross margins?
- Jitesh Devendra:** Historically, we were at minimum 50% gross margin and in the second half of this fiscal year especially in Q4 our plan is to get closer to that 50% or probably achieve that 50%.
- Tushar Manudhane:** Secondly Sir with respect to Vizag the sales would be subject to USFDA inspection or without that also we will be able to get the operating leverage in place?
- Jitesh Devendra:** So, Vizag we are targeting to commence sales for the less regulated markets or markets where there is no regulatory binding from Q3 of this fiscal year.
- Tushar Manudhane:** Understood so till that time it is under recovery so probably it will continue for another quarter and then subsequently we will, see?
- Jitesh Devendra:** The way we have mapped our business plan for Vizag the goal is by Q4 of this fiscal year the Vizag under recovery will not be a burden on our P&L.
- Tushar Manudhane:** Any scheduled planned inspection by USFDA for Vizag site?
- Jitesh Devendra:** So, what we are targeting right now for the Vizag site is that for our current products for which validations are underway we will amend our DMF to include Vizag site and this activity will happen in October of this year. This will help to supply this to our customers who will trigger the inspection. So, the plan for the inspection for Vizag is that we are targeting second half of next fiscal year from the USFDA, from the Europe it could be earlier as well.
- Tushar Manudhane:** Lastly for this LATAM, Middle East, and CIS what would be their contribution currently it will be like minimal, or we will do expansion more?
- Jitesh Devendra:** So right now, in these three markets what we have seen is because we are selling ibuprofen there and the opportunities for our current products as well as new products are high so that business we are sealing in now. For Latin America specifically Brazil is one of the regulated markets the commercial

sales from Brazil will start kicking in FY2025. These three markets it is going to be contributing to a higher growth in the coming fiscal years.

**Tushar Manudhane:** Thank you and all the best.

**Moderator:** Next question is from the line of Vinay Bafna from ICICI Securities. Please go ahead.

**Vinay Bafna:** Thank you for the opportunity and good afternoon, everyone. Just looking at the breakup of revenues from regulated market if you see sequentially also, we are seeing either flattish or marginal decline kind of performance is it just because of demand slipping or do you believe that pricing is also an issue?

**Jitesh Devendra:** Regulated markets the major reason for lower sales compared to the previous quarters has been more to do with the demand rather than the price.

**Vinay Bafna:** So, you believe sequentially the prices have been stable in the developed market?

**Jitesh Devendra:** In those markets the prices have stabilized.

**Vinay Bafna:** Ibuprofen per se do you believe that it has the ability looking at the demand while it can go back to the historical level in terms of prices?

**Jitesh Devendra:** From the demand perspective yes, we are seeing the demands are increasing but to get back to historical levels it will take us about six months timeframe. From a pricing point of view, we do not see any decline further than what it is today.

**Vinay Bafna:** All right. If I look at the other markets except regulated markets, you said that Y-o-Y obviously there has been a sharp decline but even sequentially it has dropped significantly so what is the reason here that we are not able to cope up in this particular region?

**Jitesh Devendra:** Your question is more related to why our sales have declined in the less regulated market?

**Vinay Bafna:** No, why are we not able to ramp it up that is particularly the question I mean we have seen consistent decline for the past few quarters so I was expecting that in this quarter there might be certain benefit or certain ramp up considering stabilization of the environment.

**Jitesh Devendra:** For us we are really focusing on pricing as well for the less regulated markets. Sometimes the price does not meet the criteria what we would like to sell which we will have to forego those opportunities but on certain products where we clearly have cost improvement programmes in place, we feel we will be competitive even in the less regulated market.

**Vinay Bafna:** So, what I understand is that you are looking at opportunities in the less regulated market as well which are more profitable and then we are being very selective about it, is it the right way to look at it?

**Jitesh Devendra:** Correct.

**Vinay Bafna:** All right. Last question from me so the under recovery in Vizag which we are expecting to last for another quarter before we start improving on it do you believe that the run rate for that will remain same, roughly about 10 to 11 Crores or would it be higher than this quarter?

**Jitesh Devendra:** It will be more or less the same.

**Vinay Bafna:** We are expecting that Q3 onwards we will be starting to sell from Vizag. When do you believe that we will be able to achieve some breakeven at Vizag, any tentative deadline which you have internally which you can share?

**Jitesh Devendra:** Our target right now on the business plan we have laid out is that Vizag would be net from Q4 of this fiscal year.

**Vinay Bafna:** Okay so two quarters worth of revenue we will be able to try to offset the cost. That is all from my side. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

**Harsh Shah:** Regarding CRAMS business: In Q4 you had mentioned that it was 7% of your revenue and in current presentation it is around 5% so sales have come up by maybe 40% odd on sequential basis so is it just seasonality or there is more to it?

**Jitesh Devendra:** So, the CRAMS business consists of revenues which comes from contract research as well as from contract manufacturing so while the contract manufacturing is on track with no decline, the contract research is based on project-to-project basis so when we complete the project then we wait for the next steps from the customer.

**Harsh Shah:** On annual basis you are saying that we will be on the growth path?

**Jitesh Devendra:** Yes.

**Harsh Shah:** Another thing is the new product which you mentioned which are 5% to 6% of your sales so what exactly is the definition of new product are this product sold for the first time during the quarter or how old these are?

- Jitesh Devendra:** These new products consist of two things. One is the validation batches what we sell to the customer and the second is once the new product becomes commercial that is when the customer gets the approval so for the first three years, we categorize that as new product sales and then it becomes base product.
- Harsh Shah:** Last on the Vizag so when you say that you will be producing in Vizag for your less regulated markets so is these incremental sales or this is shift of sales from your existing facilities to Vizag?
- Jitesh Devendra:** This will be incremental sales.
- Harsh Shah:** Completely incremental sales?
- Jitesh Devendra:** Correct.
- Harsh Shah:** All right thank you so much.
- Moderator:** Thank you. The next question is from the line of Monish Shah from Antique Stock Broking. Please go ahead.
- Monish Shah:** Hi thanks. I just wanted to check with you what do you think will be the revenue contribution from CRAMS in FY2024?
- Jitesh Devendra:** The way we have seen the CRAMS build out that would be on our total revenues it will be close to about 8 to 10%.
- Monish Shah:** Can you highlight some of the key filings that you have made from Vizag plant which gives us the confidence for rebound in revenue growth?
- Jitesh Devendra:** Currently from Vizag, current product that is ibuprofen and gabapentin and we are going to be filing one new product out of Vizag in this quarter so these are the immediate plans and in Q3 there is another new product which is being slated for filing from Vizag and these two new products will have validation sales also to the customer.
- Monish Shah:** So as of now by year end four products from Vizag?
- Jitesh Devendra:** Correct. Two existing and two new.
- Monish Shah:** How many products can you go up to, is there a restriction in numbers?
- Jitesh Devendra:** It again depends on the quantity of the product but just on an average basis Vizag has multiple blocks so in a year we can do at least four product filings from Vizag.

- Monish Shah:** So, the plan is to do that is that correct like to go at least three to four filings a year from Vizag?
- Jitesh Devendra:** Correct. This year while we will do six DMF filings, out of these six new products two will be from Vizag but we have other products in our pipeline which are under development for which the filings will happen only in the next fiscal year.
- Monish Shah:** Just a last question on this so as of now how much capacity utilization is for ibuprofen from Vizag?
- Jitesh Devendra:** Right now, ongoing Ibuprofen validation for triggering the FDA inspection. As I said we are looking at incremental sales not taking from our current site to Vizag. We are looking at opportunity for incremental sales from Vizag. So, we will have a better picture in Q4.
- Monish Shah:** No non-regulated market sales as well?
- Jitesh Devendra:** Right now, no but depends on the opportunity and we are looking at non-regulated market sales.
- Monish Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. In the case of underleveraged asset, the revenue pick up remains pretty much low and due to under recovery from EBITDA perspective, two questions on that one is from a fixed cost perspective the fixed cost that we are running at about 120 Crores where about is there any scope for optimizing it or this is a fixed cost?
- Hariharan S:** Fixed cost that comprises of plant operating cost and manpower and there is not much cost optimization in that other than the energy and waste disposal cost which we are working on for the reduction and most of our activities on the yield improvement and the process improvement and process optimization that is a major contribution than the general opex reduction.
- Nitin Agarwal:** On the revenue front with the business that we have with the subsidy that we have assuming once the requisite approval comes through and the product portfolio that we do we see this business going back to 450 to 500 Crores quarterly run rate at some point in time and if you have hazard a guess at what point of time will you probably get to start to get revenue run rate on a quarterly basis?
- Jitesh Devendra:** Historical run rate has been at about 400 Crores every quarter and as you see from our Q1 we are close to about 80% of it so the goal is in terms of first getting back to the historical run rate of 400 Crores per quarter in short term and then from a medium-term perspective we are looking at one of those new revenues which we are going to get from the new product filings as well as from the new markets.

- Nitin Agarwal:** So, in short term should we understand by what, if you give some more colour on what short term we are looking at here?
- Jitesh Devendra:** When I say short term when we look at the Q4 of this fiscal year on annualized basis is what we are targeting from a revenue perspective to be at about 400 Crores every quarter.
- Nitin Agarwal:** In earlier comment you mentioned we are looking at EBITDA margin of close to 50% by the time.
- Jitesh Devendra:** Not EBITDA margin, its Gross margin.
- Nitin Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurav Mahidhar an individual investor. Please go ahead.
- Gaurav Mahidhar:** Actually, my question pertains to the CRAMS side of business. It is an established fact that the opportunity size in this space is quite big so as a company what are we going to do differently from the other players and ensure of the business on this side and what are our aspirations or the strategy to grow in the longer term so can you please elaborate on that?
- Jitesh Devendra:** To answer your question yes, the opportunity is vast in this area and this CRAMS business is not new to Solara. We have been doing CRAMS, but we should have been at a much better position in terms of the revenue piece. From what are we doing good I can say other than this OAI classification of our Cuddalore site but that was more to do with a product related but nothing to do with data integrity. I think where we stand out is in terms of our quality policy as well as the EHS these are the two important factors and of course the reliability and supply which is standard which everyone would ask for, but we are investing also in newer technologies which we are planning for the next fiscal year once we course correct our current business. We have some longstanding relationships with a few big pharma as well as emerging biotech companies, so we are tapping on with them and we are seeing newer opportunities coming from our existing clients as well as the new clients. We just recently hired a BD position in US, and she comes with lot of CRAMS experience. We are adding the business development team, so we have one dedicated for Europe and now we have one for the US, so this is where we see our CRAMS business going to grow in the next two years.
- Gaurav Mahidhar:** One more thing the merger with Aurore has it gone through so are there any plans of an acquisition in this space, are we thinking around these lines what is the thought process?
- Jitesh Devendra:** It would be an ideal to always have an asset in the west as well but right now as we said the focus is in terms of resetting our business. We want to get back to the momentum what we had prior to the issues what we had faced so right now the focus is in terms of the current business what we have on hand and the current assets we want to utilize them well before we even think of any acquisitions.

- Gaurav Mahidhar:** All right thank you. Pleased to hear that. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shubro an individual investor. Please go ahead.
- Shubro:** My question pertains mostly to the overall news which has been coming out of Solara for the last six months which has not been very positive including one which has just come out and what kind of confidence can you give us that in terms of management, things are stable and moving forward we can only have better days?
- Jitesh Devendra:** I will not be able to comment on the past but going forward from here Hari and I we are confident about the future prospects what Solara has. We have been with this company right from its inception and the financial results are out there where it shows the track record in terms of how the company has just not grown from a revenue perspective but we have also increased the shareholder value from the businesses what we have, improved consistently on YoY basis our EBITDA margins from 11% to 23% so this business is something which is very close to us. We know this business. We were happy when the Board had reached out to us to come back, and we readily agreed to reset the business for Solara. The management team is well set other than Hari and I, we have our CSO, our CQO, COO so no one has left us in spite of what has happened in the last six months, so the team is set. We have the customer base. It is more about the focus in terms of the execution. How do we get Vizag right? We have a clear strategy for that, and we will be executing on these strategies and that is why we are confident in laying out the future plan for Vizag, to ensure that Vizag is not going to be a burden on our P&L so now it is all about execution. The strategy document is in place.
- Shubro:** Thank you and all the best.
- Moderator:** The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** Hi thank you for the followup. Just wanted to understand on the pricing side we said that couple of our key products are still facing certain pricing pressure so are they still at their lowest flows which we saw during the last two quarters there is some sort of firming up happening in their end where do you see the pricing going from here because we are also seeing some increases on the input side so will we be passing it on or we have to take that threat and wait till the raw material pressure eases?
- Jitesh Devendra:** For at least our matured products we feel that the prices have stabilized it is not going to go lower. From a raw material price increase what we have faced we expect that also to normalize in this current quarter. The focus is in terms of the cost improvement programmes for these matured products so even if there is any raw material price increase, we are still able to protect the gross margin on these products and this is what we are working on right now.
- Harsh Shah:** Couple of quarters back we had mentioned about changing our strategy in the less regulated market that we will be directly selling to our customers and removing the intermediates so how is that going

in and how is it helping us, has it started to reflect in our numbers or do you expect maybe couple of quarters down the line how it will help us from the pre-reset numbers?

**Jitesh Devendra:** So first is we are not changing our strategy to less regulated market I mean less regulated market is an additional opportunity for us. Our business of Solara majority of it has been for the regulated market. The question comes about in terms of the channel partners the goal is of course to sell directly to the customers; in some markets it is preferred that we have to go through the channel partners but the majority of our business if you look at it is all direct businesses.

**Harsh Shah:** Thanks.

**Moderator:** Thank you. The next question is from the line of Hemant Desai an individual investor. Please go ahead.

**Hemant Desai:** In Q4 FY23, you are targeting to reach your historical quarterly revenue run rate of Rs. 400 Crores and approximate gross margin will be 50% and we are looking at Rs. 200 Crores gross margin vis-à-vis Q1 margin of 140 so in terms of Q4 FY23 run rate are we looking at almost 50 Crores additional gross margin incremental value am I correct in assuming that?

**Jitesh Devendra:** Yes.

**Hemant Desai:** Other question would be when is the USFDA inspection plan which quarter of the year any idea?

**Jitesh Devendra:** Is your question specifically for Vizag site?

**Hemant Desai:** Yes.

**Jitesh Devendra:** Hemant as mentioned earlier our customers will trigger our DMFs which we are hoping will happen in the Q3 of this fiscal year. About the USFDA inspection based on our experience it would happen in second half of the next fiscal year.

**Hemant Desai:** Thank you so much for the stability in this quarter we have seen best two quarters earlier so lot of hard work perhaps not seen in the numbers we should come up in the coming quarters all the best. Thank you so much.

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



*Solara Active Pharma Sciences Limited*  
*August 04, 2022*

**Jitesh Devendra:** Thank you all for participating in Q1 FY2023 investor call. We really appreciate your time.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Solara Active Pharma Sciences Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines