"Solara Active Pharma Sciences Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Solara Active Pharma Sciences Limited Q3 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you Mr. Singhal!

Abhishek Singhal: 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 third quarter and nine months ended Financial Year FY2021. Today, we have with us, Mr. Bharath Sesha, Solara's MD and CEO, Mr. Hariharan, Executive Director, Finance and Mr. Subhash Anand, CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange website. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion maybe 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 Bharath to make the opening remark.

Bharath Sesha: Thank you Abhishek. Good afternoon everyone. Thank you for joining this call today. Given it is our first call in the New Year I wanted to start by wishing all of you a great 2021. I am sure we all want 2021 to be a safer and healthier year compared to the year that just went by.

Coming to our results, I am delighted to share that the momentum generated in the last two quarters continues and Solara has delivered yet another strong quarter of financial results. We have been very successful at Solara in converting some of the situational upticks we saw in the first two quarters into more structural business trends for the future. In this context, I am proud to say that our reliability and world-class quality has been rewarded by our customers by increasing our share wallet and partnering with us on new products.

Our employees continue to be exemplary and have taken care to ensure balance between their health and wellness and the commitments we have to customers and society at large.

Good to note that we have delivered the highest ever quarterly EBITDA and PAT in the history of this company. Our EBITDA stands at Rs.1085 million with an EBITDA margin of 24.9% leading to our PAT of Rs.658 million. We have crossed full year FY2020

EBITDA and PAT in three quarters of FY2021. Our resilient performance is on the back of a diverse product portfolio backed by a very strong world-class quality system and manufacturing infrastructure. As mentioned in my last quarterly call the Solara differentiation continues to payoff and we are strengthening and solidifying that differentiation with our customers.

Let met talk about some of the underlying performance drivers. There is continued strong demand for our base products and we continue to maintain our increased share of wallet with large customers. Our continued strong performance in the regulated market and this quarter you would have seen that we had stellar growth in other markets. These provide twin engines of continued growth for Solara. The Solara efficiency machine continued to deliver cost improvements and we see this as a continuing competitive advantage for us.

We also increased the speed of new product filings year to date we have 5 new US DMFs which are already higher than the FY2020 full year number and two EUDMFs. Our speed of filing market extensions has also been quite strong, and we have filed 16 market extensions across 13 different markets year to date and we remain on-track to file 8 to 10 US DMFs this year and our market extensions will be in the range of 18 to 20.

To talk a little bit about our CRAMS business, again I want to remind all of us that it is an incubation business for us and we have continued to track well to plan. We have seen much deeper engagement with some of the large pharma players and we had breakthroughs with customers in new markets. We see continued customer stickiness and multiple opportunities come through from existing customer base. We also have excellent revenue visibility for the next 9 to 12 months in our CRAMS business which will provide further impetus for growth.

Talking about our Vizag facility the commercialization happened as planned in quarter three. We are currently ramping up the facility and I will give a little bit more color around it when I talk about the guidance and we expect to reach our planned capacities in the coming few months.

Our customer traction for Vizag has been very strong and we have been very successful in placing all our productions in quarter three with both new and existing customers. I will give some color about our future and give you some insight into what has been developed and how that leads for the future.

Solara has built what we believe is a strong and enduring platform that consists of two essential features. The outside in and the inside out, our global presence, long standing customer relationships, breadth of product portfolio is enabling us to connect the dots sooner and get first mover advantage on products and with customers this I call the strong outside in part of the platform.

Backed up by robust manufacturing infrastructure diverse assets at our manufacturing sites and the world-class quality system with very strong scientific capabilities provides the inside out as part of this platform. We believe these two parts of the platform enable us to react quality to the market and customer needs and build a sustainable product portfolio that sets us up for success.

On the strength of this platform we made a conscious move to develop products (which are currently in the development phase) which are more complex to make where we can differentiate ourselves in the end market. This we believe will further anchor our strong customer relationships. These Products tend to be more complex molecules with higher barriers to entry, stronger customer engagement and higher margin profile and have already gained momentum and we have scaled up two such molecules in quarter three and we see very positive traction for them. This trend coupled with a strong base business position, we believe sets us up for a very bright future.

Coming to our guidance, our Q2 guidance was for revenue growth of 30% plus year-on-year and EBITDA growth of 40 plus year-on-year percentage. We remained on track for this to be achieved, however there was a lingering effect of some COVID impact that led to delays in ramp up at Vizag and let me be very clear and explicit that this is a onetime impact which is well behind us currently. This has had however an impact in our revenues from Vizag consequently we have adjusted our revenue guidance growth guidance to 25% to 30% year-on-year for FY2021.

Our relentless focus on efficiencies and profitable growth continues and we reaffirm our EBITDA growth guidance at 40+% percent year-on-year. I would now request Subhash to share some details on the balance sheet and some key ratios.

Subhash Anand: Thanks Bharat and good afternoon everyone. Just to talk about financial side of results, the financial ratios have continued to improve consistently over the last three quarters. The net debt as on 31st December is at 3370 million after adjusting the surplus cash of 3919 Million. The net current asset increased by 859 million from 3582 million to 4441 million mainly contributed by higher receivable because of increased sale in this quarter and some delay in realizing government dues primarily GST and export incentives, we expect this to be normalize in the coming quarters.

While our net debt EBITDA ratio continue to be comfortable less than 1x, our annualized ROCE is at 18.3% healthy. With a healthy balance sheet, a fresh infusion of capital and abundant opportunity, Solara is positioned exceptionally well for the future. With this I conclude the financial side of the commentary and hand it back to Bharat.

Bharath Sesha: So, Abhishek over to you for Q&A.

Abhishek Singhal: Yes, Nirav can we have the Q&A please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir my first question is if you look at the topline growth sequentially there is a 30 Crores of increase which has happened sequentially and the regulated market sales are broadly flattish Q-o-Q and the growth seems to have largely coming from the semi-regulated market so is it fair to say that almost all of this sequential increase in topline has it come from Vizag only.

Bharath Sesha: Hi Alankar thanks for the question. We have seen broad based growth across all products, so I would not say it is only Vizag, Vizag did contribute some element of that growth as you also correctly observed the less regulated markets we have grown across other products also, across a host of products in fact. So, it is both Vizag and other products.

Alankar Garude: Sir and just a follow-up on that, when do you expect the regulated market sales from Vizag phase 1 to begin.

Bharath Sesha: So we are expecting that the customer validations will happen towards the end of this quarter which means then we will have to wait for 12 to 15 months for regulatory approvals which is customary, the only caveat I would like to add here is that given the COVID situation, it depends on when the regulators would like to visit for an inspection so subject to that not being a further delay we expect anywhere between 12 to 15 months Alankar.

Alankar Garude: So basically, unlikely that we will have any regulated market sales from Vizag is that in FY2022 as well is that correct?

Bharath Sesha: Yes, so subject to no further delays due to COVID then it is possible for some months towards the end of FY2022 but that is subject to auditors coming in, in the next two, three months.

Alankar Garude: My second question is we had talked about some plans as far as expansion in Mysore is concerned I think last time you had mentioned about the buying additional land and working on a multiyear expansion plan of our both intermediate as well as APIs and apart from Mysore we had also talked about investing in tech platform so if you could share your update of both these expansion plans would be really helpful.

Bharath Sesha: So, on Mysore we have applied as part of the government PLI scheme for one intermediate we are hoping to hear back soon on that. Mysore would be the most probable location for that in addition to that we are looking at alternate options in Mysore, both in intermediates and in API so that is currently under discussion in terms of the final product portfolio that is there. Talking about the tech platforms I had shared with you last time that we were working on a three to four new tech platforms we expect proof of concept by the end of this calendar year for at least two of those and that will help us then to scale it up further in the coming years so that is kind of current status so work is happening. It is on track and proof of concept is expected towards the end of this calendar year.

Alankar Garude: And Sir broad thoughts as far as the Mysore expansion is concerned in terms of our capital outlook?

Subhash Anand: Alankar basically this year we expect our Capex to be in the range of 180 to 200 Crores, we expect similar kind of a Capex coming next year since we have an expansion plan and growth continue to be a focus, so we continue to be on a high Capex trajectory when it comes to Solara growth.

Bharath Sesha: And across all sites Alankar, including Mysore so we are looking at strategically enhancing capacity in a few other sites for products that I discussed or shared in my opening remarks that we have seen quite some traction for some of these products, so Mysore is definitely one of the focus areas for investments, we are also looking at other sites.

Subhash Anand: And Vizag also will continue to be a focus area since it is a SEZ having tax advantage and will continue to see an opportunity in Vizag what all we can bring it over there.

Alankar Garude: I have more I will just join back the queue thank you.

Moderator: Thank you. The next question is from the line of Tushar Manudane from Motilal Oswal. Please go ahead.

Tushar Manudane: Congrats for the good set of numbers. Just coming to the guidance part, it has been the back of the calculation for EBITDA it seems that Q4 also would be as we are seeing that EBITDA as we did in 3Q while Vizag ramp up should happen. So is it conservative estimates or...

Bharath Sesha: So, we have said 40+% EBITDA year-on-year growth and that should be something that we are confident of delivering, Tushar.

Tushar Manudane: Sir secondly these other markets have grown significantly in this quarter so any geography you want to highlight or any products which has led this ramp up.

Bharath Sesha: So it is broad based we have done very well in India market, we have done very well in Middle East, North Africa markets we have done well in APAC markets and in Latin America we have made quite some inroads into new customers all of this has contributed and helped us in Q3 so it is very broad based keeping in line with our theme of broad based growth, as currently we already sell in 75 plus countries so we continue to be broad based, growth is very strong across all those regions I mentioned Tushar.

Tushar Manudane: This is not like so now Sir this is at last the run rate would be quite sustainable going forward also.

Bharath Sesha: Yes, we believe we have taken quite some strong positions in these markets with customers we expect that we can sustain that going forward.

Tushar Manudane: And just lastly if you could share like in terms of is there any, if there is any spread between the profitability of regulator and semi regulated point of view and we are at a similar profitably level in these markets at the API level?

Bharath Sesha: So depends on the product so some of the products we would find definitely see a price differential which is significant, some of them will not be so significant so difficult to paint it with a broad brush, but typically you would find higher price levels and more traction in terms of pricing in the regulated space, but it depends very much on the product so I hate to paint it with a broad brush Tushar.

Tushar Manudane: And just lastly you alluded to these more complex products where there is a high barrier to entry can you elaborate further like where is that complexity would lie in terms of development, manufacturing?

Bharath Sesha: Absolutely so it is across the spectrum so when I say more complex, it could be the way we make the product, the chemistry behind it, the number of steps it takes, the process that is used to make the product all of these provide us the capabilities that we have developed to show a differentiation. At the end of the day it is about how the customer sees our product in a differentiated manner and that is kind of what we are focusing on so it could be in some products to do with the route we use to make the product and in some products to do with how we scale it up in manufacturing, So all of these provide barriers or give us differentiation in the end market towards our customers.

Tushar Manudane: Got it Sir that is it from my side and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investments. Please go ahead.

Ashwini Agarwal: Excellent results, congratulations. Quick question, Bharat in your printed remarks you made a statement while the demand picture in some of our products is moderated what are you trying to say here could you help us understand what you mean by that?

Bharath Sesha: So, first what I meant by that to say that some of the products we have seen some uptick in demand in first two quarters, some of them are COVID related some of them could be due to some other reasons in the market like stocking. We have fully anticipated some moderation in demand and that is what we had planned for, and we had taken suitable actions to enhance our product portfolio so that is what I meant. The moderation is to do with very select products which we have seen some uptick in demand in the first two quarters which has consequently moderated in quarter three.

Ashwini Agarwal: And in Cuddalore on the remediation any news you would like to share.

Bharath Sesha: So, we have submitted all the actions that we had committed to, to the US FDA on-time with high quality on September 15 (as I have shared in my last investor call) we had the regulatory review call with the FDA which went in our view very positively and we also got positive comments from the US FDA. Since then it is up to the US FDA to kind of progress to the next step of closing the inspections. As we understand the norm is for the FDA to revisit the site and close the inspection so waiting for that to happen. From our side all the actions that needed to be taken have been taken on-time and with high quality.

Ashwini Agarwal: And based on the industry chatter do you think that inspection is possible over the next three months or so or that might be still long run?

Bharath Sesha: Sorry to say it is very difficult to guess on that one Ashwini I mean there are so many variables around it I would refrain from commenting on the US FDAs priority at this stage so difficult to offer my opinion on it.

Subhash Anand: The only thing I will add here Ashwini this has no impact on our ongoing business, the business as usual everything is going on so for us we are able to move, or we are able to take actions or steps which are important for us to move forward.

Ashwini Agarwal: I am trying to push a little bit on fiscal 2022 I know you do not have a formal guidance in place and you had promised that you will put that out only when you produced your March 2021 quarter numbers, but the way at least I see it at present is that you will probably see some tailwind from your CRAMS segment which is you think will ramp up over the next nine months, revenue obviously will get helped by Vizag but there will be margin headwinds because it will be more sort of less regulated markets over developed markets, I mean is that kind of contextually in the right direction if I am thinking about fiscal 2022?

Bharath Sesha: So in fiscal 2022 if we look at the commentary that I shared today Ashwini so strong presence across the markets so we have also grown in the regulated market space, break throughs that we have achieved over the course of this year as you rightly point out good presence in the less regulated space, Vizag will kick in which gives us further impetus initially in the less regulated and then as the regulatory approvals happen in the regulated space in addition to that CRAMS of course will provide additional tailwinds given that we have strong visibility towards revenue for FY2022 so the table is set quite positively for a good year beyond that as you also rightly indicated we will come back with more specific guidance as we conclude the year and come back to you guys.

Ashwini Agarwal: And last question could you be able to give some color on what you are doing in CRAMS, I mean what chemistries you are working with, are you working with early stage type of products or helping your clients with market expansions, what are you really doing in the CRAMS space.

Bharath Sesha: So, in the CRAMS space we have most of our business in either commercialized molecules or in intermediates of molecules and are in phase III and it is very little that we do currently in our business profile at phase I or phase II most of it is commercial APIs where we are currently working with our customers. Few are intermediates to support our customers APIs so that is kind of a profile of the business currently Ashwini.

Ashwini Agarwal: Okay perfect. Thank you so much all the best.

Moderator: Thank you. The next question is from the line of Cyndrella Thomas Carvalho from Centrum Broking. Please go ahead.

Cyndrella T Carvalho: Sir just a color on the quarterly margins sequentially if we look at, gross margin is looking slightly lower any color on that, that you could help us with?

Bharath Sesha: Sure, so gross margin is essentially due to product mix. I mean we have said in the last two quarters in our investor calls that we had some capacity limitations in quarter one mainly because of COVID shutdown, quarter two because of the demand profile we saw in some of the products so we had already guided then that we have allocated our capacity towards a slightly higher margin profile and what you see now is kind of what we had indicated already in the last two quarters, the product mix that kind of gives us this type of margin profile so that is the main reason now Cinderella.

Cyndrella T Carvalho: And Sir if I look at our broad basket of products and if you compare the pricing scenario in 1H versus now given we are in Q4 almost do you see any change over there or you see a stable scenario for our basket of products specifically the base products?

Bharath Sesha: Predominantly stable very, very few examples where we are seeing pricing pressures across the board, so it has been predominantly very stable pricing environment so far that we have seen.

Cyndrella T Carvalho: And any Chinese supplies coming back which is creating or you may expect it create any kind of disruption?

Bharath Sesha: So one of the comments I made in my initial commentary to say that some of the situational upticks we have are now converted to structural business trends so what I was alluding to is exactly like you have Cinderella, we seen increased activity from competition in China yes but that is not leading to any big impact for us in terms of either share of wallet or pricing. So far, we have been strong in keeping our position based on the strength of what we have on quality, on reliability etc. So far, we have not seen any major impact and we are quite confident that we can maintain our presence where we have gained because of this.

Cyndrella T Carvalho: Coming with the 9% support from new launches how do you see this going ahead can you provide little bit color on the FY2022 aspect on the new products would be very helpful?

Bharath Sesha: Sure, so we have always said that 10% to 12% is kind of the range that we look for, and if you look at nine months we are around 10% new products we hope to keep it around that range of 10% to 12% going forward and that will be kind of what we see as our goal in the future quarters.

Cyndrella T Carvalho: Thank you I will come back in the queue.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities and Finance. Please go ahead.

Ranveer Singh: Sir on a Vizag facility what would be current capacity utilization in Q3?

Bharath Sesha: So Q3 we were as I said we were just ramping up, so it is less than 1/3rd is the capacity utilization that we would have seen in Q3.

Ranveer Singh: And Sir in your commentary that the situational uptick is now converting into structural changes I believe that mostly in first and second quarter the API overall the industry dynamics was very positive and so we expected that things will moderate going forward.

So, this moderation you see is going to stay there in Q4 or going forward in FY2022 perspective. You see the overall demand scenario remains strong.

Bharath Sesha: Our indications are that the demand scenario remains strong as I said a couple of select products it has moderated and it was entirely anticipated and as you rightly point out we would also alluded to it in previous quarters so our current view of demand for most of our products continues to remain quite stable for the coming few quarters.

Ranveer Singh: And what were the pricing scenario?

Bharath Sesha: Also, stable most of our product see pricing stability as I said in the last quarter investor call also so there will always be price fluctuations on separate products each of them dictated by their own dynamics. The resilience and the strength of our product portfolio makes us kind of have some natural hedge against big swings one way or the other so that is kind of how we see it basket of products we see stability in pricing in many markets with many products.

Ranveer Singh: Especially in top products are we witnessing any decline there in pricing?

Bharath Sesha: Depends on the market some markets we see some pricing pressures, but predominantly where we are strong we do not see any major pricing pressures at this stage.

Ranveer Singh: Just a clarity like new product contribution is this new product is the product launched in this financial year.

Bharath Sesha: Three years so whenever commercialization happens three years from that.

Ranveer Singh: Thanks a lot that is all from my side.

Moderator: Thank you. The next question is from the line of Nikunj Mehta from HSBC Asset Management. Please go ahead.

Nikunj Mehta: I have three questions, so the first question is regarding the Vizag facility, so since we have commissioned this facility is it fair to say that the fixed cost related to this facility is kind of getting expensed out in terms of the P&L?

Subhash Anand: Yes, Nikunj all the expenses at Vizag now since it is commercialized everything has been expensed out.

Nikunj Mehta: So, in that extent any incremental improvement in capacity utilization would be and incremental margins to you right in that case?

Subhash Anand: We also expect same.

Nikunj Mehta: My second question is regarding the Ibuprofen market in terms of global demand and supply, how is the demand panning out as per your expectation and how do you see the global supply kind of getting added to that extent?

Bharath Sesha: So, if you look at the Ibuprofen profile that we have in Solara, our presence is with longstanding customers in branded formulation business, branded OTC business where we have been there in the regulated markets with customers for 10, 15 years. Now through the strength of the relationships we have over the long-term that we have worked with them typically we do not see a big impact that happens because of supply demand change and we have not seen that so far also for our current Ibuprofen business and that continues to be same going forward that we have these longstanding relationships and we have seen the ability to work with our customers and going through any fluctuations that would happen so we are quite stable that way. As I said earlier supply demand wise we are in a good situation, we have long-standing clients with long-term agreements, so we are in good situation in most of the markets of Ibuprofen.

Nikunj Mehta: And for our big customers what is the kind of demand growth is there for Ibuprofen from the customer side.

Bharath Sesha: Market wise we anticipate growth of the Ibuprofen market is around 6% to 8% year-on-year so that kind of what we see is the kind of growth that we expect in the overall Ibuprofen space going forward.

Nikunj Mehta: Thank you so much for that and my final question is regarding the CRAMS. So you have mentioned in the past that you might be looking at some inorganic opportunities in this space because I wanted to get some sense in terms of opportunities available, for the industry we have seen that within a decent tailwind with a good growth visibility to that extent and so how is the I mean in terms of are there any assets available or is a very far and just wanted to get your sense?

Bharath Sesha: We are looking at assets from the filters of either science so where they bring additional capabilities from a tech platform or new science capabilities or they bring scale which helps us bring multiple other products or capacities that we can add to the Solara family. So, from that perspective is what we assess, so the broader question on what is happening out in the market, yes there are tailwinds, but we continue to be active in this space looking for inorganic opportunities and when we find the right one we will probably be more than happy to discuss that in more detail. At this stage we are very actively looking, and we hope to find something in the coming months.

Nikunj Mehta: Any territory specific you are looking at or it is more general in that sense?

Bharath Sesha: So, our preference would be to have it in the west, however we are not looking only in the west, we are looking all over the world.

Nikunj Mehta: And territory-wise.

Bharath Sesha: Not really, we are agnostic to that.

Nikunj Mehta: Understood, thanks and all the best.

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

Nitin Agarwal: Bharat on the revenue that you talked about in the current year because of the onetime COVID impact and all. So, is this in the nature of our sales just got deferred maybe to the subsequent quarters or how should we look at that the component of missed sales?

Bharath Sesha: In Vizag, given that it is going to less regulated markets it is not deferred sales but having said that this is not a lost opportunity for the future so these are the markets when customers where we have long-standing relationships so it is not that we have lost opportunities for the future it is just in that current period of time we may have not been able to fulfill certain demand from a customer. So that is how I would suggest looking at it.

Nitin Agarwal: And secondly on when you look at the gross margins last four or five quarters subsequently we have had a reasonable sort of uptick in margins 56% and plus they are about in the gross level. Now is this a sustainable gross margin level for the business or if there is anything which can meaningfully change it one way or the other?

Bharath Sesha: So, we believe 53 to 55 is a good range for the future it is a sustainable and good range for the future Nitin.

Nitin Agarwal: But that has been as much higher levels for the last five or six quarters now on that number.

Bharath Sesha: Yes, so as we expand and grow and as we see that Vizag product will kick in for the less regulated space so there will be some adjustment on this you are right we have been delivering and as we have said that part of it was because we were allocating capacities to higher margin products in this year so far part of it is also because our sales mix from a market was very favorable so some of these were contributing factors and on a sustainable basis we have always said that 53 to 55 is a good margin level on a sustainable basis and as you rightly said because of all the reasons I mentioned we have been exceeding that so far.

Nitin Agarwal: And if you can since we had so much discussion on Vizag if you could just refresh a bit around I mean how does the whole Vizag if we are going to take a three year view of the Vizag unit and the impact it can make on your business I mean how do you have characterize the whole investment.

Bharath Sesha: So, it is a very positive investment for us the way we look at it as we announced in quarter one that this will add about 3600 tons per annum of Ibuprofen for us in phase one, phase two will be a multi-product portfolio campaign-based facility. Now both will help us for a few reasons one on Ibuprofen we have always been capacity constrained we have not been able to service the demand that we have been getting from our customers so this is going to help us significantly with anchoring and growing share of wallet with existing customers entering new markets like what I shared earlier some of the markets that we have done very well our markets that are relatively new for Ibuprofen for us because we were capacity constrained. So, these will help us significantly in terms of our positioning, our growth from Vizag on the Ibuprofen facility. On the multi-product facility as I had alluded to in my opening remarks this platform of outside in, inside out, we are seeing a huge traction from some of our customers pulling us to make some specific products, develop them, make them to support their growth and there have been a couple of success stories already this year that we have experienced. So with the addition of the multi-purpose facility in Vizag this gives us the capability to support customers and this is really very secure business because there is a lot of pull from the customers as I said the new products will give us a favorable profile on the margins also and all of this together will help us really in terms of our future growth for the next two to three years. I also want to add here Nitin that this is not the only place where we are looking at as we said earlier, Subhash said and I added that we are also looking at enhancing capacity for some of these products, we are looking at Mysore for some green field opportunities we are looking to expand capacity in our other facilities for select products where we have very firm and strong customer traction. So, across the board giving that Vizag is going to be our flagship going forward for the reasons I said, but also broader across the board there is quite some strength and the pivot that we have done towards getting into a different product profile of new products with customers.

Nitin Agarwal: And on that let us take it forward what kind of Capex sort of again the outline you should look at say over FY2022, FY2023 roughly speaking given the plan that we have?

Subhash Anand: Okay I will not say FY23 this point of time but the kind of a growth that we are projecting and looking forward we do see our Capex to be in the range of 150 to 200 Crores kind of the numbers.

Nitin Agarwal: And this will include both growth as well as maintenance Capex.

Subhash Anand: Yes, this includes both the Capex. Our regular Capex is not that high, our regular Capex is to the tune of I will say around 50 Crores not more than that, so it is most of the Capex is what we are looking as a growth Capex.

Nitin Agarwal: Got it and last thing going back to that on Ibu by when do you see this 3600 tons of capacity being largely utilized for you by what period?

Bharath Sesha: So in the coming I would say three to six months we should be at boilerplate capacity as I said you know in quarter three Nitin that our customer traction was very positive, we sold out whatever we made in quarter three in Vizag so it is just that as we ramp up we will continue to place that product in the market and so by the next three to six months we should be at boiler plate capacity.

Nitin Agarwal: And when does the MPP kick in the Vizag plant?

Bharath Sesha: MPP will kick in FY2022 quarter one through the Vizag validation.

Nitin Agarwal: Thank you very much.

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

Sajal Kapoor: I have a couple of questions for you, first Solara is the sole DMF filer from India for a high potential molecule called Colchicine. The molecule has shown promising clinical trials in Canada by reducing hospitalization rates by 21%. So once the patent is acquired I believe that this is still on patent molecule that we have withhold DMF filer from India so how do you see the medium to long-term opportunity for this molecule>

Bharath Sesha: Quite positive so we already see some traction from customers on this molecule we are talking to a few of them and as you very rightly pointed out we are very, very well positioned to gain from any traction that happens in the overall demand, so we are positive based on customer discussions on this molecule.

Sajal Kapoor: Excellent and secondly after the Cuddalore US FDA reprimand and the OAI where I believe warning letter is eminent as the next step and of course that happened before you took charge Bharath but what let us in CAPA has been implemented on other side since this has happened can shareholders be reassured of several regulatory compliances from Solara going forward?

Bharath Sesha: So just to clarify I mean we are very confident that whatever the FDA had observed in the inspection they did at Cuddalore has been adequately addressed with very high quality on time. So, we are good on that regard. Now coming to your question on the other side so just to clarify this no warning letter it is an OAI and there is no indication that anything further is going to happen with that at least from the FDA to us just to makes that very clear but coming to your question on what we have done subsequent to that we have institutionalized a process which is a cloud-based platform where we are instantly sharing any observations from either client audit, customer audit, regulatory audit of Solara sites or regulatory audits that are publicly available every quality head in every site looks at applicability of those observations, comes up with a relevant CAPAs and that is reviewed in the leadership team regularly. So, we have institutionalized processes from a quality system perspective, which will make sure that there is always learning that happens at a very quick speed across all our sites. The other learning that we have taken from that and which is more to do with not just Solara but all the people that were in the API of Ranitidine is the NDMA type issue so for example all our new products developed come with prior testing to make sure there is no NDMA risk in any of these products. Also, all our existing products have gone through the protocol of testing that FDA has prescribed to make sure we do not have any risks of these things. So, some of the learnings have now become very structural and part of the DNA here in Solara.

Sajal Kapoor: That is reassuring Bharat thank you for that and finally I could just to squeeze in one last question regarding the possibility of improvement in our gross margins will be medium to long-term on the back of several favorable factors, both internal as well as external. So internally we have seen increased R&D investment and that should lead to both cost optimization as well as better product mix. CRAMS focus and scale up will obviously improve our margins because pure players make 77%, 80% gross margins with 35% EBITDA and then of course there are external factors like increased support from Government of India, global supply chain diversification is also a sustainable tailwind so in light of all these four five factors, can we see material improvement in our gross margins in say five years from now?

Bharath Sesha: In the short term we still stick to the 53 to 55 right and we will come back to a more of a medium-term discussion as some of these evolve and unfold not just for Solara but for the entire industry because some of the tailwinds you talk about on macro. We are well positioned in any of these indicators that you mentioned right we are well positioned when it comes to customer partnerships, we are well positioned when it comes to cost improvements as you rightly point out our R&D strength is very strong. So, all the enablers that you indicate absolutely bang on, how this plays out in the medium-term is something that we will keep our eye on and we hope that like you do that this will all be favorable as we go forward.

Sajal Kapoor: That is very helpful Bharat all the very best to the entire team.

Moderator: Thank you. The next question is from the line of Saket Mehrotra from Tusk Investments. Please go ahead.

Saket Mehrotra: Congratulations on very good numbers. Bharat the first question I had is on the capacity utilization could you throw some color on your current capacity.

Bharath Sesha: So, our capacity utilization in the first half was in the early 80s and that is kind of where we are currently.

Saket Mehrotra: So, I believe there was some conversation around Capex plans you are saying that this year you are planning to do somewhere around 150 to 200 Crores which will be followed up is that is your estimate.

Bharath Sesha: Yes, that is right.

Saket Mehrotra: And final question is could you throw some light or some details on how this whole CRAMS and CDMA businesses evolving because in the competitive landscape we are seeing the company we have gone away from API and getting the FDA from CRAMS and CDMA so is that like if anything Solara is planning of including or they will plan to be up for the API company.

Bharath Sesha: You are right that there is a lot of companies that aspire now, our CRAMS platform is built on a few very clear differentiators. First are legacy relationships. We have had relationships with some of our CRAMS customers that extend beyond 10 years and we have been with them through that period and we continue to be very fortunate to have them as part of our customer base. So that strength continues to give us opportunities on newer molecules that we work with them. The second is that I alluded to earlier the scientific capabilities that we have built in our R&D setup, which is enabling our pivot to new products which I again described earlier in my commentary also is extremely valid for CRAMS. So, the strength of what we bring from science is also helping us differentiate ourselves. The proof of the pudding of course is the fact that we have added eight new customers this year already out of which two are big pharma companies and one of which we are working on repeat opportunities already within three months of the first engagement. So we see that we have got the activities going in the right direction, we have got the business building blocks set in a right way, our inquiry pipeline keeps growing year-on-year, our revenue visibility for next year is very, very strong I should say so all of this makes me believe that our differentiated approach towards this industry is going to pay off in the long run. Just one caveat as we have said CRAMS is still less than a 10% part of our overall revenue, so the head room for this to grow for us at Solara is still very strong and we will continue to pursue all these differentiators that I talked about.

Saket Mehrotra: And any updates on the brownfield expansion that is planned are we looking at anything can we expect some announcement overall or nothing is material as of now.

Bharath Sesha: No, so we do our regular expansion of capacities as I said earlier the couple of products where we have seen quite some traction with our customers, but nothing that is significant at this stage that we would like to kind of share. As we analyze our next year Capex we will talk more about this Saket.

Saket Mehrotra: Thanks a lot Bharat.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir my question is when you said that new launches will continue to contribute anywhere between 10% to 12% over the next few quarters as well, so I was a bit surprised that and given that in the next few quarters you will have a much higher contribution coming in from Ibuprofen so does it mean that versus just two new launches which we have done in nine months and I am not including the extension can we expect a significant increase in the pace of new launches over the next few quarters?

Bharath Sesha: So, some of the products that we have now you know kind of in stage of validating with our customers will scale up in the next let us say six to eight quarters those will also contribute we have some very, very interesting opportunities there. In addition to that the filing that we will do during the next nine, twelve months will also lead to some scale up that will happen. So, all of this and, we continue to kind of scale up as I said the two launches this year they are just in the initial stages of scale up they will contribute also significantly next year. So Alankar all of these are what contribute to our statement in terms of 10 to 12, and you are very right on Ibuprofen that Vizag will contribute, but because of the other reasons that I just talked about we are still expecting to clock around that 10% to 12% on new products.

Alankar Garude: Any guidance you can share Sir as far as the new launches are concerned in FY2022?

Bharath Sesha: So, we are filing last year was four, this year is going to be five and I am just talking US, I am not talking Europe, so you can calculate for yourselves that once you do a filing, it takes some time for validation to happen and commercialization maybe within 18 months of that. So, you can kind of calculate based on that roughly what will be the number of products that we will be able to launch in the coming 18 to 24 months.

Alankar Garude: And final question Subhash Sir how we should look at the tax rate over the next two years.

Subhash Anand: In fact, we do not expect any anything for this year we are comfortably okay. With the new budget which has come in yesterday we are trying to understand the impact we do not see a major impact coming to us on a tax side but we would like to do some more work before we give a guidance on tax maybe in the next couple of months, I will say in a month or two when we come up with a guidance we will be able to give a better view on the tax but we do not see a major impact coming to us on a tax side. That is our initial impression when we go through the budget fine print.

Alankar Garude: Fair enough Sir that is all from my side. Thanks, and all the best.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss Financial Service. Please go ahead.

Kunal Randeria: Sir with the supply is normalizing from China do not you see probably portfolio have threat to some of the pricing on some of the key molecules?

Bharath Sesha: So a couple of ways to look at that so with supplies normalizing from China we have been able to hold our own where we compete with suppliers from China and we have done that across markets I mean we have very strong positions in regulated markets that we have gained in the last year which we hope to keep or we know we will keep very confident of keeping then coming to the second part of it there is not dominant share of our products where we actually compete with suppliers from China as the biggest threat most of it is from other parts of the world, what we expect will happen because of the issues around supply chain reliability in China if new opportunities could come to us where people are looking at the reliability and our quality and our manufacturing infrastructure and we have seen in real life in a couple of examples across the world where customers have come to us and said we are looking to develop second sourcing, we like working with you can you develop this product and I also talked about it earlier in terms of our new product development strategy. So, we see more new opportunities coming from that, we do not see a big impact when supplies normalized from China I think there we have been pretty good in taking positions and keeping them.

Kunal Randeria: My second question is the comment that you made in your opening remarks where you said you scaled up capacity for two products in this quarter, so I am not sure if one of them is Ibuprofen, but in general I mean if you can just run us through the thought process why these two particular products the kind of investments you have made, how your capacity stand against peers and the growth rate of these molecules?

Bharath Sesha: So let me clarify what I meant to say was we scaled up our production not our capacity so we had capacities already that in one of our facilities so we scaled up our production which means our market presence in this product and it does not include Ibuprofen it is two other products which were newly launched and scaled up in this quarter when I say newly launched, launched in the last 16 months or so. So these products we do not get product level information but I will give you some general color around the products these products are complex to make limited competition, strong customer agreements for the longer-term and higher margins so this is kind of the profile of these products and both of which we have just started to scale up Q3 saw the first phase of scaling up and we will continue to scale that up in the course of this year and next.

Kunal Randeria: And just a follow-up to this maybe going forward two or three years down the line what would be the proportion of some of these hard to manufacture sticky kind of revenue products?

Bharath Sesha: I need to come back to you on this not because of any other reason because that is something that we would like to give as part of the broader guidance that we will give on the coming quarter because we would like to make it as part of the overall guidance so just allow us some time to come back to you on that.

Kunal Randeria: Sure, thank you and all the best.

Moderator: Thank you. The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Vaibhav Gogate: Sir why is it that depreciation is constant despite Vizag going online.

Subhash Anand: It is basically I would not say constant it has some increase but it is not addition, but also some of the assets go down to the value where they stop becoming more depreciable so they have been charged up so you do not see all the time depreciation going up at the same way the capitalization goes up.

Moderator: Vaibhav do you have any follow-up question.

Vaibhav Gogate: No.

Moderator: Thank you. The next question is from the line of Vishal Jajoo from The Tycoon Mindset. Please go ahead.

Vishal Jajoo: Hello team greetings for the good set of numbers. So, my first question for the team is like Sir how do you see going forward three to five years down the line which segment do you see will deliver huge growth to the company both in terms of product segments and in terms of geographical locations as well where are we seeing growth for the near four to five years?

Bharath Sesha: So, when I am saying this looking at all three segments, base molecules, new molecules and CRAMS. If you look at each of these and you look at our strength in terms of base molecules, our existing customer portfolio, our strength in the regulated market space, our new entry and particularly markets which were underserved in the past, we are very confident that the growth trajectory on the base business will continue for us. On the new molecules I talked about it already quite a bit, some pivots that we are doing and we have already seen quite some initial momentum that will lead us going forward and on the CRAMS side again I talked about the fact that we are still in the incubation space, huge head room to continue to grow so not just kind of balancing my answer for the sake of balancing, but also three we see as giving very good and strong contribution towards our future growth and profitability so that is kind of how we see the coming three to five years.

Vishal Jajoo: Sir one another question with respect to our current operating cash flow and when we are also investing in our Capex as well. So, does the management have any view on talking for the buyback or purchase in its own share or whether the point has been secured for the expansion only?

Bharath Sesha: As of now we are looking at expansion.

Vishal Jajoo: And any thoughts on reducing the debt or it will remain at the same guidelines it was conservative on the previous conference call.

Subhash Anand: No, we are in a growth phase, so intent is to continue with our growth focus and we do see an opportunity to grow so the Capex or I say the positive cash flow will get deployed on growth side when we see a right time to optimize debt we will do that.

Vishal Jajoo: And any guidelines on the working capital like how is it moving in this last quarter or in the couple of last two to three quarters whether there is any change in the receivables or payable side?

Subhash Anand: If we talk about structural working capital it is consistent, it is going in a similar trend we do not see a much change, but if you are looking an absolute working capital yes it has seen an increase primarily since we are growing and sales is going up so the absolute receivables we do see an increase in receivables coupled with yes there are some government collections which has been delayed because of COVID that we expect to normalize in the coming quarters. So structurally we will continue to be a well efficient working capital managed company.

Vishal Jajoo: That is, it from my side. Thank you, team.

Moderator: Thank you very much. The next question is from the line of Tushar Manudane from Motilal Oswal. Please go ahead.

Tushar Manudane: Sir just to clarify on the Vizag facility given that there has been delay because of the regulatory part let us say developed market can there be a delay on the other regulated markets or semi regulated markets as well because of this delay in getting compliance in place.

Bharath Sesha: Let me clarify that Tushar, there is no delay on getting compliance in place. Everything is going as per track in terms of validation quantities etc. We had always guided that in quarter four, early quarter one FY2022 the validations will be complete, and we will wait for regulatory approval, so just want to clarify there is no delay in that. What has happened of course is the ramp up is a little bit lesser we talked about capacity utilization earlier we had expected that to be higher than what it is now that is the only variation to the original thinking or plan of Vizag.

Tushar Manudane: And just while this validation stays consistently is there any product from the shortage which could trigger much earlier inspection we do.

Bharath Sesha: I mean that is something that we will have to see how it plays out at this stage we do not see any visibility of such an event happening we will see how that plays out and then take it as it comes.

Tushar Manudane: Alright Sir that is it from me. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Ishmeet from Sionic Advisors. Please go ahead.

Ishmeet Mahora: Congratulations for a good set of numbers. My question is, Are we seeing a structural change in the API pricing dynamics and the API industry itself?

Bharath Sesha: See it is difficult to paint it with a broad brush, there are multiple areas where we see structurally that situation is very conducive and positive not just for Solara, but also for the broader API industry in India, but talking particularly about Solara as I have said earlier the base molecules that we are currently in we see stability in pricing in most of the markets where we are strong, on the new molecules where differentiation gives us the opportunity. As a structure in the API industry yes, I mean of course now with the supply chain reliability being a key indicator for many of our customers, the balance between reliability and pricing when it comes to choosing an API partner is much better and much more balanced than in the past so that is definitely a change that we have seen.

Ishmeet Mahora: And Sir second question was in terms of the acquisition that we might do on the CRAMS side, so based this another CRAMS company in 2011 they did a bold-on for acquiring catalogue of products so are we looking at something similar or are we planning to acquire a separate capacity or something?

Bharath Sesha: So, we are looking at either science or scale. So, science means that they bring tech capabilities, or the target brings something that we do not have from that perspective or they bring us capacities and products that we currently do not have. So, we are looking at either that or this or hopefully both so that is how we are approaching our inorganic strategy.

Ishmeet Mahora: Thank you so much Sir, all the best for the coming years.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Bharath Sesha: So once again thank you everyone for joining this call, participating over the course of the last hour. We wish you the best for the coming year. We all hope it is healthier and safer for all of us. Thank you again and have a healthy, safe 2021 ahead. Take care, thanks. Bye!

Moderator: Thank you very much. On behalf of Solara Active Pharma Sciences Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.