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May 6, 2022

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

Scrip Code: 541540

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

Scrip Code: SOLARA

Dear Sir / Madam,

Subject: Transcript of the earnings conference call for the quarter and year ended March 31, 2022

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 and year ended March 31, 2022, conducted after the meeting of Board of Directors held on April 29, 2022, for your information and records.

The above information is also available on the website of Company.

This is for your kind information and records.

Thanking you,
Yours faithfully,

For Solara Active Pharma Sciences Limited

S. Murali Krishna
Company Secretary

"Solara Active Pharma Sciences Q4 FY2022 Earnings Conference Call"

April 29, 2022

MANAGEMENT: **MR. ARUN KUMAR - FOUNDER & NON-EXECUTIVE DIRECTOR – SOLARA ACTIVE PHARMA SCIENCES**
MR. JITESH DEVENDRA – MANAGING DIRECTOR - SOLARA ACTIVE PHARMA SCIENCES
MR. HARIHARAN SUBRAMANIAM – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER - SOLARA ACTIVE PHARMA SCIENCES
MR. ABHISHEK SINGHAL – INVESTOR RELATIONS - SOLARA ACTIVE PHARMA SCIENCES

Moderator: Ladies and gentlemen, good day, and welcome to the Solara Active Pharma Sciences Limited Q4 FY2022 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 this 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!

Abhishek Singal: Thanks Stanford. 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 fourth quarter and full year ended Financial Year 2022. Today we have with us Arun - Founder and Non-Executive Director; Jitesh – 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 as well as the stock exchange website. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion may be forward looking in nature and must be reviewed 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 relation team. I now hand over the call to Arun to make the opening remarks.

Arun Kumar: Thank you Abhishek and appreciate everybody stand today. It has been an important day for Solara as we, kind of reversed certain corporate actions that we took almost 18 months ago. So, at that time when the deal was announced I was on this call and today consequently with the deal being called off I thought it was appropriate for me to address the initial part of the conversation to explain the rationale behind it.

So just in terms of full disclosure, as promoters we also own Aurore which was a private API company that has been built to scale and when we announced this transaction both Aurore and Solara were delivering the highest business performance riding the highs of the API industry, general shortages of API's and the demand around it. Regretfully, the deal has taken a lot of time to close and obviously deal fatigue emerged in terms of a transaction which takes so much time to close. So, while we had spent a lot of time on the strategy and the integration. In terms of the process we appointed a first-class international banker, we had a third-party valuation that was done and, we have filed our documents with the SEBI. However, there were some issues with the minority shareholder in one of the subsidiaries of Aurore, which resulted in a change of the scheme, took a lot more time and consequently, we finally received all the necessary approvals to submit to the NCLT just a couple of months ago. In the interim period, obviously, Solara's businesses were severely impacted with the headwinds that we faced with the lack of Ibuprofen sales and the challenges around that business and some of the course corrections that we took several quarters ago. This resulted in a significant drop in Solara's margins, but the same impact of another type also was impacting the financial performance of Aurore and while Solara's performance has been depressed we still do have an EBITDA that is where we can grow from here. Unfortunately, with an over dependence on COVID products in the case of Aurore and in the recent six months we have seen a lack of demand for the primary tactical products that Aurore was selling, dropping significantly where the economies does not make any more sense for the Solara shareholders to keep the ratios intact, and it would not be appropriate for us to then recommend to the Board that as promoters that the merger should go through. So, this was the reason why the merger was called off. We have had significant progress with a strategic intent, there was a lot of value in what the two companies were creating, and we believe that there are ways and means on an arm’s length basis that we can benefit from those opportunities. We will continue to focus on that, but at this time the most important challenge for Solara was to rebuild its business, rebuild its confidence with all its stakeholders and customers and its employees especially and for that reason today, we decided that it was best that we focus on an organic strategy for Solara keeping aside all the inorganic actions and move forward. Most importantly, I am extremely delighted to have Jitesh back to run the company as a CEO, this is an important step for Solara as Jitesh and Hari who we announced as a CFO in the last earnings call to come back to Solara to rebuild the company, with the deep insights of the business itself, for the fact that they were involved in the company since inception. I am extremely confident about this team and the leadership capabilities of both Jitesh and Hari to bring this business back on track and the Board is very supportive of this decision. So I will stay through the call to answer any specific questions on a promoter rationale, but having said that and since I have a non-executive role I will continue to stay invested and committed to the journey of Solara, I strongly believe that it has got all the right elements to build out into a high-performing company and we will see that emerging in the near future. With that I also apologize to several of you who may have been confused with the recent changes that we made, but I think all this including today's corporate action decision is behind us and the company can focus on the course correction journey and build out the business for the future. With this I will let Jitesh and Hari to commence their opening remarks and then I will stay behind if there are any specific questions at least for me. Thank you Jitesh.

Jitesh Devendra: Thank you Arun. Good evening everyone. It is good to be speaking to all of you in this forum after a while. I hope all of you are fine and the best of health. Both Hari and I are pleased to be back to reset and steer Solara back to growth and profitability. We thank the founders and the Board for reposing their trust and confidence in us. We also like to thank our investors for their confidence reposed in us during our first tenure at Solara. Since Solara’s inception, we have been driving Solara and our focus will be to review and grow the business on its key pillars consisting of Ibu and non-Ibu APIs, our continuous improvement programs including backward integration for our key APIs, new product introductions and CRAMS. These four pillars have strengthened our position as a pure play API company. We are optimistic about the future potential of Solara mainly with

- Capturing the opportunities in the core business where we see green shoots in the demand and converting inquiries into new business.
- File at least six new products in FY2023,

- Aggressive continuous improvement programs, and
- Lastly improving our success rates to secure new CRAMS business.

We have short-term challenges on two of our key products with price to revert to normalcy and increase in RM price due to current international situation and we expect the same to normalize in the second half of this financial year. While this has impacted our gross margins, actions are in place to minimize the impact.

Coming to our Cuddalore API facility, our regulatory track record with various agencies has been exemplary. Barring the OAI classification of our Cuddalore API facility due to Ranitidine NDMA issues, we firmly believe that with US FDA inspections initiated, we are hoping for reclassification of our OAI status based on all the data points provided to US FDA. Our evidence of work done on Ranitidine resulted in the restoration of our CEP back in July 2021. As of now there are 10 new approvals pending reclassification of our Cuddalore OAI status. With the belief that the reclassification of our OAI status within the first half of this financial year, we have considered new sales in the second half.

Coming to the under recovery of our Vizag facility, let me recall our justification for our investment. There were three main reasons for investment, one the expansion of capacity of our key products, new product filings, and backward integration of key intermediates. While the investments have been made, we expect to trigger the regulatory inspection in this financial year. Clearly as we focus on the regulatory markets, the gestation period for sales is at least 24 months from when we complete validation batches. However, we are tapping opportunities in markets with no regulatory binding. With new products being introduced in this financial year and some being filed from Vizag we are confident of minimizing our impact of under recoveries in Vizag in this financial year. The rigor in continuous improvement programs has been reintroduced and we expect to contribute improvement in gross margins from second half of this financial year. With the focus on all these actions above, we are confident about the prospects of Solara. I now hand over to Hari to take us through the financials for the last quarter the Q4 of FY2022 and the year. Thank you again.

Hariharan S: Thank you Arun and Jitesh. I thank the founders and the Board for the opportunity given. We are pleased to announce that Q4 financials along with the FY2022 consolidated results. The key highlights are as follows: Our revenue for Q4 at Rs. 367 Crores which is 90% of our historical run rate, and adjusted EBITDA at Rs.50 Crores at 13.6% EBITDA rate. Our revenue for FY2022 stood at Rs. 1289 Crores compared to Rs. 1645 Crores of the previous year. Our gross margin for Q4 at 44.1% and year at 47.6% as against compared to 54.7% in FY2021. We close out FY2022 with consolidated EBITDA of Rs. 92 Crores compared to Rs. 400 Crores in FY2021, the fact that we must work to improve our gross margin and EBITDA which is due to the under recoveries from Vizag facility and delay in the new product introduction. As Jitesh pointed out we have identified key focus areas, which will result in the improvement, expected from second half of current financial year that is FY2023.

We are conscious of the fact that our net debt has increased over 50% as the funds deployed into the Vizag. Our immediate priority is to get the Vizag off the roads to achieve the breakeven and profitable growth in the near-term including getting the facility triggered for inspection which was delayed due to COVID. Our primary focus is to achieve a comfortable net debt to EBITDA run rate and improve our cash flow by prudent application of capital. We are pleased to inform you that our credit rating has been retained at A- for long-term and working capital. With the clear focus on the actions to improve profitability, we remain confident about growth prospects of Solara. Thank you.

Abhishek Singal: Stanford we can take the Q&A please.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Can you walk us through your slide #27 where you have cut the P&L into core business, R&D led growth business and the Vizag led business, so in that you show if I take Q4 your revenue of R&D led growth business is zero and Vizag led growth business is zero and the same thing is also true for the full year and you have an EBITDA there of minus Rs. 54 Crores for the R&D led growth business and minus Rs. 58 Crores for Vizag led business so when you have EBITDA of minus Rs. 54 Crores and minus Rs. 58 Crores what does that mean, are you saying that this is the cost that you have apportioned to these businesses which is earning you no revenue right now?

Hariharan S: See just to clarify that we have bifurcated our current financials in Q4 as well as year as a whole into three buckets, one is the core business where our main products are being undertaken and R&D where the cost incurred you have rightly said that we have incurred a cost for the R&D facilities and R&D activities and next is that the Vizag where there is under recovery, due to the delay in the regulatory approval and the regulated market sales cannot take place and we have not got the regulatory approval. Due to COVID, the delays have taken place for the inspection, so that is the reason that we have to incur the cost, but the depreciation and interest cost for the project has to be gone through the P&L that is the impact that we are having up to the PAT level and if you look at our core business where we have made a revenue of around Rs.367 Crores and Rs.40 Crores of EBITDA and year as a whole at Rs. 1288 Crores and Rs. 200 Crores of EBITDA. So, we are impacted by the delay in the new product introduction and the Vizag led business which is cost based business and we have not got any revenue from that. As per the Indian Accounting Standards, we must charge off the revenue expenditure incurred on the Vizag even though that we have started the operation but could not get the regulatory approval, so that is the reason in a transparent manner we have shown in our P&L.

Manish Gupta: I am sorry I did not understand that, if we just take the Vizag led business as an example so you are saying there is Rs. 58 Crores of fixed cost in Vizag earning no revenue because this is EBITDA right, so this does not include depreciation and interest, so there is a Rs. 58 Crores fixed cost in Vizag which is earning no revenue.

Hariharan S: Correct last year.

Manish Gupta: This is Rs. 53 Crores of R&D led growth business, and can you give us the same figures for FY2021 in these three buckets?

Hariharan S: At present I do not have but we will provide you Sir.

Arun Kumar: Manish this is Arun and for the benefit of the new management team I can just try and put a little more color on your question. Typically in the API business when you have an R&D pipeline you also see new customers for new products that revenue and margins that we normally make typically sets off the R&D spent, what that deck also says that our R&D flow through of new products and customer acquisition of new programs was not a great year for us in the last financial year, so that is for the first time it has happened. So typically, when you do six or seven new products you feed customers in the formulation space and to a very large extent your R&D is squared off. This was the first time in the history of Solara that in the last 12 months, we were not successful on that front. So that is why the revenue from that activity has been shown as zero while the costs have been incurred.

Manish Gupta: Sorry to just push on this but it is important for us to understand this, so when you say R&D led growth business, so last year you would have had some revenue so when you say R&D led growth business this would be perhaps new products right, so the way to look at this is that there was no revenue from new products in FY2022, is that right?

Arun Kumar: Correct.

Manish Gupta: Similarly, when you say Vizag led business, this is your Vizag plant, so revenue from the Vizag plant was zero?

Arun Kumar: Correct, the Vizag plant is an SEZ and it must be qualified by customers and by regulators, none of that happened last year simply because no regulatory inspections are happening. It is now commenced, we expect the site to be inspected during this fiscal year. We can also tell you that, part of the investment of that plant was prepaid by a customer for volumes, so, it is just a function of inspection and qualification of the site which we expect to happen in this financial year, considering that audits are now commenced full swing.

Manish Gupta: When you say Vizag led business cost of Rs. 58 Crores so bulk of this cost would be salary cost right because if the plant is not operational.

Arun Kumar: Utility, Salaries, yes.

Hariharan S: So that we are getting ready the plant for any time inspection and HVAC maintenance, QC equipment maintenance, we must be ready for inspection that is the initial cost which we have to incur.

Manish Gupta: Okay great, so I have few more questions I will come back in the queue.

Moderator: Thank you. The next question is from Rohit from Samatva Investments. Please go ahead.

Rohit: Hi! Sir, thank you for the opportunity. My first question is on the regulated market. I remember in one of the previous calls you had indicated that the regulated markets you want to sell directly to the customers and not through channel partners. I just wanted to know how has the transaction been, have you been able to add any customers in very general terms if you can just give some idea on that?

Jitesh Devendra: Yes, we have seen recoveries in our business in Q4 where bulk of our business has been directly to the customers and our dependency on channel partners have considerably reduced and from a regulated market perspective traditionally our business has always been direct, I would say 90%, 95% of our business has been direct.

Rohit: My second question would be on the BASF facility in Germany they have recently released a press release they think that they may halt production in their German facility due to the gas prices shooting up so if you could just comment on that and how the market in general for Ibu in the past one or two months in general?

Jitesh Devendra: So we would not want to comment on the BASF part but I can definitely talk about the demand for Ibuprofen so as we know the last year has been not a good year for the Ibu but our demands have started coming back from our existing customers as well as we are getting inquiries from new customers which we hope to convert them into new business opportunities by supply of validation batches in this financial year. So, as you can see our revenue is coming back to its historical levels, so our key products are starting to do well.

Rohit: Great. Just one last question on the CRAMS division prior to November, merger was going to take place I remember Aurore had a decent amount of CRAMS business within their portfolio so now that the merger is not going through how do you plan to scale up this division and right now it is a very small percentage of your total revenues how do you see that scaling up in the next, maybe two to three years?

Jitesh Devendra: While CRAMS contributes about 7% to 8% of our total revenues, it is still a major focus for our growth we are adding in new customers as well as we have also developed some new technologies which will give us an advantage in terms of securing new business and as we speak we are also building our CRAMS organization from a front-end perspective where we would have a dedicated business development team member for looking after the North America market, so we do have one right now who focused on the Europe and we are going to hire someone for the North America market.

Rohit: If I could just squeeze in one more question. In the last call you had indicated that even FY2023 maybe second half you will get back to your regular run rate of around Rs. 400 Crores, for FY2024 and 2025 maybe do you think that we can do around Rs. 500 Crores of quarterly revenues?

Jitesh Devendra: Our focus right now is to strengthen the foundation of Solara to get back to its historical run rates and then that we are seeing it from a revenue perspective, the next focus is in terms of how we improve our EBITDA margins, our gross margins which has been traditionally at about 50% to 54%, we see that coming back in second half of this year and then the continuous improvement programs in terms of improving our EBITDA margin. So, right now, this is the focus for this year and of course once we strengthen the foundation and we are hoping the Vizag facility being inspected, the Cuddalore reclassification from the FDA point of view as well as the new products we have a target of filing at least six new products in this financial year which can minimize the impact on the R&D cost what we had last year. So, yes with all these growth prospects, with all these actions what we are taking, we are looking at building the business, I really would not be able to comment on the FY2024, but you can see that there are growth pillars clearly being actioned on.

Rohit: Great, Sir. Thank you so much and I wish you all the very best. Thank you.

Moderator: Thank you. The next question is from Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir on slide #11 there is a mention of increase in net debt because of increased inventory buildup planned for COVID related business, now the outlook for COVID itself is reduced at least as we stand today so just would like to understand what happens to that inventory?

Hariharan S: For COVID related products, two products we have inventory and one of the product is getting sold in Q1 and Q2 of this current financial year and other products also we have got a lot of plan for liquidation, there will not be any loss of inventory for the COVID products. We have a liquidation plan and we have got customer commitment for the sales.

Tushar Manudhane: But the realizations would have reduced drastically or…

Hariharan S: In Q1 and Q2 it will get reduced and by next financial year it will become a reasonable level.

Jitesh Devendra: I think Hari the question is that will your price realization be lower.

Hariharan S: No. The price realization will not be lower. Our price indication from the market is not that lower and it is better.

Tushar Manudhane: Secondly on the Vizag facilities, so some amount of business was to get transferred from Pondicherry to Vizag primarily because of better cost efficiencies at Vizag facility so any color on that part?

Hariharan S: That is the plan that we are building capacity for Ibuprofen in Vizag and due to the regulatory delays, due to the external reasons like COVID, we could not get this inspection, once that Vizag inspection takes place and then we will be relocating some capacity of products from Pondicherry to Vizag.

Tushar Manudhane: Lastly on Aurore, while it had a super normal business performance so that time itself it was very much evident that it is also due to COVID products, so just would like to understand what happened in-between or rather even at that time it was clear that the COVID products might kind of be through for maybe couple of years or three years for a maximum, and still we went ahead with the merger?

Arun Kumar: So, the primary reason was that while the tactical margins that Aurore had at the time of the merger was adjusted quite significantly in favor of the multiples for the Solara shareholders because we did do an adjustment on those profits. The key there was, the non-COVID portfolio ramp up that Aurore will achieve with the non-COVID program, while they have filed a lot of dossiers, it is not translated into business as yet it is slowly picking up, but it would take a lot more time for it to achieve its numbers and given the fact that there would be a reset of the multiples of the numbers based on now that was the primary reason. Aurore has also been impacted by the fact that their new facility in Hyderabad has also not been inspected which has also delayed quite significantly, some of the larger ramp up of the non-COVID products. So, all in all it did not play out as planned and as late as September even though the numbers were not ramping up, we were still fully committed and invested into the process but then it has been not a great last six months in terms of financial performance. So, we think Aurore will take at least another year, year-and-a-half for it to bounce back and that would be a distraction for the core business at Solara.

Tushar Manudhane: Okay Sir thanks a lot.

Moderator: Thank you. The next question is from Monish from Antique Stock Broking. Please go ahead.

Monish Shah: Hi! Good evening everyone. My first question is if our Vizag site was idle since it was not inspected by the FDA why did not we use this opportunity to sell products in the non-regulated market?

Jitesh Devendra: As Hari had mentioned that one of the key products which we were looking at transferring to Vizag was Ibu. We had a lower demand in Ibu overall for the last year and that has really impacted us because had this situation not happened that was the plan in terms of selling it to markets where that we had no regulatory binding but overall the Ibu demand itself for the last year was much lower than which we even not had forecasted in our plans.

Monish Shah: So, any forecast that we had for Ibuprofen demand for FY2023 or beyond this?

Jitesh Devendra: Yes, we do have plans and the Ibuprofen is just not one API for us we have multiple Ibuprofen products within the umbrella of the Ibu business, so we are qualifying the other Ibuprofens in the Vizag facility and we are actively looking out for customers to sell the quantities what we are going to be producing. The goal for Vizag in this financial year is again to minimize the impact or the under recoveries what we have in Vizag and we do have some plans from second half of this financial year, we are getting some commitments from customers to buy from Vizag.

Monish Shah: But that will be pending the FDA clearance?

Jitesh Devendra: No, I am talking about the markets where we do not have regulatory binding because even in the markets where we do not have regulatory binding we still have to give some documentation in terms of, at least the minimal documentation and once that is completed we start expecting sales from second half.

Monish Shah: Any non-Ibu products which are going to be potential growth driver that we would like to call out?

Jitesh Devendra: Yes, we do have the non-Ibu products where the Solara's position is strong. We have products like Gabapentin, Sevelamer Carbonate, Praziquantel and we are acquiring new customers because in some products like the Sevelamer Carbonate we were just focused in the US market just based on the demand perspective, but we have tapped new markets also for Sevelamer Carbonate where we are seeing some opportunities for new business to come in.

Monish Shah: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Mitesh Shah from ICICI Securities. Please go ahead.

Mitesh Shah: Thanks for taking my questions. I just start with the macro level. What is the cost inflation right now in the raw material side, our power cost and the freight cost?

Hariharan S: The raw material cost due to the current situation between the international market conflict, some of the key material cost has gone up nearly by 30% to 40% we can say that even the solvent prices, gas prices and the propylene prices, toluene prices, all the solvents have gone up by more than 40% and even the metal prices have gone up. So, there is overall increase in the price of the gas related products and the metal related products we have seen affecting the input prices of our raw material.

Mitesh Shah: Do you expect that to cooling down in near-term?

Jitesh Devendra: Yes, once that the situation normalized in the international market I think it is only temporary everybody has taken advantage of that and increase the prices it will come to normal by second quarter we hope so.

Mitesh Shah: Freight charges are also on elevated level.

Hariharan S: Our transportation is mainly by sea only and it has not impacted much. Last year level only we can see the freight charges for that.

Mitesh Shah: Any chances in the future we are looking for Aurore for the merger or the sector is completely closed?

Arun Kumar: Let me address that, at this time it is best to say the chapter is closed and the company to focus on its organic reset and focus on its balance sheet, it is not that we will shy away from doing transactions but I think the focus for the next several quarters is to get the business back to where it used to be and that itself is a big task, so we cannot be distracted away from the strategic goal, so that is where we are.

Mitesh Shah: My last question would be you have given the 19.7% EBITDA margin adjusting of the inventory changes and Vizag you explained about the Vizag and I thought the inventory adjustment done almost all the part on the Q3 so what is the adjustment will be in Q4 right now?

Hariharan S: In Q4, the production level is very low and whatever the inventory we had as of end December got sold. So, due to that there is a decrease in inventory and which is reflected in our financial itself and had this production level be normal, this inventory reduction will not be there, so that is what we have just highlighted properly that this inventory reduction as the opening stock got sold and much less production activity during Q4.

Mitesh Shah: So that would be expected to be normalized in 2H right?

Hariharan S: Yes, that is the purpose we have highlighted.

Mitesh Shah: What is the Ibuprofen price right now?

Hariharan S: At this point of time it is anywhere at the average of $11 to $12 a kilo.

Mitesh Shah: Thanks a lot that is it from my end.

Moderator: Thank you. The next question is from Thomas Priju from Alchemy Capital. Please go ahead.

Thomas Priju: Thanks for the opportunity. I had only one specific question for Arun while the logic for calling off the Aurore deal is well taken the only lingering concern is from a shareholder perspective we would have ideally preferred a scenario where your interest is in only one listed entity so how should we view that, you would still have a shareholder in the company which is separate and I ideally as a shareholder one would prefer you to have all your ownership in one listed entity is there some way to address that dichotomy?

Arun Kumar: There is a way and that is an easy way I am in the process of exiting my interest in Aurore consequent to this decision it is a process of three to six months and I am very focused on governance and compliance as you probably know me for too long to discuss this matter. The reason why we brought all the interests together was the two companies are doing well currently both companies are not and if we are very, very confident of strongly rebuilding Solara to where it should be we are very significant stakeholders in Solara and we intend to do that including to be more invested. So, our interest in the next six months will be fully committed and aligned only in Solara.

Thomas Priju: Thanks a lot for the clarification. Thank you.

Moderator: Thank you. The next question is from Bhaskar Bukrediwala from Arthya Investments. Please go ahead.

Bhaskar Bukrediwala: Thanks for taking my question. The question was on this R&D led growth business so where you are sort of showing the big tag Rs. 54 Crores the question is, so this is all research and development expense for new products right and nothing is getting capitalized and everything is basically passed through the P&L?

Hariharan S: Correct, nothing is being capitalized and everything is routed through the P&L.

Bhaskar Bukrediwala: So, this Rs. 54 Crores is what is routed through P&L and beyond this there is no single rupee that is getting into the balance sheet?

Hariharan S: No, nothing is getting into balance sheet, normally our accounting policy is all R&D cost routed through P&L only that is consistently being followed and that we are not holding any intangible assets in financial books pertaining to the new product development.

Bhaskar Bukrediwala: Going forward given this is expenditure for developing new products going forward from annual run rate perspective and specifically for FY2023 and 2024 what would be the expenditure on new products, would the same run rate of Rs. 54 to Rs. 55 Crores continue or there could be a revisit to this?

Hariharan S: We are rationalizing the spend and judicially we do not expect more than this, but we were working on how it can be optimized.

Bhaskar Bukrediwala: One question on your non-Ibu business so if you can help understand both this quarter and otherwise how has been your non-Ibu business on existing products scaling up and I am assuming that once new filings happen next year that will further help to drive the non-Ibu sales, if you could give some sense on the existing products which are already approved which you are selling and some of the products which you would have got which are currently small how are they sort of shaping up in terms of the growth?

Jitesh Devendra: So on the non-Ibu business, there too for our key products we are seeing the recovery coming back, the last year has also been a little dull for products like Oseltamivir, Succinylcholine Chloride, and now as we step into this financial year when we looked at our numbers, we are seeing demand coming back for the non-Ibu business especially led by Gabapentin, Sevelamer Carbonate, Praziquantel. So what we have done, the actions what we had taken in the last three to four years, all these products where we have a good position from a cost point of view we have also done market extensions for these products and those market extensions are now fructifying in terms of the approvals coming in and the new demands coming in from new customers as well as from new regions.

Bhaskar Bukrediwala: Would you be able to give some guidance in terms of next two, three years how do you see this non-Ibu business?

Jitesh Devendra: So we do not give a revenue split between the Ibu and the non-Ibu but I can assure you that the non-Ibu business will continue to grow and in the non-Ibu business we do not consider the new products so as Arun had alluded earlier the new products usually cover the cost of the R&D expenses what we spend because we do validation batches and those validation batches are sold to the customers for filing purposes. So, the new products like for example the six new products we have plans in terms of filing for this financial year would give us some revenues in this year as well as in the next financial year. So, it is more like a rolling as we keep doing or introduce new products.

Bhaskar Bukrediwala: One just last question so the API prices in general apart from Ibu demand related issue is being a bit weak and we have seen the same in US generic formulation market so as the US generic market starts to see some pricing pressures being reduced do we see the same sort of translating into better API pricing in terms of our ability to then pass on or get better realizations from the formulation players?

Jitesh Devendra: So, in the past we had similar situations where the raw material price had increased, and we had to wait and watch because you just cannot pass on the price increase even for a formulation player it does not happen immediately. We just have to wait because is it temporary or is it going to be a six months or a one year, so when we assess the situation and we know that the raw material price is not temporary then we do discuss with our customers and then we either pass on or we take at least we pass on 50% of the cost and then they bear 50% of the cost. The pricing has been stable except for Ibu where there has been a reduction in the price and we are working on the continuous improvement program for all our products and that has been one of our adding contributors to the EBITDA margins in the previous financial years.

Bhaskar Bukrediwala: Just small last question if I can squeeze in what is the capex program now that your balance sheet has got some bit of debt and there is a lot of realignment any rethink on the organic capex plans for next two years what sort of guidance would you like to give there?

Hariharan S: In FY2023 we have plan to incur Rs. 100 Crores organic capex to support the ongoing investments in Vizag and other maintenance capex.

Bhaskar Bukrediwala: It includes maintenance capex as well.

Hariharan S: Yes.

Bhaskar Bukrediwala: Thank you so much. That is all from my side.

Moderator: Thank you. Ladies and gentlemen, we take the last two questions. We take the question from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just have a followup question to one of the participants I think you mentioned that the revenue from new products was zero and, in our presentation, it says it was 5% on slide #31 so if you could just clarify that?

Jitesh Devendra: Just to clarify see we cannot break our business into too many buckets but the new products when we say 5% these are the new products which were developed earlier and had a commercial launch in the previous financial year, so that is the revenue which we are talking about is from the 5%, so we have an internal policy where we declassify a new product post two years of commercial revenue.

Shikha Mehta: Alright Sir thank you.

Moderator: Thank you. We take the last question from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: This is a question for Arun rather there are two questions Arun. If you can last year when the merger with Aurore was announced there was a very explicit vision laid out that we needed to be a billion dollar company which needed to have new products, there was a $250 million or so bridge that would come from acquisitions, now that things seem to have completely turned on its head, we are all minority shareholders but you are at the wheel so can you help us understand what now in your book based on your vantage point how would you define success for Solara let us say over the next five years?

Arun Kumar: Great question. So we are as capital operators and entrepreneurs in this business for too many years focused on building scale nothing in that book changes in terms of our vision to become an important global player and nothing is going to stop us from doing this we are facing not only us, the industry is facing temporary headwinds, initially there was an exuberance around COVID for stocking which finally resulted to irrational exuberance of overstocking that is resulted in kind of companies destocking and getting off of inventory resulting in this roller coaster ride that most of the industry has gone through. That is the business environment that we operate. Is that going to change, our views on building this business to scale the answer is no. Can we do this organically the answer is also not yes. We must have an inorganic element to this business, but we need to steady the ship. The headwinds of Ibuprofen in our view is temporary it is a critical product we have been in the market for 30 years, we have sold only 40% of our annual demand last year, we see business bouncing back. Our focus now is to ensure that we do not have under recoveries in Vizag, bring our debt to EBITDA to a reasonable level and we will continue to pursue opportunities which are inorganic in nature but I do not think the vision has moved maybe the timing has shifted and that would be the same answer you will receive from any other entrepreneur in the space who has faced these challenges these are not unique to us of course we had very significant sort of mini missteps in the last several quarters, but I think we now have got our act together back, we have got the team that build this business or what we call is the team back to run the business, we have a Board which is very supportive and I am very, very confident that we will still emerge amongst the top 10 global players. We probably will take two more years but and that is to do with the circumstances in the business environment that we operate in.

Manish Gupta: The second part of my question that let us take a five-year view of how would we define success what should Solara have reached in about five years from now?

Arun Kumar: I think success can be measured in so many, many ways I will not put a revenue number to it I think that to be a preferred API supplier, to be a high quality player to have regulated markets as its primary focus, having more portfolio, to have different chemistry capabilities, getting into new areas, building a CRAMS business of scale, if we do not achieve all of this we would have failed in many subsets of this definition of success.

Manish Gupta: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhishek Singal for closing comments.

Abhishek Singal: Thank you all for joining us today.

Arun Kumar: Thank you all. Have a good day.

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